# GOVERNANCE, CONFLICT AND NATURAL RESOURCES IN AFRICA: UNDERSTANDING THE ROLE OF FOREIGN INVESTMENT ACTORS

by

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## ACRONYMS

Africa Mining Vision (AMV)
African Center for Economic Transformation (ACET)
African Centre for Energy Policy (ACEP)
African Community of Practice on Managing for Development Results (AfCoP)
African Development Bank (AfDB)
African Minerals Development Centre (AMDC)
African Union (AU)
Agricultural Development Led Industrialization (ADLI)
All People's Congress (APC)
Alliance for a Green Revolution in Africa (AGRA)
Artisanal and Small-Scale Mining (ASM)
Ashanti Goldfields Company's (AGC)
Biofuel Development and Utilization Strategy (BDUS)
Center for International Forestry Research (CIFR)
Central Intelligence Agency (CIA)
Centre for Development and Security Analysis (CDSA)
Civil Society Organisations (CSOs)
Community Development Funds (CDFs)
Community Natural Resources Management Committees (CNRMCs)
Community-Based Natural Resource Management (CBNRM)
Comprehensive Africa Agriculture Development Programme (CAADP)
Corporate Social Responsibility (CSR)
Development Assistance Group Ethiopia (DAG)
Diamond Area Community Development Fund (DACDF)
District Natural Resources Management Committees (DNRMCs)
Economic Community of West African States (ECOWAS)
Enhanced Integrated Framework (EIF)
Environmental Impact Assessment (EIA)
Ethiopian People's Revolutionary Democratic Front (EPRDF)

Extractive Industries Transparency Initiative (EITI)
Food and Agriculture Organization (FAO)
Foreign Direct Investment (FDI)
Forum for Social Studies (FSS)
Free, Prior and Informed Consent (FPIC)
Georgette Barnes Limited (GBL)
German Agency for International Cooperation (GIZ)
Ghana Center for Democratic Development (GCDD)
Ghana Investment Promotion Centre (GIPC)
Global Reporting Initiative (GRI)
Human Rights Watch (HRW)
Illicit Financial Flows (IFFs)
Institute for Security Studies (ISS)
Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF)
International Cooperation (GAIC)
International Council on Mining and Metals (ICMM)
International Energy Agency (IEA)
International Finance Corporation (IFC)
International Food Policy Research Institute (IFPRI)
International Fund for Agricultural Development (IFAD)
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Uppsala Conflict Data Program at the department of Peace and Conflict Research (UCDP/PRIO)

World Bank (WB)

World Food Programme (WFP)

## DEDICATION

This thesis is dedicated to my late father, Gamil Fawzy Besada (1945-1995), who has always guided me and been the source of my inspiration. Unfortunately, he was not able to see me graduate with a PhD from the University of Warwick.

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## DECLARATION

I declare that this thesis is my original work, except where due acknowledgment or specific reference is made. This thesis has not been submitted for any higher degree at any other University.

## ABSTRACT

An abundance of natural resources may serve as a curse or a blessing to countries with such wealth. Outcomes often depend on prevailing governance structures and the experience that government administrations have in managing these assets. Using a structural political economy approach, I shed light on the role that foreign state-owned and private-sector actors play in resource-rich stable, post-conflict, and fragile states in sub-Saharan Africa. My findings are derived from data collected through desk-bound research and an analysis of qualitative data gathered during in-depth interviews with local stakeholders in the three case study countries: Ghana, Sierra Leone, and Ethiopia. This research strives to explain how foreign state-owned and private-sector corporations have contributed to economic growth at both the national and local levels in different types of resource-rich countries. My dissertation also underscores how these actors have affected overall country and regional stability over time.

All three case studies are structured thematically. The role of foreign investors in the management and governance of natural resources in sub-Saharan Africa is addressed through seven themes: (1) legal/regulatory frameworks; (2) beneficiation, local content, and value addition; (3) inclusive economic transformation, or the lack of it; (4) conflict and security, (5) local community development; (6) sustainable energy solutions; and (7) natural resource exploitation. Through an exploration of these themes, I investigate the unique challenges and opportunities created by these investors in the economic development of the region — and conclude that the adoption of integrated local content, beneficiation and value addition policies in business practices and operations has the potential to generate positive economic transformation. My findings also indicate that collaborative governance involving state governments, the private sector, and local community representatives is vital to promoting community development and to defusing conflict.

# 1. INTRODUCTION

## Background and Context

In recent years, there has been a great deal of evidence suggesting that an abundance of natural resources could either be a curse or a blessing depending on the governance structures in place in resource-rich countries. From the African countries' over-reliance on a few natural resources and the economic insecurity spurring from their inability to diversify production (Wohlmuth, 2008), to the critical role that energy production, mining extraction, and land deals have played in the destabilization of political, economic, and social structures (Ross, 2013; Demissie, 2017; Bracco, 2018; Matondi, Havnevik and Beyenne, 2011; Anne, 2012), the governance of African natural resources will shape the future of the continent.

Whether an abundance of natural resources proves to be a curse or blessing depends on the nature, extent, and outcome of the effort and experience of an individual country in governing and managing such assets. The manner in which Africa's resources are managed and exploited by individual countries is fundamental to their ability to enhance both state and human security while fostering inclusive, broad-based economic development. Extractive industries are creating new processes of state-making and state-building, reshaping political, social, and economic roles and relationships (Schubert, Engel, and Macamo, 2018). Analysing and understanding these evolutions will be critical in merging the divide between natural and social sciences (Ali, Sturman, and Collins, forthcoming). Effective natural resource management is also critical to achieving the recently adopted Sustainable Development Goals (SDGs) of the United Nations.[1] Ghana, Namibia, and Botswana are examples of countries where natural

[1] On September 25, 2015, world governments meeting at the United Nations adopted 17 Sustainable Development Goals (SDGs) aimed at **ending extreme poverty and ensuring prosperity for all and protecting the environment.** The SDGs replace the Millennium Development Goals (MDGs), which were adopted in 2000. Each goal has specific measurable targets to be achieved by 2030.

resources have been used for the betterment of the populace by contributing to sustained socio-economic development over the past decade, with varying degrees of success and under different conditions and challenges (Grant, Compaore, and Mitchell, 2015).

Africa is fortunate to have some of the most sought-after natural resources in the world. These resources comprise large deposits of a variety of minerals including 60 per cent of the world's diamonds, 40 per cent of the world's phosphate, 30 per cent of the world's cobalt reserves (SMBC, 2011), proven oil reserves of 130 billion barrels, $1.5 trillion in projected gold reserves, 18 per cent of the world's uranium, and other strategic rare minerals, along with an estimated 300 million hectares of potential land for rain-fed agriculture (Ahlenius, 2006; United Nations Environment Programme [UNEP], 2006; Al-Jazeera, 2016; Els, 2016; Dasnois, 2012). The continent also boasts 80 transboundary rivers and lake basins, 17 large catchment areas, each exceeding 100,000 square kilometres.

Despite these natural resource advantages, many African countries have failed to transform their enormous economic potential and wealth into tangible benefits in terms of sustainable socio-economic development, human security, and peace. Encouragingly, there is evidence to suggest that the continent is home to a small but growing number of countries that have begun to harness energy, mineral, and land resources to promote sustainable economic growth and broad-based inclusive development. Concerns around governance, leadership, structural transformation of the extractive nexus, combined with new challenges such as the green economy and technological advances, have been explored by researchers and support the conclusions of this dissertation (Hanson, D'Alessandro, and Owusu, 2014).

An overview of the current status, key features, and challenges of Africa's energy, mineral, and land resources is presented below as a backdrop to the dissertation's contextual and analytical frameworks.

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*Energy Resources Derived From Mining*

On the African continent, energy use has risen by 45 per cent since 2000. Despite this increase, sub-Saharan Africa in particular remains badly affected by a very weak supply of energy, including a severe shortage of electrical infrastructure. The electrical grid remains unreliable throughout much of the sub-Saharan region, with mini- and off-grid systems accounting for 70 per cent of the electricity provided in rural areas. With more than 500 million people in the region expected to lack connection to an electrical grid by 2040, costly back-up generators fuelled by diesel or gasoline will be needed for the foreseeable future (IEA, 2014).

Although such challenges are significant, Africa is poised to improve on both its conventional and renewable energy deficit with the continued development of hydro-electric power, which is steadily gaining in capacity in the Democratic Republic of the Congo, Ethiopia, Mozambique, Guinea, and other sub-Saharan countries — although only approximately 5% of Africa's hydro-electric power potential has been exploited (Ben Aïssa, 2014, 12). While the potential of renewable energy is high — and contained in the sustainable development agenda — its uptake across the continent is currently low (Karekezi and Kithyoma, 2002; Deichmann et al., 2011; Tenembaum et al., 2014; Ben Aissa et al., 2014). Yet, geothermal energy is expected to become the second-largest energy source in Ethiopia and Kenya by 2040, and two-thirds of mini- and off-grid electrical systems in rural sub-Saharan Africa are expected to derive their energy from solar photovoltaics, small-scale hydro-electric power, and wind turbines over the same period. Moreover, the use of bioenergy, derived from wood and charcoal, is also expected to remain a critical domestic energy source for the continent well into the future.

Despite significant technical potential for offsetting the use of non-renewable energy sources in sub-Saharan Africa, renewables remain a considerably slim component of electricity production (Deichmann, 2011, 215–16). It is perhaps a bit disheartening

considering that a multitude of studies indicate that “renewable energy consumption plays a vital role for increasing economic growth and an energy policy planned to increase the share of renewable energy in total energy consumption is very effective in reducing greenhouse gas emissions” (Ben Aïssa, 2014, 12; Bhattacharya, 2016). Mini-grids have been proposed as a means by which to bring renewable energy to rural Africa, where small segments of the population across most countries on the continent have access to stable and affordable electricity (Eder, 2015). And yet, four in five Africans utilise fuelwood and other biomass for cooking, and it is anticipated that a 40 per cent rise in demand for bioenergy over the course of the next 25 years — not unlikely given the continent’s anticipated population growth — would impose a significant strain on the continent’s forestry stock. Despite the potential energy contributions to be made by these sources, Africa currently constitutes one of the world’s most promising regions in terms of hydrocarbon resources (IEA, 2014).

Nearly 30 per cent of the global oil and gas discoveries made within the last five years were made in Africa (IEA, 2014). Though Nigeria remains the hub of the continent’s hydrocarbon sector, ongoing theft and militant activities in the Niger Delta are deterring investment and impacting negatively on production in the sector, thereby reducing the competitiveness of the country’s output in the face of emerging producers (PwC, 2016; Muvunyi, 2016; Ukiwo, 2009; Ikelegbe, 2013). Though it is believed that African crude oil production will decline from over 6 million barrels per day (mb/d) in 2020 to 5.3 mb/d by 2040, continental demand for oil products is expected to double and reach 4 mb/d over the same period (OPEC, 2017). This suggests that the continent’s net contribution to the global oil balance could be curtailed in the coming years. Meanwhile, natural gas reserves have the potential to serve as an engine of domestic economic development, provided the correct regulation, prices, and infrastructure are put in place. Despite the resource’s promising outlook, as much natural gas is flared as is consumed in Africa, with an estimated 1 trillion cubic metres having been flared to date. Based on current consumption levels, such volumes would be enough to power the whole of sub-Saharan Africa for more than a decade (IEA, 2014).

According to PwC, Africa has proven natural gas reserves of approximately 502 trillion cubic feet, found primarily in Nigeria, Libya, Algeria, Egypt, and parts of East Africa including Mozambique and Tanzania (Temkin, 2017). In 2013, six of the top 10 oil and gas discoveries were made in Africa, while the continent maintains about 7.5% of the world's proven oil reserves (PwC, 2017, 3). Indeed, PwC concludes that Algeria's 121.9 billion barrels of shale gas potential places it third globally. As the International Monetary Fund (IMF) already underlined in 2004, this increase, combined with an improved regulatory environment, would bolster government revenues and economic expansion (IMF, 2004). Kammen et al. (2013) illustrated the critical link between hydrocarbon resource-rich countries and the increased access to electricity in a context of effective governance. Notably, a poor and inadequate supply of domestic electricity is regarded as one of the most pressing obstacles to the growth of African enterprises, especially if the continent seeks to drive such an economic boom with sustainable energy projects, including nuclear (IEA, 2014; Kessides, 2014).

Indeed, Andersen and Dalgaard suggest that significant economic impact has been lost from 1995 due to a lack of reliable electrical infrastructure, including physical infrastructure, which economic analysis by Deloitte argues will inhibit projected annual economic growth across the continent over the next decade (Pottas, 2013; Andersen and Dalgaard, 2013). In addition, global markets for hydrocarbons have been increasingly volatile over the last decade, dropping below US$30 a barrel in 2016 from US$125 in 2008 before averaging at US$70 a barrel the following year (Krauss, 2017). If this trend continues, coupled with more fervent international trends toward economic 'greenification,' African countries may not be able to uniformly benefit from the hydrocarbon sector for major contributions to their domestic economies (Nkomo, 2017).

For a long time, the oil and gas sector were considered one of the main destabilizing factors in African resource-rich countries like Nigeria, Equatorial Guinea or Gabon, having favoured the rise of anti-democratic regimes. However, foreign-owned actors working within a strong and appropriate governance framework can, and should be, considered as partners in a country's socio-economic long-term development.

*Mining Sector*

Mining has been a critical economic activity for the continent, especially in sub-Saharan Africa, since the colonial era, when large volumes of minerals began being mined and processed for international markets (Dumett, 1999; Cleveland, 2015; Mark-Thiesen, 2018). Africa's mineral economy has grown significantly since the first South African diamond rush in 1869 and is widely regarded as a strategic producer of precious raw materials. Today, mining is responsible for the largest contribution to the GDP of many African countries and the continent as a whole produces more than 60 mineral products, including several of the world's most lucrative and strategic minerals, such as gold, platinum, and diamonds (Besada, 2006; AfDB, 2012). Although still under-explored and under-exploited, the continent is estimated to hold 30 per cent of the world's total mineral reserves, including 40 per cent of its gold deposits (Besada, 2006).

More recently, the continent experienced a dramatic transformation of its mining sector. Many African governments have established investor-friendly policies and relaxed their control over the sector. Going back to 1986, Ghana became one of the first countries in sub-Saharan Africa to reform its mining regulations and provide a regulatory system that, through the passage of the *Minerals and Mining Law*, allowed foreign ownership within its gold mining sector (Berry, 1994). Today, despite the drawback spurred by stricter mining codes (the 2018 DRC mining code significantly increased taxes on strategic minerals), more than 40 African states have amended their mining legislation to attract greater foreign direct investment (FDI) as a way of developing their mineral resources (Besada, 2013; Harvey, 2014). These new national-level statutes have facilitated the privatisation and deregulation of the sector, enhanced the incentive framework in which mining companies operate, and redefined the obligations and rights of foreign and local investors. The incentives provided for more liberal immigration laws for expatriates and reduced taxation levels, while introducing import tax exemptions for equipment used by mining companies. Together, these changes resulted in a boom in mining exploration across the continent (Besada, 2013; Campbell, 2003).

In addition, there is a growing acknowledgement that mining companies can bring economic benefits to Africa through skills and technology transfer, greater innovation, more affordable financing, and higher-quality products and services (George, 2015; Heymann, 2014). Against this backdrop, there has been an increased attention in public policy debates on the value of investment from foreign public and private actors in the African mining sector, which led to the development of new forms of governance, including Pan-Africanist mining regulatory proposals (Nhemachena and Warikandwa, 2017). There has also been a concomitant growth in awareness surrounding the role played by foreign investment actors in commodity-driven economic planning. The view, however, that foreign majority-owned mining corporations have generally benefitted host countries and local mining communities in Africa in terms of revenue and infrastructure development is not shared by all (Chuhan-Pole et al., 2017).

Critics contend that foreign mining interests have a direct bearing on political stability and social cohesion, which they argue is due to the socio-economic and environmental disruptions caused by mining operations, especially in countries like Nigeria (Smith, 2011; Amunwa and Minio, 2011, 8; Courson, 2009; Vidal, 2015) or the Democratic Republic of Congo (Nest, 2011; Global Witness, 2018). Under pressure from advocacy groups, protest movements and international organisations, some multinational companies operating in the extractive sector have become more aware of the need for positive community relations as well as a social licence to operate among local stakeholders. Discussions on corporate social responsibility (CSR) have emphasised that mining industries abroad should adopt ethical business practices, while many Western countries have implemented legislation or created forums to ensure that businesses incorporated within their jurisdiction adhere to acceptable standards of labour rights, environmental protection, and expectations of their contribution to socio-economic development in host countries (Yakovleva, 2016; Essah and Andrews, 2016; Viveros, 2014; Babi et al., 2016; Besada, 2013). Whether these injunctions by corporate actors has been an effective medium for driving peace, stability, and economic

development will be investigated further as part of this dissertation's case study chapters.

Over the past decade, various global and regional initiatives have emerged, including the UN Global Compact, the Global Reporting Initiative, the Organisation for Economic Co-operation and Development's (OECD) Guidelines for Multinational Enterprises and the Guidelines on Minerals in High Risk Areas, the Principles for Responsible Investment, the Natural Resources Charter, and the Africa Mining Vision (AMV). Each of these voluntary regulations focuses to various degrees on ensuring good corporate behaviour and accountability (Gugerthy and Prakash, 2010). There is general consensus among civil society organisations (CSOs) and governments that CSR, more broadly defined, needs to be about more than merely complying with government regulations and laws.

The African mining sector has been plagued with irregularities and endemic corruption, leading many experts to support the resource curse theory. This dissertation will support an innovative approach that considers foreign-owned mining actors as important partners to sustain broad-based economic development, particularly in post-conflict states such as Sierra Leone.

*Land Resources*

The publication of an alarming report issued by the international social movement GRAIN (2008a) brought public and international attention to a new topic — international investments in, and acquisitions of land by, foreign investors, primarily but not exclusively in Africa. It is important to point out from the onset that there are both negative consequences and tangible benefits deriving from the increased investments in land resources in Africa by international investors (Lisk, 2013).

These developments in foreign land acquisition underline the significance of land as a critical natural resource in most sub-Saharan African countries. They arise at a time

when some of these countries are still trying to come to terms with a land crisis linked to their colonial legacy and characterised by structural inequality, land tenure insecurity, communal impoverishment, and environmental stress. Makki and Geisler even controversially referred to land investments by outside interests, mainly foreign, as "recurring ways in which states use cosmographies of power and *terra nullius* narratives to remake places identified as empty, underutilized or underproductive" (Makki and Geisler, 2011).

Since the end of colonialism in much of Africa and the demise of apartheid in South Africa in 1994, land reforms have been at the core of southern African societies' aspirations toward democratisation and socio-economic reconfiguration. While the International Food Policy Research Institute (IFPRI) claims that land acquisitions could have the potential "to inject much needed investment into agriculture and rural areas in poor developing countries" (von Braun and Meinzen-Dick, 2009, 1), it also warns about the potential negative repercussions for the rural poor in recipient countries. This is termed the Developmental Stimulus from Land Grabbing phenomenon, whereby researchers have been striving to understand the developmental impact of large-scale land acquisitions in African states, particularly by foreign private-sector actors. An extensive academic literature has focused on the negative consequences of large-scale land acquisitions (LSLAs), ranging from land-grab-induced displacement (Thomson, 2014) to the increased gender-based imbalance in household activities (Fonjong and Fokum, 2015).

However, some studies have also explored the potential beneficial impact these transnational investments might have on human rights and economic development through agro-industrialisation (Wisborg, 2013; Lisk, 2013). Ethiopia is at the centre of this land-grabbing or land-sale development trend/stimulus, depending on one's perspective. According to figures from the Ethiopian government, close to 40 different countries have bought or leased prime agricultural land in the country, some for less than $250 USD per week (Vidal, 2011). The Government of Ethiopia argues that it needs multinational investment in its agricultural sector to spur development and

industrialisation, especially as more than 80% of the country relies on agriculture for subsistence (Schiffman, 2013). India, for example, has acquired 600,000 hectares of agricultural land in Ethiopia, followed closely by firms from Saudi Arabia (Anwar, 2016). Ethiopia has earmarked some 11.5 million hectares of agricultural land for lease or sale to foreign multinationals (Chandran and Gardner, 2017). Land acquisitions in Africa, especially Ethiopia, have been driven by the increasing scarcity of land and water resources, as well as export restrictions (e.g., export taxes and export bans) imposed by major global food producers during times of high food prices, which resulted in a "growing distrust in the functioning of regional and global markets" (IFPRI, 2009).

Land deals have become a national security strategy for countries facing forms of environmental scarcity or preparing for future energy shortages. At the same time, burgeoning agricultural commodity prices in 2007–8 increasingly attracted private companies (agrifood businesses, bio-energy corporations, investment funds, and so on) and public-private partnerships to invest in land acquisitions as the world headed into financial crisis. The impact of sharp increases in international prices pushed major exporting countries to introduce tariffs or even bans, destabilizing the global markets. To insulate themselves from the price of an unstable market, wealthy food-importing countries have begun to heavily invest in overseas lands (Cotula, 2013).

The massive scale of investments and the acquisition of land at a time of a triple global crisis (in the form of food, energy, and financial uncertainty), together with the prevailing problem of land tenure insecurity in most 'recipient' countries, calls for greater scrutiny of how and why these investments and land deals are occurring. It is also important to examine their local, regional, and global repercussions on social, economic, and political structures. In the southern African region alone, deals have proliferated at an unprecedented rate. Assessments of the potential impacts of these investments differ greatly but experiences in case study countries, including Ethiopia, illustrate the destabilizing role of land deals on national political structures and the need for robust, stable governance systems (Matondi et al., 2011).

As illustrated previously, land deals provide a strong example of a foreign-owned company's interference in national governance systems regarding natural resources. This dissertation will indeed support a new research paradigm to understand how land-related investments by foreign actors can and should support long-term development and stability in African countries.

While appearing subjective, the exploration of the positive or negative roles of foreign-owned enterprises focuses on issues regarding the creation of a sustainable environment in terms of social, economic, political, and environmental concerns. Positive impacts of foreign-owned economic actors centre on, and are not limited to, the inclusion of local communities in the investment project, the implementation of appropriate efforts of redistribution of created wealth at the state and local levels, the integration of CSR practices and the on-the-ground translation of these internal policies. On the other hand, the destabilisation of socio-economic systems and the creation of enclave economies, where financial and political benefits from extractive activities in resource-rich countries have filtered to political and economic elites at the expense of widespread distribution of benefits to larger segments of the population, constitute corporate negative roles that affect long-term peace, stability, and economic development.

**Research Objectives**

In line with this objective, the dissertation will touch upon several sub-themes to provide a better understanding of the role of foreign-owned enterprise in governing and managing natural resources in Africa:

- The roles played by foreign state-owned and privately-owned sector actors, collectively referred as foreign economic actors in extractive industries;
- The efforts made by foreign actors to implement policies and practices that demonstrate CSR and foster inclusive mineral development agreements promoting relevant economic development at the community level;

- The role of natural resources extraction in peace and security contexts, as evidenced by a comparison between stable, post-conflict, and conflict-threatened resource-rich African states; and
- The evaluation of instances in which intervention by foreign actors did not result in an improvement in capacity-building and natural resources governance, but rather hampered development and contributed to financial mismanagement, environmental degradation, poor labour standards, loss of livelihoods, and increased conflict with local communities.

Through each of the selected country case studies, three core research questions will form the basis of investigation and argument, defining what answers are being sought through interviews, desk research, and the like:

1. How does the evolving role of foreign-owned enterprises, including state-owned, closely held and listed companies, affect peace, stability, and economic development in the African context?
2. What determines whether these actors play a positive or negative role in achieving peace, stability, and economic development?
3. In what areas of policy changes and reform could recommendations be made so as to promote positive, impactful, and sustainable development outcomes?

Responses to these questions will contribute to existing knowledge about the role of foreign-owned enterprises in fostering stability or instability and prosperity or poverty in natural resource-rich African countries with different political situations: Ghana (politically stable); Sierra Leone (post-conflict); and Ethiopia (conflict-threatened).

**Three Political States**

- A politically stable country is understood as holding the characteristics of good governance and strong institutions, regular economic growth, and robust development prospects (Cubitt, 2014).

- A post-conflict country is perceived as having divided societies, in the process of economic reconstruction and peace-building but not (as yet) having strong governance or institutional legitimacy (Wolff, 2011; Roberts, 2008).
- A conflict-threatened country displays good economic performance and has strong state institutions based on the developmental state model, but nevertheless has existing undercurrents of ethnic or social tension that threaten peace and political and social stability, linked largely to resource-sharing. Deficiencies in governance, economy, and nationhood constitute the key defining characteristics of a conflict-threatened country (Brock et al., 2012).

These classifications stem from existing research and policy definitions on each country. On Ethiopia, in 2017, the Fund for Peace classified the country as one that has experienced a significant decline in stability, due primarily to ongoing anti-government protests (Fragile States Index, 2017). For Sierra Leone, most scholars agree the country remains in post-conflict, conducting peace-building for the purposes of reconstruction and development (Neethling, 2007; Quinn, 2016; Bertone, 2014; Jinguishi, 2015). Ghana, despite surface-level turbulence, is regarded as a stable country (Knoope and Chauzal, 2016; Cooke, 2016).

The results will also contribute to knowledge about the impact of foreign enterprises on development, experiences, lessons learned, and, ultimately, lead to policy recommendations for promoting positive developmental outcomes. In addition, key variables will be isolated to help create a unique broader framework for analysis. By using this Political Economy of Natural Resource Governance (PENRG) framework to assess the outcomes and influences of foreign-owned enterprises on governance structures in three case countries, the intent is to create an improved analytical tool for conceptualising the impact of natural resources governance on peace, stability, and economic development in Africa.

Based on gaps in the literature on political economy and the impact of foreign-owned enterprise on development and information gathered during fieldwork in Ghana,

Ethiopia, and Sierra Leone, the argument is made that, in consideration of governance design, foreign-owned private-sector activities vis-à-vis natural resources have ushered in unprecedented economic growth in stable Ghana. Those areas where foreign investments failed to bring about improvements are evaluated, shedding light on instances where such investments may have hampered development and fuelled conflict — as in the case of post-conflict Sierra Leone — and raising the question as to why private-sector natural resources investment has served as a source of continued instability and low-level conflict in Ethiopia. Ultimately, the different outcomes of these investments hinge on the robust nature of these countries' governance structures, as per the tenets of the PENRG framework.

Existing literature on natural resource governance identifies that continuing gaps in knowledge include whether private actors involved in the natural resource sector contribute to peace, stability, and prosperity (particularly in terms of governance quality and development outcomes) and the role of foreign-owned enterprises in post-conflict recovery contexts. Using the case studies, the argument is made that the role that foreign-owned enterprises should play in stable countries is sustainable development; in post-conflict countries, they should support economic reconstruction as well as state- and peace-building; and in conflict-threatened states, they should enhance state-building and broad-based economic development. To state it bluntly, the overarching consideration by the private sector is economic — the raison d'étre of their existence. The UN recently estimated that the Sustainable Development Goals (SDGs) constitute a $12 trillion-dollar economic opportunity for the private sector, as their achievement will require a massive global undertaking that includes their participation (Vali, 2017). Similarly, much has been written on the economic costs of conflict, a motivating factor in the private sector's involvement in building and maintaining peace and stability. While the private sector is only one of many actors, its influence over public policy is central to favour peace and stabilization (Khan and Ahmed, 2014). That said, the private sector has thus far been readily side-lined in these conversations, with governments and the non-profit sector viewing these actors as part of the problem rather than a vehicle for solutions, although this viewpoint has begun to shift since the early 2000s and the

publication of several volumes on the untapped potential of business in peace-building (Sandole and Staroste, 2014, 25). More recently, corporations are being viewed as a magic bullet for the issues and challenges faced by a non-profit sector, which has thus far been unable to act as an effective and permanent antidote for endemic development challenges; the private sector seemingly faces the same intractable issues as other actors who have come before it, but without the structural mandate to “do good” (McEwan, 2017, 48).

This is in contrast to research that suggests private-sector actors may have a highly political role in conflict and post-conflict settings, despite little interest, capacity, or legitimacy regarding their ability to participate in these conversations (Ford, 2015, 151). Of course, the necessity for them to voluntarily engage in CSR practices continues to be debated in policy and academia, for there is no clause that mandates companies to act in ways that benefit anyone else besides their shareholders. This integrative-oriented theory, based on a holistic and collaborative approach that associates the economic, political, social, and environmental needs of communities with corporate business practices, appears promote peace and stability (Issifu, 2016). But, putting aside for one moment the overwhelming agreement at the international level and among development practitioners that CSR is quintessential to conducting business in the modern era, foreign-owned enterprises create environments conducive to their long-term enrichment by investing in peace, stability, and economic growth. In 2009, Brauer and Tepper Marlin calculated that the cessation of violence would generate a “peace dividend of approximately 13,1% of the 2007 gross world product (Brauer and Marlin, 2009). This analysis has since been shared by an increasing number of studies and illustrates the macroeconomic benefit of peace and stabilization for profit-driven organizations (Prandi and Lozano, 2010). Indeed, these objectives are summarized throughout this work as the dependent variables of peace, stability, and economic development. By doing so, foreign-owned enterprises create the environment for reliable and skilled workforces and predictable political institutions while minimizing risk. Therefore, while not mandated to perform these functions in each of the three different political contexts, considering the benefits and dividends of peace developed above, it is in their best interest to adopt

practices and policies that promote a stabilized and peaceful environment. The success of foreign-owned enterprises in doing so hinges on strong governance at both the local and national levels. This involves putting in place structures that hold foreign actors accountable and that help realize outcomes of their investments and activities. In the chapters that follow, each of these roles and impacts by foreign-owned enterprises will be discussed and examined in turn.

In order to explore the impact of foreign-owned corporate investments in Africa, the concepts of peace, stability, and economic development should be clearly defined. While peace may seem to be the absence of war, in this dissertation it is defined as the freedom from disturbances at the social, economic, political, and environmental levels. As Royce (2009) states, peace is a "two-dimensional construct with both objective and subjective measures that must be studied within specific micro to macro contexts." In this context, the present research tackles this multidimensionality of the concept of peace as we will analyze local, national and global objective and subjective measures to integrate peace in the governance of natural resources. In terms of stability in a political context, Ake (1975) reminds us that political stability is profoundly linked to the concept of obedience to the law, and depends on the capacity of individuals to obey the social, political, and economic regulations in place to support or undermine the system's stratification. In the realm of natural resources governance, stability is defined as the ability of foreign-owned enterprises to support obedience to the law by individuals, but also to the economic and social institutions in the countries where they operate. Finally, a key concept — and probably the most controversial — is economic development. While past economists defined economic development in parallel to materiality and material progress, current approaches use more indicators, placing the notion of poverty and poverty reduction as a top indicator. While economic development is still measured by macroeconomic indicators, such as GDP per capita growth, trade levels, and level of FDIs, the addition of socio-economic aspects is crucial. With respect to the governance of African natural resources, economic development is tightly linked to both the macroeconomic indicators of exports and production and with population well-being.

While typologies in addition to politically stable, post-conflict, and conflict-threatened are described in the case studies that form this dissertation — particularly the multiplicity of post-conflict environments — a broad approach was adopted to produce context-adaptable solutions (Brown et. al., 2011). Well-structured empirical research is undertaken to test the central premise concerning the nature of resource governance with respect to each type. The findings from my analysis will help to inform the literature on the governance of natural resources, political economy, and investigations on the impact of foreign enterprise on development, as well as policy recommendations regarding the role of foreign investors and foreign-owned companies in the enhancement, or otherwise, of natural resource governance and the contribution of such entities to the overall development process.

Due to the malleable definitions surrounding foreign-owned companies, this research is characterized by a multiplicity of actors. The increasing interconnectedness of economies and economic actors blurs the lines around the origin of capital flows and investments and makes the distinction between local and foreign-owned companies somewhat complex. As investments are performed in critical strategic areas, during a period of unstable global markets, state-owned enterprises emerge as significant players in land deals and in projects involving the extraction of mineral-rich deposits and energy development. Among others, China's Eximbank, Qatar's Zad Holding Company, or the United Arab Emirates' Dubai World, provide strong examples of major public investors in Africa's natural resources portfolio.

Surprisingly, sovereign wealth fund (SWF) investments in energy, mining, or land projects remain sporadic (Cotula et al., 2009). An acknowledgement of the role of public-owned entities in direct investments should not override the overwhelming participation of privately owned or listed companies in such investments. While supported by state/country initiatives, including government-to-government investment treaties, loans, and guarantees, private companies constitute the bulk of investments in these types of projects on the African continent (Ibid.; Herring, 2015).

This research presents not only an opportunity to advance new knowledge in literature on the diversity of roles attributed to foreign-owned enterprises operating in resource-rich countries with different (political) contexts via a proposed new theoretical framework defined as the political economy of natural resource governance (PENRG), but also constitutes an innovative contribution to investigating the impacts of foreign-owned enterprises on peace, stability, and economic development — thus providing a basis for generating new policy recommendations for the private sector and state governance in resource-rich African countries. Similar to an International Political Economy framework as it relates to national development and transformation policies and outcomes, the natural resource governance framework will be interpreted and incorporated into an analysis of governance-related factors that impact development and transformation (e.g., policy choice and decision-making process, institutional mechanisms for transparency and accountability, public financial management, opportunities for inclusive growth and equality). Through the concept of PENRG, the role of foreign-owned, private-sector companies in terms of their contribution to economic growth, peace, and stability at both the national and local levels is analysed.

At the national level, the analysis will conceptualise the key actors' roles in a number of specific conditions and environments, all of which current literature tells us can impact the effectiveness of natural resource governance, overall stability, and prosperity of development — including taxes, government revenues, employment creation, and the implementation of laws. At the local level, where extractive and production activities take place, the analysis will conceptualise roles in terms of employment generation, revenues shared with local communities via the renegotiation of contracts, and community development agreements that ensure CSR activities produce more tangible results. By considering how these actors can help strengthen industries linked to the natural resource sector via value addition, beneficiation, and local content, the hope is that new insights will be formed and guidelines for policy recommendations based on these insights will be developed.

Over the last 10 years, policies and practices adopted by foreign-owned enterprises that have invested in resource-rich African states have been insufficiently reviewed and evaluated — especially in environments characterised by weak governance. In his 1995 article, Rosenau adopts a very broad definition of global governance. Despite being a somewhat different concept, his approach is of particular interest in defining governance. He states that governance encompasses "systems of rule at all levels of human activity from the family to the international organization in which the pursuit of goals through the exercise of control has transnational repercussion" (Rosenau, 1995). Applied to natural resources, this definition appears attractive due to its broad approach. Extractive activities should be understood to affect the whole community and every sector. In this sense, governance of natural recourses is constituted by a system of rule at all its levels through which the exercise of control has repercussions. There is a lack of literature chronicling the progression of these foreign actors' contributions to natural resource management and sustainable broad-based economic development in resource-rich African countries. Scant attention has been given to problems that have emerged as a result of poor corporate practices and their impacts on sustainable peace in only post-conflict and conflict-threatened states. The need for an increased awareness of these trends is critical in light of activities by foreign-owned companies: for example, 230 Australian mining companies are involved in over 600 projects in 42 African countries, representing more than $45 billion in investments (Edwards et al., 2014).

For the future of Africa and its countries' natural resources governance, it is crucial to have in-depth knowledge of the impact of such massive investments on economic, social, and political structures. As such, each case study is organised along the lines of three research questions: what are the impacts of foreign-owned companies on natural resource governance? what are the causes of these impacts? which regulatory and policy sectors should be explored to provide positive outcomes?

Extensive field research in the three countries, complemented by desk research, was undertaken in order to obtain and understand the perspectives of local stakeholders,

and thus better address perceived deficiencies in the literature on African natural resource governance. A particular goal of this research was to obtain a more balanced perspective on foreign-owned enterprises currently operating in Africa's natural resource sector, and the role that they are, can, and should be playing in supporting stability and prosperity in conflict-threatened, post-conflict, and stable countries. In so doing, the historical contributions of foreign actors to improving political governance, economic stewardship, and capacity building in natural resources management in Africa are examined in each chapter.

**Three Countries, a New Framework**

Prior to the three case-study chapters, this research begins with two framework chapters that present, explore, and clarify key issues of *concepts* and *methods* pertinent to the research as well as literature topics covering the resource curse, the evolving role of foreign investors, and the private sector in sustainable growth paradigms. In addition, there will be a robust acknowledgement of the project's proposed PENRG framework, a further expansion of the dissertation's three primary research questions, and an outline as to how the investigation was undertaken to obtain relevant empirical evidence and advance the analysis.

In all three case studies, the challenges and opportunities created by the expanding role of foreign-owned enterprises are viewed through a new theoretical framework. In particular, the growing presence of traditional and emerging state-owned and private-sector actors in the management of natural resources in Ghana, Sierra Leone, and Ethiopia as they relate to stability, peace and security, and broad-based economic development (prosperity) is analysed. Thematically guided histories for each case country and current knowledge on natural resource governance provide context.

*Ghana Case Study*

Since the 1980s, Ghana's economic growth has been increasingly tied to the mining sector, which is largely dominated by gold. Ghana's lucrative natural resources, stable political landscape, and increasingly diverse economy have seen it emerge as the second-largest economy in West Africa (after Nigeria). With its established democratic system, prudent natural resource management, steadily declining national poverty rates, and consistent economic growth — culminating in middle-income status in 2011 — Ghana has traditionally been regarded as a model for development in sub-Saharan Africa (Chamlee-Wright, 1997; Killick, 2010). Despite various efforts and improvements, the country has nevertheless confronted several challenges in recent years that have prevented its mining fiscal system from functioning more effectively (Amponsah-Tawiah and Dartey-Baah, 2011; Standing and Hilson, 2013, Ayee et al., 2011). They include gaps in the monitoring and verification of capital expenditures, loss of carry-over provisions, and transfer pricing mechanisms. Ghana's extractive sector is consequently highly susceptible to illicit financial flows (IFFs) (Africa Center for Energy Policy, 2015).

The extractive sector has the potential to play a significant role in Ghana's future economic development and transformation, social progress, and poverty reduction, as well as greater environmental protection. For this to occur, the forthcoming 40-year National Development Plan has to give the sector the attention it deserves, putting it at the core of Ghana's future and long-term development strategy and establishing the infrastructure needed for its responsible development. This includes a well-planned and -financed industrialisation process for the transformation of mining and mineral resources, which cannot happen if mining resources and transformation are not considered tightly linked to, and necessary for, agricultural development, given that agriculture is a key economic sector (Owusu-Ansah and Smardon, 2015). This case study also underlines the connections between gold and cocoa (Snapir et. al., 2017) as well as downstream linkages between oil and construction, and between gold mining and other sectors of the economy (Tenkorang and Osei-Kufuor, 2013). The intention is to demonstrate that specific natural resources, and the progress towards their

governance, do not exist in isolation from the rest of a country's economic system. Along this interconnected chain, foreign-owned investment actors, together with the Ghanaian government, may be key drivers of transformational change.

*Sierra Leone Case Study*

Sierra Leone is undergoing post-conflict reconstruction and state building following brutal civil wars fuelled by resource predation. Reconstruction efforts, particularly in the extractive sector, have focused heavily on private-sector growth (Del Castillo, 2008; Andersen, 2010). In Sierra Leone, diamond extraction by a variety of foreign-owned enterprises, via legal and illegal means, played a crucial role in its destabilisation and provided a primary means of finance to armed rebel groups leading up to and during the civil conflict (Jakobi and Wolf, 2013). Recent efforts to resuscitate the economic livelihoods of communities devastated by conflict have placed great emphasis on 'good governance' in small-scale diamond-mining communities. Nevertheless, resurrecting viable and transparent diamond and gold mining industries in the country has been problematic, as the 'peace dividend' continues to elude many communities due to a lack of foreign investment and persistent corruption within political institutions that hamper reconstruction and peace-building efforts (Beevers, 2015).

But despite considerable achievements in recent years, Sierra Leone's post-conflict environment continues to impact the level of investment and the degree to which it can diversify its economy (Marda and Bangura, 2010). Indeed, the country's long-term stability and the consolidation of its democracy require that it move away from resource extraction as the dominant source of revenue. The after-effects of the conflict include a severe shortage of skilled workers and managers, rampant corruption, a lack of infrastructure (roads, telecommunications, water and energy supplies), cumbersome customs procedures, a weak judiciary, the absence of an effective land-titling system outside the western area around the capital, Freetown, and a limited banking system (Le Billon, 2008; United States Embassy in Freetown, 2011). These drawbacks on

development and ease of doing business deter much-needed foreign investment in the extractive and other key sectors.

*Ethiopia Case Study*

For Ethiopia, natural resource governance with respect to land constitutes a particularly crucial dimension of its development. Agriculture has long been the central axis of its economy, and commercial agriculture and large-scale investments have been considered critical to the development of this sector. One of the main challenges presented by commercialised agriculture is that instead of creating employment, it replaces labour-intensive farming techniques with machinery and other technology that can degrade the surrounding environment (Khairo et al., 2005).

Although foreign investments in Ethiopia's agricultural sector have culminated in improved infrastructure, large-scale agricultural investments are particularly problematic when one considers that Ethiopia and the East Africa region are disproportionately affected by hunger and other food security concerns. Though such investments have the potential to offer much in the way of knowledge and technology transfer, there is also evidence to suggest that land acquisitions in Ethiopia have displaced smallholder agriculturalists and pastoralists from their ancestral lands without providing them with compensatory employment opportunities (Moreda, 2015).

On the other hand, the dissertation seeks to investigate whether the adoption of alternative governance models may constitute a workable solution. This case study demonstrates that governance models that prioritise, via foreign-owned enterprises, the production of labour-intensive crops, meaningful consultations with local communities, and due respect for local knowledge of agricultural production processes may spur possible administrative changes that could facilitate inclusive and sustainable growth (Adenew, 2004). In addition, fostering participatory industrial crop production allocation frameworks and lending greater support to domestic firms producing agricultural inputs are other means of empowering growth and mitigating instability in Ethiopia. A re-

evaluation of the legislation that has recentralised land administration functions, as well as a reconsideration of the Ethiopian government's general approach to pastoral and shifting cultivator groups, could also benefit the citizens (Little et al., 2010). Ethiopia's agricultural sector nevertheless offers development opportunities for well-regulated foreign actors and constitutes a complex linkage between foreign investment and Ethiopia's inter-ethnic fragility.

This research should shed light on the role that foreign state-owned and private-sector actors have historically played in the governance and management of natural resources in these three distinct countries. It also addresses the political conditions that are unique to each, and how they shape the environment for foreign-owned enterprises operating in the natural resource sector. By addressing the role of foreign actors and the local political conditions that affect them, this research endeavours to identify patterns and relationships evolving in the face of new investment flows from traditional and emerging investors, and how African governments and communities have responded to the social impacts of such investment.

By focusing on the factors that influence whether foreign actors contribute to or alleviate instability, conflict, and prosperity, this research aims to contribute to broader debates and academic discourses on the role of foreign actors within the natural resource sector by providing guidelines for an improved analytical framework that can be used to interpret and clarify concepts about natural resource governance, sustainable development, and violent conflict in Africa. A second goal is to help enhance discussion surrounding on-the-ground experiences and lessons learned — those of host governments, foreign actors, local communities, and international organisations — that could be relevant to developing policy that promotes development outcomes in the natural resource sector.

# Chapter 2. CONCEPTUAL OVERVIEW AND ANALYTICAL FRAMEWORKS

## Conceptual Overview

The management of natural resources is now an important debate in the political economy of national and international development both in policy and academic circles. In particular, the discussions that characterise this debate have far-reaching strategy and policy implications for the ability to attain sustainable development in developing countries. Indeed, one area of emerging consensus is the critical importance of *governance* — defined here as "the deficiency or effectiveness of public and private sector institutions" — as the key to understanding the prevalence or absence of violent conflict (peace and security), as well as economic development pertaining to natural resources in Africa (Alao, 2007; Collier, 2007, Acemoglu, Robinson, and Johnson, 2002). Weak, corrupt, or undemocratic governments may be unable or unwilling to invest resource revenues in sustainable economic development, or to provide the necessary regulatory environments for responsible and accountable business practices (Ballentine, 2006). Host governments of resource-rich countries, local communities in extractive areas, and foreign-owned enterprises can all play a crucial part in influencing and determining strategies and policies and the nature of institutions governing how resources are managed, as well as whether resource wealth contributes to sustainable economic development in the Global South.

In Africa, the effective management of the continent's abundant natural resources could be the key to poverty alleviation and lasting prosperity. However, recent history suggests that poor resource management often results in the chaotic and wasteful deployment of human capital, the depletion of the resources on which societies' economic livelihoods are based, and, in extreme cases, violence and political instability at both the national and regional levels (Ross, 2013; Buckles, 1999; USAID, 2006; UNDP, 2011). Indeed, natural resource wealth alone is not sufficient to contribute to the peace, security, and economic development of resource-rich countries (Torvik, 2009). The generation of positive development outcomes, including the reduction of poverty, is

grounded in effective governance, which encompasses both the government's ability to utilise resource revenues effectively and the policies and practices of other actors such as businesses and NGOs. In this sense, questions surrounding the governance of natural resources become critical to ensuring that resource wealth contributes to the development of resource-rich countries, rather than precipitating cycles of violence and sustaining widespread poverty.

The increasing frequency of dialogue and roundtable discussions taking place between various stakeholders in the extractive industries — captured and reflected in part by this research — illustrates the growing concern in the global community, including even among international business organizations and multilateral institutions, that a reconciliation between sustainable economic development and business objectives must occur by encouraging a more responsible exploitation of natural resources (UNECA, 2016). Key concerns from a governance perspective relate to the absence of clear regulations and mining codes; insufficient adherence to the rule of law; an absence of fiscal, monetary, and budgetary discipline; the presence of few pro-poor public-private partnerships; poor skills and limited resources in government departments; muted encouragement of open dialogue between government and civil society; and little, if any, transparency and accountability. The culmination of all these deficiencies call for an improved and visible governance system in Africa's natural resources sector, so as to ultimately promote peace, security, and economic development.

From the perspective of African stakeholders — including those national leaders, domestic investors, and development practitioners interviewed during the fieldwork undertaken to support this research project — effective natural resource governance is increasingly regarded as the key determinant of the continent's economic growth and investment opportunities, especially if official aid volumes continue to decline (IDEA, 2017; Rodríguez-Pose and Cols, 2017, 67; Salah Ovadia, 2017). African leaders have come to recognise that the manner in which the continent's resources are managed and developed is integral to their ability to mobilise more resources domestically, contribute

to sustainable economic and social development, and enhance peace and security (Fabricus, 2017). This is evidenced by the outspoken support by African leaders for the African Mining Vision, including the African Union's Addis Ababa Declaration. Given the changing global order brought about by the rise of emerging economies, such as China and India, and their increased trade with and investment in Africa, an improved understanding of natural resource governance on the continent, the direct impact it has on peace, security, and economic development, and the way in governance is likely to evolve is of greater importance than ever.

The literature thus far denotes a range of perspectives on the impact that governance of natural resources has on peace, security, and economic development. It has been argued that foreign investors are to some extent contributing to the transfer of skills, knowledge, and technology to host countries through their operations (York, 2012; Evans, 2014; Zhou, 2017, 328; World Finance, n.d.; Turok, 2013), although the literature is filled with examples of these so-called outputs of beneficiation failing to appear in any meaningful, tangible, or sustainable way. Foreign investments in extractives can also facilitate innovation, more affordable financing, and higher-quality products and services. In contrast, research findings indicate that resource-rich economies in Africa have suffered lower economic growth due to the phenomenon known as 'Dutch disease,' which refers to the economic challenges associated with the rapid growth in the exports of raw commodities. This lower growth has given rise to an increase in the value of a country's currency and has had an impact on the decline of other sectors of the economy (van der Ploeg and Poelhekke, 2016, 206).

This is in contrast to the resource curse, a paradox in which countries endowed with abundant natural resources tend to achieve fewer development metrics than other countries at a level that is statistically significant. For example, based on evidence from 41 countries between 1970 and 2006, Frynas, Wood, and Hinks argue that non-resource exports are seen to decrease by an average of 75 cents while imports rise an additional 25 cents (2017, 235). Others, including Behzadan et al. (2017), suggest that the Dutch disease originated solely from the unequal distribution of resource rents.

Literature, however, it not uniformly supportive of the resource curse hypothesis, with some proposing that it is a “statistical artefact created by either endogeneity or omitted variable bias;” that research tends to falsely equate comparative advantage in resource products as abundance; or that many fail to wholly recognize the inherently imperfect nature of development (Ross, 2015; Wright and Czelusta, 2004; Frankel, 2010).

There is also undisputed evidence that corruption is endemic in many of Africa’s resource-rich countries (Lawson-Remeand and Greenstein, 2012), where there is already a high degree of income inequality (AfDB, 2007) and low poverty reduction rates (Ite, 2005). Indeed, research shows that corruption has particular and visible impacts on per capita GDP growth, while lowering efficiency in the allocation of public goods, discouraging foreign direct investment, and restricting general economic production (Baliamoune-Lutz and Ndikumana, 2009; KPMG, 2016; Lučić et al., 2016; Hodge et al., 2011). Consequently, public policy debates on the governance of Africa’s natural resources are now central to discourse and dialogue at the continental and regional levels on financing sustainable economic and social development, as well as promoting peace and security.

Much of the existing scholarly literature on natural resources management and governance focuses on foreign investors in particular, and conflict risks in general, however, less is known about the role of economic actors in the extractive sector in post-conflict and conflict-threatened countries (Woodward, 2010). This is a lingering puzzle: in specific political contexts, how do foreign-owned enterprises, operating in those areas, impact peace, security, and economic development, especially in countries with differential primary resource commodities? Bush and Opp (1999) highlight the somewhat paradoxical fact that conflict can serve as a catalyst for positive economic and social development. The potential for conflict to galvanise cooperation and peaceful development has been noted particularly with respect to water resources (United Nations, 2009). What has occurred in Sierra Leone since the end of the civil war in 2002 suggests that this may also apply to economies reliant on minerals and hydrocarbons.

The experience of armed conflict may generate strong incentives for the political elite to secure the consent of the governed and create representative and effective governing institutions to extract resources more efficiently — although whether this has occurred and what role foreign-owned enterprises play in this regard have yet to be determined (Tilly, 1975). Billon, for example, suggests that the abundance of natural resources may encourage parties in an armed conflict to sustain it rather than sow for peace, for the former is far more profitable that the latter. Peace, he argues, removes key sources of revenue for all parties, including international, intervening actors, who lose immediate access to natural resources when a functioning local government is created during post-conflict reconstruction (2001, 578). In Angola, for example, oil revenues made it possible for conflicting parties to build loyalty through rent dispersal and control, preventing meaningful governance reform while perpetuating economic inequality (Billon, 2001). Indeed, political commentators such as Blattman and Miguel (2010) have observed that the connection between foreign investors/national and international private sector organizations and institutional transformation in the context of natural resource governance are not clear. In the chapters that follow, this research project hopes to shed light on the relationship between these variables through case studies on Sierra Leone, Ghana, and Ethiopia.

If foreign-owned enterprises — both state- and privately owned — are to support sustainable economic development, peace, and security in stable, post-conflict, and conflict-threatened countries, then an inclusive approach to the governance of natural resources is required. Ideally, in stable countries, foreign-owned enterprise revenues should help to bolster economic growth and sustainable human and physical development, CSR practices, and capacity building. In post-conflict countries, foreign-owned enterprises could contribute to post-conflict reconstruction, economic transformation and development, and governance enhancement. Finally, in conflict-threatened countries, foreign-owned enterprises could contribute to a conflict containment strategy through judicious involvement in land transactions and investments. Based on existing literature, greater accountability and CSR, the re-investment of resource revenues into social services and poverty reduction programs,

and diversified economic development are ideal objectives for all stakeholders (Peschka, 2011). However, given the wide range of challenges and the complexity of underlying issues in diverse political environments, an improved analytical framework is needed to further understand the changing interactions between foreign investment actors, natural resource governance, and political stability and instability in Africa. The PENRG framework could provide researchers with a new tool to analyse how foreign-owned enterprises affect sustainable economic growth and poverty alleviation, peace, and stability in stable, post-conflict, and conflict-threatened countries in sub-Saharan Africa.

This line of enquiry is crucial to Africa's development considering the continent's ongoing need for foreign capital and technology transfer (Agola, 2016), the increasing significance of FDI in the natural resources sector (Bokpin et al., 2015), and the effects these could have on trade and fiscal policies designed to promote sustainable development.

*Governance Structures*

Governance structures in sub-Saharan African countries are institutions and policies — both national and local — that determine the interaction between companies, the country, and its citizens. Examples of elements of governance structures include the means to translate resources into tangible benefits for citizens, national ownership of resources, the enactment of fiscal rules on the use of revenues, and the existence of strong public institutions, including oversight bodies and the justice system.

In terms of this research study, companies are foreign-owned enterprises, which refer to an aggregate grouping of foreign investment actors. Such enterprises may be wholly or partly state-owned, -controlled, or -sponsored; or privately owned companies, listed or not, that operate in large-scale resource industries in the host countries.

In Ghana, the industry is hydrocarbon; in Sierra Leone, mining; and in Ethiopia, agriculture (World Bank, 2017; Kopf, 2017; The Commonwealth, 2017). Ghana currently has four major hydrocarbon fields, with total proven reserves of 2,312.4 billion cubic feet of natural gas and 883.4 million barrels of oil, which, as of 2018, are being explored and exploited under 17 petroleum agreements (Ghana Petroleum Register, 2018). Diamonds are well known for their role in driving civil conflict, and Sierra Leone has some 7700 square miles of active diamond fields alone, covering nearly 25 per cent of the country's total surface area, along with other mineral resources such as gold, bauxite, rutile, ilmenite, and iron ore (MMMR, n.d.).

Foreign involvement in the natural resource sector in Africa is a direct consequence of the continent's lack of capital and technology needed to develop such infrastructure projects supported by government policies such as openness to trade and tax incentives. The accumulation of capital and technology in fast-growing emerging economies over the past three decades, taking into consideration strategic and national interest, explains the recent phenomenon of South-originating FDI in Africa's natural resource sector. For example, China's massive investments in securing cobalt supplies from the Democratic Republic of the Congo (DRC), is only the latest of the South-South FDI in strategic acquisitions (Reuters, 2018).

The way in which citizens, civil society groups, and the international community view foreign-owned enterprises largely depends on how local and national governments in resource-rich countries manage their relations with the private sector. For example, governance systems determine whether private-sector actors are viewed with praise in the case of Ghana; as pivotal players in peace-building and reconstruction efforts in the case of Sierra Leone; or with general suspicion and as a destabilising factor in the case of Ethiopia. Corporations' reputations also depend on how integrated they are within the governance structures set up by these countries to manage resource rents and investments. These structures operate within the broader framework and commitments that governments will have agreed to as part of their national visions and economic priorities, as well as in relation to the AMV, which was adopted by African leaders at the

2009 Addis Ababa Summit.[2] An additional factor that determines how foreign-owned enterprises are perceived by host populations is the structure of their own governance frameworks.

Foreign actors have the potential to bring about transformational changes in the economies and social fabrics of conflict-affected and post-conflict states. They could also serve as the engine for growth in stable, resource-rich democracies in Africa. However, this can only be achieved with strong, coherent, and strategic national and local governance structures that clearly define the role of the private sector. These structures must not only take their interests into account, but also spell out their responsibilities to all stakeholders, including mining communities.

*Theoretical Framework for Country Case Studies*

According to Hout (2015, 88–9), traditional structural political economy:

> … understands development as a permanent process of institutional restructuring, with the aim of achieving resource redistribution. This process, which requires particular elites to give up certain privileges in favour of the poor, involves conflict ... [and specifically] the political struggles that result from the expected opposition of (parts of) the elite that do not wish to give up their privileges.

The structural political economy approach to analysing natural resource governance is narrow in focus, dealing strictly with governance reform and the politics of structural reform, particularly the restructuring of existing institutions and governance arrangements (Hout, 2015). In this light, each case study begins by outlining the

[2] AMV was adopted by heads of state at a 2009 African Union (AU) summit and is linked to the Mining Policy Framework (MPF) tabled to the United Nations Commission on Sustainable Development (UNCSD) in 2011 by the 48-member Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF) (United Nations Economic Commission for Africa [UNECA], 2011; Besada and Shaw, 2014). The AMV and its associated Action Plan form the most complete framework for collaborative governance on a continent with 54 national governments and abundant natural resources (Besada and Shaw, 2014).

country's political economy, which includes a historical overview and the relationships between governance structures and economic, social, and development outcomes. The case studies deal with laws, regulations, and policies, and in the absence of such with other governance structures, such as the desire to transform resources into tangible benefits for citizens. National and local governments, political and economic elites, other authorities, foreign state-owned and private-sector actors, and local communities are considered key actors in governance and structural reform activities.

Governance structures are inherently tied to the type of country (post-conflict, etc.); they inform state capability, the methods whereby they guide foreign investor/foreign state-owned and private-sector actors, and how these actors affect peace and stability, and economic development outcomes. My theoretical approach is used to assess country narratives, conditions, and relevant outcomes to support the core argument that the role of foreign state-owned and private-sector actors in natural resource management in sub-Saharan Africa depends on the various strengths, weaknesses, and levels of governance structures, which differ in stable, post-conflict, and conflict-threatened states.

In his highly influential work *Concept Misformation in Comparative Politics*, Sartori (1970) stresses that researchers must correctly define concepts in order to know exactly what their theory will test. In turn, he argues that conceptual precision helps researchers choose the right methods to test their theory (Collier and Gerring, 2009). This research applies the theory of structural political economy to the analysis of foreign-owned enterprises' roles, state stability or instability, and the governance structures of the country. Through a modified PENRG approach, the research investigates how the contribution of foreign-owned enterprises to state stability or instability, peace, and economic development is derived from the outcome of their investments. These investments are not only shaped by governance structures, but also interact with governance structures to produce outcomes. Traditional thinking in existing literature suggests that in the absence of strong policies, institutions, and long-term vision, foreign

investments in natural resources could lead to state instability (Cabrales and Hauk, 2011). Alternatively, foreign investment could lead to increased state stability.

Two related notions or terminologies of importance to this research are instability and conflict, which need clarification: they refer to competition and rivalry over the control, distribution, and consumption of natural resources. Instability and conflict are therefore understood as existing within a spectrum: they can range from confusion and frustration among members of a community over specific development actions, to violent clashes between armed groups over resource ownership. Instability and conflict also connote widespread social unrest that threatens the political stability and security conditions of entire countries. Foreign investments in natural resources could increase instability and conflict by contributing to corruption, creating socio-economic inequalities, providing funding for arms, providing arms directly to warlords and militias, disrupting environmental and social systems, as well as contributing to Dutch disease. Instability and conflict can also refer to land grabs, poor labour standards, environmental degradation, the importation of foreign workers, and a lack of accountability in government budgets, resulting in tension between civil society groups, private actors, and governments.[3]

With regard to governance structures, Table 1 presents political and economic examples found in this research.

**Table 1: Governance structures at the private, public, and regional/global levels**

| Level | Structure |
|---|---|
| Private | Revenue-sharing agreements; wealth-sharing agreements; production-sharing agreements; exploration and mining licenses; oil-sharing agreements; policies on selective treatment, cost-recovery measures and quality-control mechanisms; training programmes; International Organization for Standardization (ISO) certification; |

[3] As dependent variables, these are translated as “peace” and “stability” for the purposes of this dissertation. State stability in this context refers to political and social stability and economic growth.

| | |
|---|---|
| | joint ventures with government and other companies; mining community development agreements (CDAs); community development funds (CDFs); projects including community outreach; CSR practices reflecting an actor's role as a socio-economic development and security partner (beyond merely adhering to government laws and regulations); ethical business practices; initiatives to promote forward and backward linkages; economic diversification and beneficiation; funds such as community development funds. |
| Public (local) | Local governments, departments, and agencies; commissions; committees; institutional frameworks and mechanisms; incentives, policies, and strategies, programmes and plans; community development programmes; projects; public relations; forums to ensure that companies adhere to human rights standards, environmental protection and broad-based socio-economic development; the principles of free, prior, and informed consent (FPIC); technical assistance arrangements; channels to engage with civil society and local communities; conflict resolution strategies that foster mutual trust among workers and develop social capital within communities; the funding of social projects and economic activities at the local level; community-based natural resource management (CBNRM) interventions. |
| Public (national) | National and local governments, ministries, and departments; agencies and tax authorities; the judiciary; special courts; commissions; committees; legislation and laws; regulations and regulatory mechanisms; revenue- and production-sharing agreements; joint ventures and public-private partnerships; resource allocation mechanisms; monitoring and evaluation arrangements; institutional frameworks and mechanisms; transparency and accountability mechanisms; incentives; policies; strategies; programmes and plans (including privatisation programmes, |

| | |
|---|---|
| | infrastructure development, and poverty alleviation); community development programmes; projects; contracts; investments; standards; best practices; mining and CSR codes; public relations; forums to ensure that companies adhere to human rights standards, environmental protection and broad-based socio-economic development; the principles of FPIC; technical assistance arrangements; peace agreements and ceasefires. |
| Regional/global | Extractive Industries Transparency Initiative (EITI); United Nations Global Compact (UNGC); Global Reporting Initiative (GRI); OECD Guidelines for Multinational Enterprises; commodity-specific OECD Guidances; Principles for Responsible Investment (PRI); the Natural Resource Charter; AMV; Publish What You Pay; certification schemes such as the Kimberley Process Certification Scheme (KPCS); regional and global benchmarks. |

This research also draws on Cox's critical approach to international political economy (Cox, 1981). Cox strives for a holistic approach by questioning the nature of institutions, social relations, and power dynamics by examining their origins and distinguishing future characteristics. In brief, he is concerned with broad, cross-cutting themes as opposed to more micro-level, specific details. As part of the soon-to-be-introduced PENRG framework, this work employs Cox's critical approach to outline the relationship between foreign and private-sector actors and their effects on stability and instability in three different African countries. It also informs how this research project examines the roles of foreign-owned enterprises, state stability or instability, and whether a country's governance structure along with the involvement of foreign actors contribute to either stability or instability in resource-rich African countries.

Importantly, Cox (1981) distinguishes between problem-solving theory and critical theory. He states that problem-solving theory "takes the world as it finds it, with the prevailing social and power relationships and the institutions into which they are organised, as the given framework for action. The general aim of problem-solving is to

make these relationships and institutions work smoothly by dealing effectively with particular sources of trouble" (Cox, 1981, 128–9). While problem-solving theory is analytical, critical theory is holistic. Therefore, Cox (1981, 129) contends that critical theory:

> … does not take institutions and social and power relations for granted but calls them into question by concerning itself with their origins and how and whether they might be in the process of changing. ... Critical theory is directed to the social and political complex as a whole rather than to the separate parts.

Cox (1981, 130) also suggests that where problem-solving theory might be seen as conservative, critical theory might be seen as utopian. However, he argues that this interpretation misunderstands the objective of critical theory:

> [The] aims [of critical theory] are just as practical as those of problem-solving theory, but it approaches practice from a perspective which transcends that of the existing order, which problem-solving theory takes as its starting point. Critical theory allows for a normative choice in favour of a social and political order different from the prevailing order, but it limits the range of choice to alternative orders which are feasible transformations of the existing world.

This research project aims to identify the possible alternatives for state governance structures that guide potential impact on peace, stability, and economic development by foreign-owned enterprises, employing Cox's critical theory. Accordingly, the case studies explore the impact of foreign-owned companies on peace, stability, and economic growth in relevant sectors, the emergence of new sectors, and the experiences and lessons learned that could be relevant to policies for promoting positive developmental outcomes. Benefiting from the absence of restricting factors of the critical theory approach, the three cases also contribute to the development of an improved analytical framework, introduced at the end of this chapter, for conceptualising natural resource governance and stability in Africa.

## Literature Review

This section will survey relevant issues pertaining to the governance and management of natural resources, particularly in the African context, in the academic literature. Its aim is to highlight the key intellectual debates with which this research project will engage. Through an examination of relevant issues pertaining to the governance and management of natural resources in the academic literature, specifically in the three countries used as case studies, the literature review coalesced key debates within a single framework to allow for more effective policy analysis.

### *A True Resource Curse?*

Conflict over the control, distribution, and consumption of natural resources is ubiquitous. However, the nature of that conflict is determined by the social, political, and economic contexts in which people interact (Ayling and Kelly, 1999). These conflicts range from confusion and frustration among members of a community over specific development actions, to violent clashes between armed groups over resource ownership, to widespread social unrest that threatens the political stability and security environments of entire countries. Foreign investors and private-sector actors — including ranchers, large-scale landowners, and private corporations in industries such as forestry, mining, hydropower, and agribusiness — are becoming increasingly influential in resource management decisions. Consequently, they are important actors with regard to maintaining or encouraging peace and security in developing countries (Buckles, 1999). This dynamic is being driven by the globalisation of multinational enterprises, the fiscal policies of financial institutions, the actions of developing countries' governments, and the increased demand for resources among emerging economies (Cotula et al., 2009).

Burgeoning literature on the ‘resource curse’ and the ‘paradox of plenty’ has established strong linkages between resource abundance and corruption, authoritarianism, economic decline, inequality, and violent conflict (Karl, 1997; Sachs and Warner, 1997; Ross, 2012). Resource abundance in particular provides both finances and motives for armed conflict, while rent-seeking and patronising behaviour further erodes political institutions and economic well-being (De Soysa, 2002; Collier and Hoeffler, 2004; Ross, 2004). Moreover, a wealth of resources may relieve governments of tax collection pressures, reduce fiscal discipline, and hinder the diversification of other sectors of the economy — in other words, engender the ‘Dutch disease’ (Gupta et al., 2009). This said, we are reminded, however, that not all agree with the resource curse concept, and indicate its existence is tied to other, unknown factors and statistical anomalies (Ross, 2012; Ross, 2015).

As illustrations of how a wealth of natural resources can lead to protracted conflict, Sierra Leone and Liberia are good examples. Both conflicts were inextricably tied to the diamond trade in those countries, which enabled the growth of rent-seeking, one-party states that failed to promote economic development. Instead, the diamond trade presented incentives and opportunities for rebel movements to organise armed insurgencies (Keen, 2005; Miguel and Bellows, 2006). Nevertheless, the specific conditions under which the resource curse contributes to instability and conflict remain poorly understood, with countries such as Equatorial Guinea and Gabon maintaining a precarious stability despite enduring nepotistic and authoritarian governments (Humphreys, 2005; Basedau and Lacher, 2006).

It is widely believed that on average, the economies of resource-rich countries tend to grow less rapidly than resource-scarce countries, a phenomenon explained by the ‘resource curse’ theory. Sachs and Warner (1995) were among the first scholars to examine the intricate relationship between economic growth and natural resource endowment. They concluded that when differences in macroeconomic policies and initial income levels were accounted and adjusted for, resource-rich developing countries were destined to experience slower growth on average. Theoretically, this

should not be the case, as abundant natural resources could play a positive role in promoting economic development. Natural resource endowment has the potential to provide an economy with a boost via initial and continued investment; skills transfer; infrastructure development; employment generation; revenue for both central and local governments; and social development by the implementation of CSR projects (Sachs and Warner, 1999; Murphy, Shleifer, and Vishny, 2000).

Various explanations have been put forth over the years as to why natural resources have not facilitated economic growth in many developing states over the past decades. One such explanation revolves around governance as core for both promoting sustainable and equitable growth and preventing increased likelihood of conflict and disagreement among relevant stakeholders, including mining community leaders, the general public, policy-makers, foreign investors, and private-sector actors (Burnside and Dollar, 2000; Easterly, Levine, and Roodman, 2004; Glaeser et al., 2004). It is further argued that in the absence of governance structures, these stakeholders waste resource revenues while exhausting natural resource deposits to the detriment of future generations and potential economic development.

Scholars within the natural resource governance field have argued that increased and continued government control over the extractive industry, high and often skewed dependence on the extractives sector, and continued neglect of other primary sectors such as agriculture have all resulted in diminished revenue and increased unemployment. These reasons account for why natural resources may inhibit broad-based economic growth and poverty alleviation in poor, resource-rich countries, particularly those in Africa (Shahnawaz and Nugent, 2004). Given these countries' inordinate dependence on natural resources for government revenue, there appears to be a diminished reliance on tax revenue, which has contributed to less accountability within the sector. This is particularly the case with regard to the distribution and spending of resource earnings.

In terms of fiscal management, resource revenue in poor resource-rich countries that suffer from poor governance could negatively affect developmental goals. For instance, this situation is often evident when substantial aid flows are misused. Corrupt regimes, many of which are driven to remain in power by any means, typically resort to lowering taxes as a way to gain support from the general public. As an example, oil-producing countries often subsidise domestic gasoline prices, even though this is deemed to be economically unviable in the long term (Bacon, 2001).

In situations characterised by poor governance — in the extractives sector in particular — resource revenues are generally found to be unevenly distributed. In many instances, these revenue streams are squandered while the economy continues to stagnate. In this context, the Dutch disease framework is central to the literature pertaining to economic stagnation in resource-rich developing states. Corden and Neary (1982) observe that manufacturing and other non-primary resource sectors in resource-rich countries endure tremendous difficulties due to domestic currency appreciation. That is, as excessive earnings from the extractives sector are captured by the domestic, non-tradable sector, the national currency appreciates in real terms, affecting the competitiveness of non-extractive sectors. Sachs and Warner (1997) contend that, particularly in the African context, Dutch disease has affected economic growth as part of the wider, negative consequence of an immoderate reliance on the extractive sector.

Terry (1997), Collier and Hoeffler (2000), and Omeje (2013), among other authors in the schools of neo-Marxist dependency modelling, environmental scarcity theory, and greed versus grievance theory, have argued that there is a positive and evidence correlation between conflict and extractive economies (Omeje, 2013). This is primarily due to the terminal nature of extractive economies, and the realization thereof by those in positions of power, resulting in corruption, graft, ecological conflict, and economic depression (Omeje, 2013). Others have coined the term ‘economic imperialism,’ a form of neo-colonialism designed to export wealth from resource-rich countries to the developed West (Veltmeyer, 2013). This narrative is posited as well by Wengraf, who from a Marxist lens, denotes how extractive economies in sub-Saharan Africa are once again

faced with the pressures of militarism, resource wars, and development “aid” that arrives with conditions of perpetual licence to return wealth abroad (2018; Shaw, 2008). That said, despite this relationship, which has been supported by Auty and Gelb (1988, 1993), Sachs and Warner (1995) Ross, (2001, 2003), and UNCTAD (2002), studies have equally challenged the notion that extractive economies inevitably lead to economic stagnation, decline, and conflict (Davis, 2009). Considerations for the above political theory approaches are taken throughout the work, particularly in the discussions of foreign-owned, private-sector influence on peace, whether their operations contribute to or mitigate conflict in the three case countries, and how governance of natural resources structures and systems can curb detrimental relationships, activities, and interactions in the resource sector.

Another challenge related to an over-reliance on the natural resource sector for revenue lays in the specificity of assets and geography. Assets tend to be stationary and are closely tied to mining operations. Any investments in equipment, infrastructure, and facilities are generally linked to specific mines and geographic regions within resource-rich states (Joskow, 1987). The sector furthermore tends to be capital-intensive, especially with regard to exploration and extraction activities. The most prominent assertion from scholars has been that natural resources development in many resource-rich countries has resulted in only a few forward and backward linkages, while negatively affecting local industries given that they tend to be divorced from the broader economy (Sachs and Warner, 1995).

Issues surrounding the historically poor management of natural resource revenues by African governments raise questions regarding the opportunities and challenges that could stem from integrating new stakeholders into processes of natural resource governance. The extractives sector could serve as the basis for long-term economic development, provided that governments — supported by the involvement of foreign investors and the private sector — implement a long-term vision regarding the management of these resources. Examining the types of policies and initiatives that could be adopted by stakeholders to enhance development outcomes through their

support of African governments is a key issue that flows from the existing research. This research hopes to add to current knowledge by exploring the role of additional stakeholders, namely foreign-owned enterprises, on natural resource management in Africa.

*Evolving Role of Foreign Investors and the Private Sector in Encouraging Sustainable Development, Peace, and Stability in Africa*

With increased investment in Africa's mining sector, spurred on by new and improved mining legislation and incentives, African governments and civil society have closely examined the socio-economic contributions and the impact of these investments on both national economies and local communities. In recent years, a great deal of accumulated evidence has suggested than an abundance of natural resources could be more of a curse than a blessing (Auty, 1993). For instance, Gelb found that resource-rich economies suffered from lower economic growth (Gelb, 1988) — a finding that has been confirmed by Sachs and Warner (1995).

Linkages between foreign investors and the private sector and violent conflict have also been the topic of recent investigations (Besada, 2009; Hameed et al., 2013; Bannon et al., 2003). Foreign investors and other private-sector involvement could increase conflict by contributing to corruption; creating socio-economic inequalities, providing funding for arms, or providing arms directly to warlords and militias; disrupting environmental systems; and contributing to Dutch disease. For example, multinational firms operating in the DRC were directly implicated in violent massacres and fiscal improprieties with local authorities (Ballentine, 2006). On the other hand, foreign investors and private-sector actors are central agents of global trade and investment, which are crucial for the sustainable growth of African economies (Collier, 2007). They also play a critical role in post-conflict recovery (Woodward, 2010), an area of research with the potential to shed greater light on the specific conditions under which private actors involved in the natural resource sector may contribute to peace, stability, and prosperity, and what form this might take.

While the literature has tended to highlight the potential outcomes arising from foreign investor engagement within the natural resource sector, less is known about the mechanisms that determine the specific effects that arise from such interactions. Indeed, literature remains focused on a number of key areas and themes, exposing gaps in knowledge. Few efforts have been made in the past to engage in a thorough investigation of how governance structures work in the context of natural resource management, the bolstering of extractive economies, and the guiding of private-sector actors so as to leverage them as assets for translating resource wealth into sustainable economic growth, peace, and stability. Research inevitably tends to focus on what governments should do as opposed to what actual causal relationship exists between the structures of resource governance and outcomes facilitated by private-sector actors. Providing policy recommendations of what these actors ought to do regarding the objectives of peace, economic growth, and stability is, however, a fundamental starting point to the discussion of how governance structures should be developed so as to augment the potential achievement of these goals.

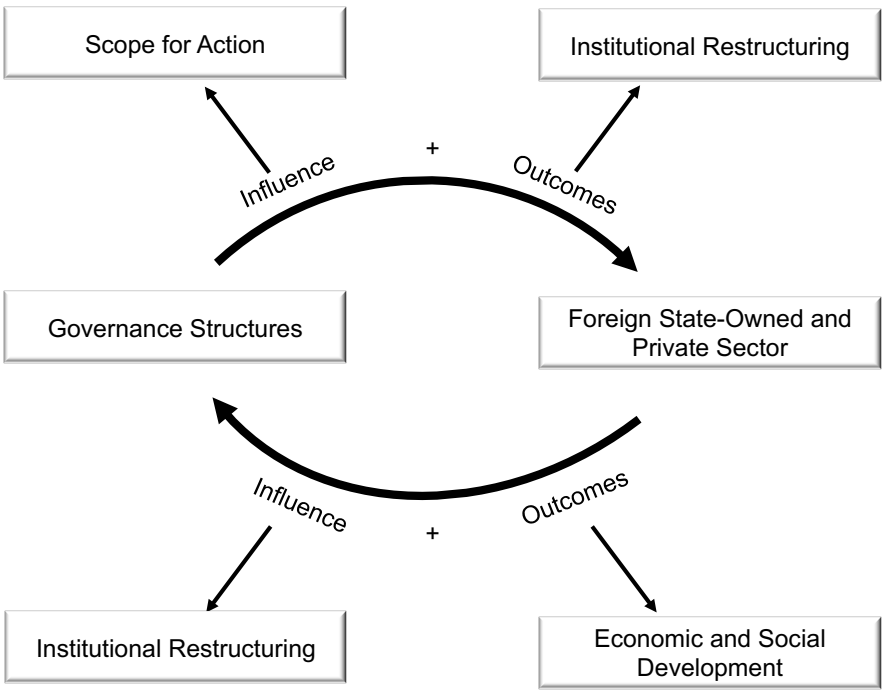
**A New Framework for Natural Resource Governance Analysis**

To remedy this gap in knowledge, the proceeding case studies were selected so as to offer new research under the lens of the Political Economy of Natural Resource Governance framework (see Figure 1) into how governance institutions and actors engage with foreign owned, private-sector actors in practice, and the extent to which they contribute to the above objectives, and how natural resource governance and foreign investment actors interact in a dynamic way — feeding into the other.

This framework helps to classify and present knowledge on natural resource governance and foreign investment actors according to clearly defined country conditions (e.g., politically stable, post-conflict), thus helping to discern how such conditions can determine the scope of foreign state-owned and private-sector activities. It also helps researchers to understand how the potential role of foreign actors

influences economic, social, and development outcomes and how these outcomes and the influence of foreign investment actors affect institutional reshaping of governance structures. The analytical framework builds on the structural political economy approach outlined by Hout (2015), who employs his structural approach to the policies of development aid donors by applying the sociological agent-structure problem.[4] Most importantly, the framework provides "an underpinning prism for the construction of explanations" (Stanley, 2012).

**Figure 1. Political economy of natural resource governance (PENRG)**




Agency is the capacity of actors to make their own choices and act independently. Structures are the factors of influence that determine or limit an agent in making decisions, which, in sociology include social class, religion, gender, ethnicity, and customs. The complementarity of agency and structure (a cyclical rather than a linear process) must be emphasised: structures influence actions, but agents can similarly

[4] For a seminal application of the agent-structure problem in the field of political science, see Wendt (1987).

influence structures. Different theories exist about the nature of the relationship between agency and structure. Berger and Luckmann (1966) posit that the relationship is dialectical — a continuous loop where structures form the actors who in turn create the structures. Giddens (1979) supports this theory that structures both enable and constrain agents. The debate about the agent-structure relationship changes according to its application in particular cases, and applying it to the structural political economy appears productive, with the complementarity of agency and structure evidenced in the three case studies and denoted by the cycle in Figure 1.

The analytical framework builds on the structural political economy approach but changes its starting point from “the identification of sets of elites in relation to the national structure of power” (Hout, 2015, 89) to the existing governance arrangements, emphasising the complementarity of governance structures, the actors that they govern, and the cyclical nature of governance. This approach provides a firm ontological grounding for analysis that still enables discussion of elite-level politics but focuses on institutional restructuring in governance reform. The framework acknowledges the large-scale theoretical work done within the fields of functionalism and historical institutionalism but distinguishes itself as a contribution to mid-range analytical framework building.

The PENRG captures the influence of governance structures on creating the scope for action, which in turn can lead to institutional restructuring in investments of foreign state-owned and private-sector actors. The analytical framework considers it an outcome if the restructuring occurs. These actors are the means by which economic, social, and development outcomes occur. As such, these outcomes are able to influence institutional restructuring, which can occur to accommodate outcomes into governance arrangement, further enable foreign investment actors, or guide these actors differently. Such institutional restructuring leads to a changed scope for action — and the cycle repeats itself. Importantly, change can be incremental or characterised by punctuated equilibrium. With that said, time periods for the cycle cannot be assumed.

The objective of presenting this analytical framework is to orient thinking and discussions that can take place at any level of governance and in any type of state, in order to develop solutions. The PENG framework differs significantly from collecting and presenting best practices, though it enables the latter to be undertaken. It identifies junctures and entry points for variables to affect either the foreign investment actors or the structures that govern them. It can be used to generate both questions and conclusions and, importantly, track changing linkages between natural resource governance and management, foreign state-owned and private-sector actors, and levels of stability, peace, and prosperity. It can help any observer understand the role of foreign investment actors and how that role can be enabled or constrained through institutional restructuring. Indeed, the tenets of PENG will be key in investigating how governance structures (both at the resource sector and state levels ) influence the nature and outcome of the involvement of foreign-owned companies and investors operating in the extractive and land resource sectors and contributing to economic growth, peace and political stability, and sustainable development.

## Chapter 3. Methodological Framework

By comparing the involvement of foreign-owned companies in the hydrocarbon, mining, and land sectors in three different types of political states — stable (Ghana), post-conflict (Sierra Leone), and conflict-threatened (Ethiopia) — the analysis seeks to extrapolate the general trends and relationships that characterise Africa's new politics of natural resource governance and the actors that work to define its parameters and characteristics. Specifically, how governance structures (both resource and state) influence the nature and outcome of the involvement of foreign-owned companies and investors operating in the extractive and land resource sectors in the wider development process, and thus contribute to the economic growth, peace and political stability, and sustainable development of such countries, are examined

*Methodological Overview*

Methodological techniques used in field research conducted between February and April 2014 and between June and September 2015 included interviews, the collection of oral histories, and an analysis of government and foreign investors' documentation. Also undertaken was a review of secondary source materials and a historical analysis and personal observation of foreign investors' role and activities in the extractive and land sectors. The latter included the application of CSR mandates and internal policies aimed at promoting inclusive and local-level participatory development models.

This research relies on case studies, within- and cross-case analysis, as well as in-depth interviews and triangulation, conducted under the guise of its proposed theoretical framework, the Political Economy of Natural Resource Governance.

Extensive interviews as well as focus groups' were held in each country to identify relevant socio-economic variables, as well as current challenges and opportunities related to foreign state-owned and private-sector involvement in natural resource

industries. In order to allow for open and free discussion, the names and specific positions of those selected for interviews have not been divulged.

Peace and stability, and economic growth were each operationalized through a number of concrete variables. On the former, evidence of adherence to the rule of law by government and private-sector entities, the absence of inter-state and intra-state violence and conflict especially driven by natural resource extraction and exploitation, cooperative interaction among societal groups and between the latter and private-sector actors, and the harmonization of contract clauses with social values as defined by peace and reconciliation agreements, legal frameworks for protection resource rights, and free, prior and informed consent. For economic growth, variables and indicators include:

- resource contribution to small and medium-sized enterprise (SME) creation and income levels;
- annual rate of positive change for GDP levels;
- annual rate of change in per capita income levels;
- significant private investment;
- distribution;
- creation and maintenance of a middle class;
- growth in access to social services, including education and health care; and
- rates of foreign direct investment.

Additional material was collected via policy-oriented research and dialogue with relevant stakeholders in the three selected countries.

Desk research was conducted to triangulate information. Experiences and lessons learned that could be relevant to policy to promote positive developmental outcomes in each country were selected from interviews and supported by existing literature on the topic. Key variables, isolated by the research, were incorporated into the new framework for conceptualising and analysing natural resource governance, sustainable development, and stability and instability in Africa.

*Case Study Selection*

The three countries were selected for case studies based on their representation of three categories: stable, post-conflict, and conflict-threatened resource-rich states.[5] The Seawright and Gerring discussion (2008) also helped to inform the selection process: as the researcher's objective is to construct or verify general causal theories about the social world on the basis of a few case studies, case selection aims to generate a sample that is representative of the population while exhibiting useful variation on the dimensions of theoretical interest — in this case, the stability classification of each country. Selecting diverse cases (the 'diverse case' method of case selection) allows investigating the variance along the relevant dimensions researched. Seawright and Gerring (2008, 297, 301) contend that "[d]iverse cases are likely to be representative in the minimal sense of representing the full variation of the population. ... [T]he diverse case method probably has stronger claims to representativeness than any other small N sample (including the typical case)." The different categories, the representativeness of the cases selected, as well as practical considerations for this research (such as my familiarity with each country, including their languages) are further detailed below.

***Ghana: Case Study 1***

Since the 1980s, Ghana's economic growth has been increasingly tied to the mining sector, which is largely dominated by gold. The country is the second-largest gold producer in Africa and the eighth-largest globally, accounting for over 95 per cent of the country's total mineral revenue (MC, 2010). Ghana's real GDP increased by 15 per cent in 2011 when it began producing oil commercially, up from an average of 6.5 per cent in the 2000s (ICMM, 2015).

[5] For a discussion of the dimensions of state fragility, see Hannan and Besada (2007).

Ghana's lucrative natural resources, stable political landscape, and increasingly diverse economy have seen it emerge as the second-largest economy in West Africa (after Nigeria). The country attained middle-income status in 2011, suggesting that its economic growth has had positive social impacts. Ghana's unemployment rate declined steadily from 10.4 per cent in 2000 to just 2.4 per cent in 2017 (WB, 2016b). Moreover, its poverty headcount ratio (at national poverty lines) declined from 31.9 per cent in 2005 to 24.2 per cent in 2012 (WB, 2016c). As an indication of the social value of Ghana's mining sector, Toigo (2015) notes that new extractives revenues in Ghana could potentially fill the majority of the funding gap in its education sector. Ghana's natural resources wealth, stable political environment, and expanding economy could potentially encourage further change and have an enduringly positive and direct effect on capacity-building in various sectors of its economy.

Ghana is also one of only a few African countries — though this group is rapidly growing — with a local content policy for the hydrocarbons industry. Petroleum regulations in the country, in the form of local content policies, were created to catalyse inter-sectoral linkages and facilitate the use of Ghanaian human and material capital, local expertise, goods and services, and financing (Ablo, 2015). In addition, Ghana's local content policies seek to: develop local capacities through training, education, and skills transfer; achieve minimum levels of employment; increase the competitiveness of local businesses; create a petroleum industry that drives the country's sustainable development; and provide a degree of control over natural resource endowments on behalf of the Ghanaian people (Ablo, 2015). Accra is placing great emphasis on ensuring that local content, beneficiation, and value addition are adhered to from the start as the country develops its nascent hydrocarbons sector. The Ghanaian government established the Local Content Committee (LCC) to oversee, coordinate, and manage the overall implementation process. A minimum of 5 per cent equity for local petroleum licenses, permits, and contract operators — and at least 10 per cent equity for local providers of supplies and services — is supposed to ensure local participation by the Ghanaian private sector (Ministry of Energy and Petroleum, 2013).

The government has chosen this strategy to maximise value-addition using local expertise, goods, and services to create jobs and skills to be kept in the country. But, despite these good intentions, the local content policies in Ghana appear to be weaker than similar provisions in other countries, such as Nigeria, for it fails to prevent locals from acting as fronts for multinational corporations, "to stop companies sub-contracting services from foreign companies, does not require local companies in joint ventures to own any of the capital equipment, and does not address the issue of local companies importing goods manufactured abroad (Ovadia, 2016). Indeed, there are concerns that at the rate that local involvement in hydrocarbon extraction is currently required under local content policies, the trickle-down impact on average Ghanaians will take decades to manifest (Ovadia, 2016).

The extractive sector may play a significant role in the implementation of the post-2015 development agenda in Ghana's context, pushing economic transformation, social development and poverty reduction, as well as greater environmental protection. For this to occur, the *40-Year National Development Plan for Ghana* has to give the sector the attention it deserves, putting it at the core of Ghana's future and long-term development strategy, and establishing the infrastructure needed for its development (Abubakari et al., 2018). This includes a well-planned and well-financed industrialisation process for the in-country transformation of mining and mineral resources. This nevertheless cannot happen, as shown in this chapter, if mining resources and transformation are not considered tightly linked to agricultural development (agriculture being a key economic sector), downstream linkages between oil and construction, as well as between gold mining and other sectors of the economy. Along this interconnected chain, foreign investment actors, together with the Ghanaian government, will be key drivers of transformational change.

***Case Study 2: Sierra Leone***

Sierra Leone is undergoing post-conflict reconstruction and state building following brutal civil wars fuelled, in large part, by resource predation. Reconstruction efforts,

particularly in the extractive sector, have focused heavily on private-sector growth (Del Castillo, 2008; Andersen, 2010). In Sierra Leone, diamond extraction by a variety of private-sector actors, via legal and illegal means, played a crucial role in the destabilisation of the country and provided a primary source of funding for armed rebel groups in the leading-up period and during the civil conflict. Recent efforts to resuscitate the economic livelihoods of communities devastated by the war have placed great emphasis on 'good governance' in small-scale diamond-mining communities. Examples include certification schemes, such as the KPCS, and CSR initiatives, such as the EITI (Maconachie, 2009). Nevertheless, resurrecting viable and transparent diamond and gold mining industries in the country has been problematic, as the 'peace dividend' continues to elude many communities due to a lack of foreign investment and persistent corruption within political institutions that hampers reconstruction and peace-building efforts.

As part of its post-conflict economic recovery processes and to allow substantial progress in attracting FDI, Freetown needs to reduce business constraints and bottlenecks to investment. Any unnecessary legal, bureaucratic, or financial constraints on the transfer of capital do not bode well for the business community's success. A more engaged private sector will help foster economic recovery, support the establishment of peace and stability, and prevent the country from slipping back into conflict. Aware of this, the government established a national privatisation program aiming to sell many state-owned enterprises, which could provide greater opportunities to spur the development of the private extractive sector in particular (Government of Sierra Leone, 2002). This process represents a cornerstone in the Sierra Leonean government's overall strategy for national development. It promises to reduce public expenditure while stimulating the economy and providing jobs for the unemployed.

Although these steps are vital to encourage positive change, it is important to note that foreign natural resource investment does not guarantee that progress will be made in establishing equitable and mutually beneficial mineral community development agreements. It is also far from assured that peace, stability, and economic development

will flow from such investments, particularly in the short to medium term. In the worst instance, investments could reinforce the reign of autocratic regimes or enrich mining companies at the expense of local communities and host countries, resulting in heightened corruption and nepotism. In the case of Sierra Leone, the government has arguably benefited least in the country's post-conflict reconstruction efforts. Domestic revenue collection reached a record high of 15.3 per cent of GDP following the end of the conflict in 2003 but has since dropped to 12 per cent due to a decrease in excise revenue and import duties (IMF, 2011).

Despite making progress in implementing mechanisms and regulatory institutions to help manage the country's extractive industry (this includes the creation of a Uniform Tax code in 2000 and the National Revenue Authority in 2002, which brought together all revenue collection departments), resource revenue failed to reach the expected levels. Although corruption within Sierra Leone's National Revenue Authority has been largely to blame for this, a limited tax base, stagnating resource revenue, and a reduction in tariffs initiated by the private sector have also been detrimental.

***Case Study 3: Ethiopia***

For Ethiopia, natural resource governance constitutes a crucial dimension of its development. The country serves as an excellent case study for this reason. Agriculture has long been the central axis of the Ethiopian economy: the Government of Ethiopia effectively owns all of the country's land (Government of Ethiopia, 1975). As of 2010, more than 80 per cent of Ethiopians lived in rural areas, while approximately 85 per cent of total employment was concentrated in the agricultural sector (Bues and Theesfeld, 2012). Agriculture currently accounts for approximately 45 per cent of the country's GDP, 90 per cent of its exports, and 85 per cent of its foreign currency earnings (Bues and Theesfeld, 2012). For these reasons, much of Ethiopia's political history has been defined by the control of agricultural land and the agro-economy to which it gives rise.

Though ultimately subject to decisions of public-sector officials in Addis Ababa, the administration of land was decentralised in the mid-1990s and embedded in the new constitution, which was ushered in with the establishment of the Federal Democratic Republic of Ethiopia in 1995. The new constitution ensured that regional governments, formed along ethnic lines, would have a greater influence in land governance. In addition to enshrining an ethno-federalist model of governance and upholding an individual usufruct tenure system, the new constitution also explicitly acknowledged the land and property rights of pastoralists and women (Hagmann and Mulugeta, 2008; Wanyeko, 2003). Though the Ethiopian government has attempted to reduce land tenure insecurity through the introduction of a land certification programme and complementary agricultural development policies in support of smallholder producers since 2003, the country has witnessed limited gains in agricultural growth, poverty reduction, and food security. Muted progress in these areas has been exacerbated by a lack of public funding and capital accumulation in the private sector. The economic arguments in favour of smallholder agriculture as the engine for Ethiopia's economic growth were thus increasingly questioned (Gebreselassie, 2006). Eventually, senior Ethiopian policy-makers became convinced that the government should take a broader approach to economic development.

In an attempt to kick-start the country's agricultural sector as an engine of growth, the new government began to expand its focus and placed an emphasis on developing large-scale commercial agriculture, trade, and foreign investment. The previously touted Agricultural Development Led Industrialization (ADLI) strategy became a component of the broader push to attract investment to usher in large-scale, mechanised, commercial agricultural output via Ethiopia's Growth and Transformation Plan (2010-2015) and Growth and Transformation Plan II (2015–2020) (Ethiopian Ministry of Finance and Economic Development, 2010; Development Assistance Group Ethiopia (DAG), 2016).

The revamped development strategy has offered generous investment incentives to foreign actors, including broad tax exemptions on imported capital goods and repatriated profits. Such inducements have led to an investment boom in Ethiopian land

over the course of the last decade. Foreign investments now constitute nearly three-quarters of all land sought for large-scale agricultural production (Baumgartner, 2012). The Ethiopian Investment Agency (EIA) maintains that three-and-a-half million hectares of land were subject to large-scale lease investments from 1996 to 2008 (Interview, Dr. Aklilu Mariam, Director, Information and Investment, Ethiopia Investment Agency, 17 April 2014).

In keeping with its revived commitment to the Comprehensive Africa Agriculture Development Programme (CAADP), which seeks to enhance efforts on the part of African governments to pursue pro-poor, agriculture-led growth during the 2005–10 period, the Ethiopian government drafted the Plan for Accelerated and Sustained Development to End Poverty (PASDEP). The plan underscored the importance of commercial agriculture and the critical role of large-scale investment to the development of Ethiopia's agricultural sector. Addis Ababa has argued that increased support for large-scale farming projects would ultimately have a positive, knock-on effect for the country's smallholder cultivators due to greater prospective employment opportunities, the improvement of rural infrastructure, new sources of knowledge-transfer, and lucrative opportunities for African agriculturalists looking to invest in other industries. Nevertheless, the commercialisation of agriculture land results in its share of challenges, including the government's failure to uphold the constitutional right of pastoralists and shifting cultivators not to be displaced from their land. Addis Ababa has yet to attain stable and inclusive growth, especially benefitting the country's small landholding producers. All of these developments threaten one of the Horn of Africa's core states with growing political instability at a time when it already perform poorly on the Fund for Peace's Fragile States Index.

It is recognised that discrete classification systems do not properly capture the nuances, fluid nature, and multi-dimensional complexities of the concepts of fragility, conflict, or instability. The World Bank's Fragile, Conflict and Violence Group has released the Harmonized List of Fragile Situations on an annual basis since 2011, which was preceded by the Fragile States List in 2010 and the Low-Income Countries Under

Stress List (LICUS) between 2006 and 2009. Since 2005, the OECD has produced its own reports on country fragility that examine financial resource flows and general macroeconomic, political, and social trends in conflict-threatened countries. Ghana has not appeared on the World Bank's Harmonized List of Fragile Situations for over 10 years and is therefore considered a stable country for the purposes of this research project. The most recent version of the Uppsala Conflict Data Program at the department of Peace and Conflict Research (UCDP/PRIO) Armed Conflict Dataset describes post-conflict countries as those in which violent clashes ceased within the last 15 years (Gleditsch et al., 2002). With this definition in mind, Sierra Leone is considered a post-conflict country. The OECD's (2015) *States of Fragility 2015* report considers Ethiopia to be one of the most fragile states in the world due to its prospects for violence, the absence of credible rule of law, ineffective institutions, and limited adaptive capacity in the face of shocks.

Selection parameters also included a number of other important variables. The countries have predominantly English-speaking populations — a situation that presents practical advantages such as the speed of research and ease of interpretation of interview and archival data. In addition, each country is renowned for a particular natural resource: oil and other energy-related resources, and to some extent minerals (Ghana); minerals, more specifically diamonds (Sierra Leone); and agriculture (Ethiopia). The relative importance of natural resources exploitation within the national economies in each of these countries in terms of GDP was also a consideration. Ghana, for its part, obtains over 25 per cent of its annual GDP from the industry sector, which includes oil and gas (Dontoh and Janse Van Vuuren, 2017). For Ethiopia, agriculture (land) employs the vast majority of the country's population and accounts for 36.2 per cent of its total GDP as of 2016 (Global Finance, 2017). While the Sierra Leonese diamonds' share in the country's exportation decreased from 15 to 10 per cent, the mining sector as a whole generates more than 28 per cent of the exports earnings (Bertelsmann Stiftung, 2016).

By These three cases provide variation across levels of instability and stability, types and levels of natural resources, and the role played by private, and especially foreign, actors. By comparing the roles of actors in different natural resource sectors, the research isolated key variables and contributed to a broader framework for conceptualising natural resources governance and stability in Africa.

*Case Study Methodology*

In each case study, research techniques included limited process tracing, typological theorising, and triangulation of sources. Due to its emphasis on the implications of case study findings for theory, and more specifically policy-relevant theory, this research follows the procedure for using case studies put forth by George and Bennett (2005). They outline how to design case study research that will produce results that could be useful to policy-makers, which is one of the aims of this research project. In addition, this exploration of the impact of foreign-owned economic actors on natural resource governance uses within-case analysis to reduce the inferential errors that could arise from using only comparative methods.

George and Bennett (2005) also provide a detailed discussion of process tracing — understood in this context as attempting to track the links between possible causes and observed outcomes — which is applied throughout this research project. With regard to process tracing within cases, the method involves examining histories, documents, interview transcripts, and other sources to confirm causal processes that a theory hypothesises, while identifying variables and hypotheses based on sequences of events. This method helps to understand institutional decision-making by enabling the analysis of the thought processes involved in specific decision-making strategies, which is particularly useful when assessing elite-level politics. Process tracing, using the information generated from field research, was applied in every case study to generate the results outlined in the conclusion. As George and Bennett (2005) explain, typological theorising provides a way to draw cases together in a single framework for

more effective policy-making. In this context, this theorisation provides the backbone of the present research, allowing for a comparative analysis of the three countries profiled.

Bennett and Elman (2006b) elaborate that both process tracing and typological theorising help clarify forms of complexity, such as path dependency and multiple interaction effects. Path dependence refers to the situation in which current decisions are constrained by history, in the sense that they depend on past decisions and related trajectories. Bennett and Elman (2006a) indicate that process tracing and systematic case comparisons can assist in appraising path-dependent explanations by systematically considering causal possibility, contingency, closure of alternatives, and constraints to the current path. The strength of case studies in appraising path dependence, they assert, is their suitability to provide a detailed, holistic analysis of sequences, to investigate rare events, to facilitate the search with regard to omitted variables, and to map interaction effects within one or a few cases.

Case studies in this research will inevitably and importantly involve the triangulation of multiple sources to derive findings. Triangulation is used to examine the consistency of information across social groups and organisations with different viewpoints. Both synthesis of data and information as well as inductive reasoning are used to come to conclusions. Triangulation is critical for increasing the authenticity and trustworthiness of findings, not to mention improving the comprehensiveness of narratives. The objective is to draw cases together in a single framework, with the triangulation of sources within cases, enabling the researcher to draw conclusions that can be used for cross-case comparisons.

This research primarily uses within-case methods, although its concluding chapter predominantly adopts cross-case approaches. The latter method is used to discuss illustrative experiences and lessons learned which could be relevant to policy-making that promotes positive achievement of the project's selected dependent variables — peace, stability, and economic growth — and thereby contributes to the improved analytical framework. The present research is largely indebted to the work of Mahoney

(2007), who discusses the strengths of within-case and cross-case methodology in the field of comparative politics.[6] Qualitative researchers, he explains, employ both within-case and cross-case methods of theory testing. Within-case techniques are particularly useful for identifying intervening mechanisms and testing multiple observable implications of theories. Cross-case methods, on the other hand, are useful for assessing hypotheses about necessary and applicable causes. As mentioned, each case study is structured thematically according to seven topics: legal/regulatory frameworks, beneficiation and value addition, inclusive economic transformation or lack of it, conflict and security, local community development, sustainable energy solutions, and private sector contribution to natural resource governance and management. The conclusion brings together the results according to themes in order to identify variables that are ultimately used to build the improved analytical framework.

*Ethnographic Method*

With regard to the concept of structure, Klotz and Lynch (2007) outline three complementary strategies, which are applied in the present research. The first of these, micro-history, involves the use of historiographies to address evidentiary errors appearing in macro-level histories. It concentrates upon a single individual and community and attempts, through study and analysis, to reach an understanding of wider issues at stake. For instance, a historiography is used in the Ghana case study to describe the plight of fishermen in coastal communities in relation to the oil industry. Generally speaking, historiographic methodology is not antagonistically opposed to the derivation of generalization from its use, with Sreedharan describing it as an "unavoidable interpretative device" (2007, 87). Because the work deployed research methodologies to obtain micro-histories, it acknowledges several endemic pitfalls that are considered throughout, when proposing wider hypotheses derived from its research. Generalizations should be considered as providing rough edges or guides for future

[6] The present research was inspired by a volume edited by Mahoney and Rueschemeyer (2003). The study describes the research accomplishments and future agendas of comparative historical research and its explanatory power when it comes to large-scale development outcomes, including state formation and restructuring in Africa.

study, rather than the final word on a particular matter (Sreedharan, 2007, 89). As such, the project proposes that in the case of Ghana, generalizations are of a limited nature, defined by the preface of “in certain circumstances, the observed result can be achieved” (Sreedharan, 2007, 92). Therefore, while the work does make generalizations, in accordance with the best practices of history literature, it does so in recognition of the limitations of their breadth of application beyond certain communities, regions, and countries.

Accounts of African stakeholders and other insiders provide both a picture and interpretation of on-the-ground situations that sometimes complement, but often stand apart from, official statistics. This is partially a problem of government sourcing, as well as academic study of Africa at large. Jerven, for example, argues that economists consistently misrepresent the economic growth statistics of the continent by emphasizing poverty patterns of the 1970s and 1980s while largely ignoring the substantial growth of the 1950s and 1960s (2015). Economists and statisticians are also regularly reliant on what Jerven calls Poor Numbers, off-the-shelf datasets that are not robustly and rigorously investigated for quality and content (2015). This research brings together stakeholders at various levels to generate new findings about the role of foreign-owned economic actors in affecting country stability. This was relevant in Sierra Leone where, for example, interviews highlighted a stark divide in perceptions between community leaders (‘chiefs’) and youth group leaders regarding the impact of mining in the communities. Both groups relied on their own anecdotal evidence, with community leaders being perceived as siding with foreign investors. Ethiopia provided another example of this, whereby official statistics of recent and sustained high growth paint a picture of economic success that can easily mask the vulnerabilities apparent once one engages with stakeholders on the ground.

## Information and Data Collection

*Qualitative methodology*

This research project's research design is primarily qualitative. The use of extensive field research allowed for and enhanced personal contact with key stakeholders from different backgrounds and interests. In many cases, the collection of data and information, and the subsequent manipulation and publication of statistics, especially via official channels, can be political, especially on the African continent. This means that issues, such as conflict, instability and corruption, and economic growth can remain obscured. Moreover, the role of the foreign state-owned and private-sector actors in the natural resource sector is often guarded and simplified, with only some statistics relevant for analysis. This research project intends to balance perspectives on the foreign sector actors' influence on Africa's governance at large and natural resources governance in particular, via an extensive survey of African stakeholders' perspectives.

Semi-structured interviews allow a picture to emerge rather than imposing it from the outside via the (mis)interpretation of statistics, such as macroeconomic statistics that often obscure conditions of poverty and inequality. An ethnographic understanding is possible by using various data sources. Interviews enabled the collection of targeted data and information by asking specific but open-ended questions (Leech, 2002). This interview style allows the person or people being interviewed to answer without being limited to pre-defined choices. This flexibility is a key difference between qualitative and quantitative approaches.

The field research was driven by the following overarching enquiries: What role did foreign-owned enterprises played historically in the governance and management of natural resources in these three states and how have they affected peace, stability, and economic development in select areas?; What, including the political conditions unique to these countries, determines whether these actors play a position or negative role in

achieving peace, stability and economic growth?; How are these patterns and relationships evolving in the face of new investment flows and how are governments and local communities reacting to these changes?; and What concrete policy recommendations should be made so as to promote positive, impactful, successful, and meaningful development outcomes, dependant on country context? These questions framed the responses from interviewees in the field, so as to illicit information on the impact of foreign-owned enterprise on dependent variables of peace, stability, and economic growth.

As a qualitative ethnographic-oriented research, the third question receives special attention in the three case studies: it concerns experiences and lessons learned by host governments, foreign state-owned and private-sector actors, affected communities, and international organisations that could be relevant to designing policies to promote positive developmental outcomes. his is a crucial question as it relates to core on-the-ground challenges that should be addressed by policies and initiatives backed by governments, corporate actors, and non-governmental organisations (NGOs), at both the domestic and international levels, in order to promote peace, stability, and economic growth in conflict-threatened, post-conflict, and stable resource-rich African countries that must govern and distribute finite natural resources.

Challenges and difficulties that were encountered during field research included practical and logistical problems, as well as cultural limitations. Major issues in undertaking the various case studies were related to accessing the investment records and data of foreign state-owned and private-sector actors, as well as securing permission from the various authorities. Entrenched cultural obstacles, especially in local communities, to economic growth included isolation, self-sufficiency and cultural constructions of gender. The information still lacking includes details on interaction effects, which were too difficult to map given the scope of the research.

*Institutes and Interviews*

I travelled to Ethiopia, Sierra Leone, and Ghana between February and April 2014 to conduct field research and interview relevant stakeholders at governmental, private and non-profit organisations. Subsequent exchanges with these stakeholders took place from January until September 2015. Additional field research was carried out in Ghana in August and September 2015. Details of my field visits are provided below.

*Ghana*

Mining, and more recently the hydrocarbon industry, has undoubtedly made a substantial contribution to Ghana's macroeconomic growth and stability over the past three decades, bringing the country to middle-income status. However, due to questionable business practices by foreign-owned enterprise and a lack of proper oversight by government, the natural resources economy has not resulted in improved living conditions for the majority of mining communities across the country.

Over two separate visits in March and April 2014 and August and September 2015, I met with leaders and/or staff members of the following organisations: Office of the President; World Bank; Ministry of Trade and Industry; Ministry of Lands and Natural Resources; Ministry of Energy; Petroleum Commission; Ghana Investment Promotion Centre (GIPC); Ghana Chamber of Mines; Kofi Annan International Peacekeeping Training Centre (KAIPTC); African Center for Economic Transformation (ACET); Kumasi Institute for Technology, Energy and the Environment; IMANI Centre for Policy and Education; Natural Resource Governance Institute (NRGI); United Nations University Institute for Natural Resources in Africa (UNU/INRA); Ghana Information Services; European Union Delegation to Ghana; AngloGold Ashanti; Tullow Oil; Strategic Outlooks; Georgette Barnes Limited; Ghana Center for Democratic Development (GCDD); Ministry of Energy and Petroleum; Third World Network (TWN); German Agency for International Cooperation (GIZ); departments of political science,

geography, economics, and Institute of Statistical, Social and Economic Research, University of Ghana.

I also spent two weeks in rural parts of western Ghana in the mining communities of Busua, Takoradi, and Tarkwa, where I conducted focus group discussions, interviews, and surveys of small-scale miners and villagers. In total, I conducted 27 interviews in Ghana, held primarily with fishing community members affected by offshore oil and gas exploitation and exploration.

*Sierra Leone*

Over a period of one month in February and March 2014, I met with leaders or staff members of the following institutions/organisations: departments of economics, political science, and gender issues, University of Sierra Leone; Heifer International; Ministry of Trade and Industry; Sierra Leone Investment Promotion Agency; Centre for Development and Security Analysis (CDSA); National Mineral Agency (NMA); Sierra Leone Transformation Think Tank; German Agency for International Cooperation (GIZ); social and economic development departments, UNDP; African Development Bank (AfDB); World Bank; mineral sands company Sierra Rutile; Network Movement for Justice and Development (NMJD); Ministry of Finance and Economic Development; IBIS in Sierra Leone; Office of the Vice-President of the Development Assistance Coordination Office; Integrated Geo-Information and Environmental Management Services; CEMMATS Group; Chairperson's Office of the Sierra Leone People's Party; London Mining; and Office of the President of the National Commission for Privatisation.

I also spent two weeks in mining communities in rural parts of northern and eastern Sierra Leone, where I conducted interviews, focus group discussions, and surveys. Furthermore, information was procured from secondary sources such as white papers, policy briefs, government documents, and private company reports. My time in Sierra Leone ended with field visits and interviews in Koidu Town, in the diamond-rich Kono district, as well as in Lunsar, Port Loko district, and Makeni, Bombali district — known

for their gold and iron ore deposits, and where violence between mining communities, mining companies, and the police had escalated in recent years. In Lunsar, a group-based research discussion was held with community leaders.

In Koidu Town, a total of 15 questionnaires were completed in a survey of mining communities. The questionnaires covered basic perceptions of the impact of mining in the community; positive and/or negative effects on the subject's livelihood and family; and the subject's relationship to, and support received from, local institutions in addressing mining-related grievances. These institutions included the local council, the local chief, community programmes, civil society and donors, and government. The respondents were asked to state their wishes with regard to the mining sector in their community.

*Ethiopia*

In Ethiopia, natural resource investments primarily involve land acquisition. The country has some known gold deposits, and recent new discoveries of oil have raised expectations, but commercial drilling is many years away (Manek, 2018). Recent investments and interest shown by Turkish companies in the apparel and textile industries (The Ethiopian Herald, 2018b) Arabs in the tourism, renewable energies, and agriculture sectors (The Ethiopian Herald, 2018a), and Indian companies in land acquisition (The African Exponent, 2016) are important sources of revenue for the government, which is keen to attract foreign direct investment for infrastructure projects.

I conducted a large number of interviews with staff members at government institutions: Ministry of Agriculture and its Agricultural Investment Land Administration Agency; Ministry of Foreign Affairs, which oversees many of the government's investment projects linked to foreign-owned entities; Ministry of Mines; Ethiopian Investment Agency; and Addis Ababa Chamber of Commerce. Additionally, I spoke to individuals, including leading academics at various research bodies, think tanks, and universities doing work on land investments. In doing so, I built an extensive network of connections

and partnerships: School of Natural Resources Management and Environmental Sciences, Haramaya University; University for Peace (UPEACE); Institute for Security Studies (ISS); Department of Political Science, University of Addis Ababa; Forum for Social Studies (FSS); and Center for International Forestry Research (CIFR). These institutions and their researchers provided insights into recent developments and challenges facing local farmers, local governments, and the national government in Addis Ababa. I also sought the opinion on the outlook for the natural resource sector from the representatives of several donor agencies: United Nations Economic Commission for Africa (UNECA); African Union (AU); United Nations Development Program (UNDP); International Monetary Fund (IMF); European Union (EU) delegation; Frankfurt Zoological Society; World Bank; African Minerals Development Centre (AMDC); and embassies of Canada, Australia, and Qatar. In total, I conducted 23 interviews in Ethiopia.

The main challenge in Ethiopia was accessing foreign state-owned and private-sector actors' investment records and data relating to land investments. To obtain a list of contacts with whom to speak at companies operating in the field, the procedure required special permission from the Ministry of Foreign Affairs prior to making my submission to the Agricultural Investment Land Administration Agency at the Ministry of Agriculture. I also needed to obtain special permission and official letters to interview contacts at the companies and undertake field visits to their sites of operation, many of which were situated hundreds of kilometres from the capital. I managed to receive the necessary documentation for the interviews and field visits, but time spent in this bureaucratic process affected the rest of the investigation.

After returning to Ethiopia in January 2015, the letter of permission from the Ministry of Foreign Affairs was considered invalid, which prohibited me from conducting field interviews with communities where land investments took place. As an alternative, I consulted members of two local research and advocacy institutions, namely the Forum for Social Studies and the CIFR, both of which had conducted field interviews with affected local communities in Gambela, the western province bordering South Sudan.

Challenges aside, the above methodology was helpful in developing the PENRG concept, isolating its key variables and defining the parameters of its framework. Equally, it has driven a novel contribution on how governance structures influence the nature and outcome of the involvement of foreign-owned companies and investors operating in the extractive and land resource sectors in the wider development process, and specifically through contribution to economic growth, peace and political stability, and sustainable development. It is important to recall that these three country case studies, representing three distinct types of governance structures — politically stable, post-conflict, and conflict-threatened — two from the extractive sector within the same sub-region and similar political system, and the third from another sub-region and focusing on land resource, provide a broad spectrum of opportunity to investigate the role of foreign-owned enterprises in natural resource governance.

## GHANA CASE STUDY

### Introduction

With its stable political system and lucrative natural resources, Ghana managed to become one of the strongest economies in Africa until the recent financial instability crisis, although a change of government in 2000 has restored some degree of financial stability. About 28 per cent of the 25 million citizens — mostly those living in rural areas — still live below the international extreme poverty line of $1.25 per day (UNICEF, 2013a). It was ranked 139/188 on the UNDP's 2016 Human Development Index (UNDP, 2016; UNDP, 2015a). The West African country attained middle-income status in 2011, with economic growth spurring positive social progress in terms of education and health care. However, despite a significant reduction in overall income poverty, challenges remain, including gender inequality, high unemployment, environmental mishaps, fiscal administration bottlenecks, and disparities between the endowed South and impoverished North (Osei-Assibey, 2014; Darimani, 2013). Ghana's dynamic extractive sector, currently dominated by oil, has traditionally been based on gold, but its economic influence is decreasing.

This chapter analyses how governance structures in Ghana, a politically stable state, have influenced the role and contribution of foreign-owned economic actors — specifically foreign investors and private extractive companies — in achieving peace, stability and economic growth in the country. Particularly, how have Ghana's natural resources governance systems been effective in leveraging the private sector as a means of achieving the above from for the mining and natural resource sector? Subsequently, owing to the dissertation's overall objective of investigating how governance structures (both at the resource and state levels) influence the nature and outcome of the involvement of foreign-owned companies and investors operating in the extractive and land resource sectors, this inquiry will be transposed in the wider development process and specifically through contribution to economic growth and political stability. Lastly, in contribution to its proposed Political Economy of Natural

Resource Governance, this chapter aims to provide information on optimising the developmental impact of mining and oil extraction by laying out a vision for effective natural resource governance based on the Ghanaian case, specifically by leveraging the extractive sector for sustainable, pro-poor socio-economic development and broad-based, inclusive economic transformation. This research considers the transformation of the mining sector and emergence of the energy sector, comprised of the oil and gas industries, in the broader context of Ghana's political stability, as well as the increasingly important role played by foreign-owned enterprises.

**Natural Resource Governance**

Since the 1980s and a shift from Marxist rule and independence from Great Britain, Ghana's economic growth has been increasingly tied to the mining sector, largely dominated by gold. The country is the second-largest gold producer in Africa after South Africa and the eighth largest globally, with this mineral contributing more than 95 per cent of the country's total mineral revenue (MC, 2010). Following the start of commercial production of oil in December 2010, Ghana's real GDP jumped to 15 per cent in 2011, up from an average of 6.5 per cent in the 2000s (ICMM, 2015). Despite a slowdown in 2013 and 2014, when real GDP decreased to 7.3 and 4 per cent, respectively (CIA, 2015), analysts projected a recovery for 2016 and saw a three-year high 9 per cent growth in 2017 (Okudzeto et al., 2015; Trading Economics, 2017).[7] Ghana's overall GDP growth has been accompanied by a change in the structure of the economy, with the agricultural sector's contribution to the GDP decreasing, despite still employing more than half of the country's workforce (FAO, 2015). Agriculture remains a key sector of the economy, with cocoa remaining one of the country's largest exports (Tutu, 2011). Notably, rural poverty in Ghana has fallen sharply since 2000, driven in part by cocoa cultivation expansion in labour-intensive small farms. This strategy enabled Ghana to become the first country to meet Millennium Development Goal 1 on reducing extreme poverty rates by half (UNDP, 2015a).

[7] All the GDP figures, despite their different sources, are calculated using data from the Ghana Statistical Service.

The International Energy Agency (IEA, 2014) states that three actions in the energy sector — as long as they are accompanied by favourable governance reforms — could bolster the size of the sub-Saharan African economy by 30 per cent within 25 years: the investment of an additional $450 billion in the power sector; deeper regional cooperation and integration; and improved management of hydrocarbon and other natural resources and revenues. Efficient and transparent licensing procedures and a reformed regulatory environment across sub-Saharan African countries would encourage the drafting and implementation of sound energy policies (Marandu and Kayo, 2004; Kapika and Eberhard, 2013). Improved consultation and transparency and accountability measures to win stakeholders and public trust would also help Africa gain considerably from the development of its hydrocarbon and other energy resources. But how would this ideal governance approach be achieved?

*Ghana's Mineral Resources*

With Ghana's internal intermediaries and mediators helping to maintain political stability, the country is generally considered to have a relatively attractive business environment. In 2018, it was ranked 12th in Africa and 120th globally by the World Bank. Much of that political stability derives from the country's growing economy. Ghana's mining sector contributed 10 per cent of Ghana's GDP (EITI, 2012) in 2013. The sector also accounted for 47 per cent of total exports in 2010 and employed about 15,000 people in the Large-Scale Mining (LSM) industry; furthermore, over 500,000 people are engaged in legal and illegal small-scale gold, diamond, sand mining, and quarrying — referred to as Artisanal and Small-scale Mining (ASM) (NRGI, n.d.). Only 2 per cent of all formal jobs in Ghana represent direct formal employment in large-scale mines, with most of these workers on short-term contracts with limited labour rights (Darimani, 2013).

AngloGold Ashanti, created in 2004 after the merger of AngloGold and Ashanti Goldfields Corporation, is currently owned by the world's third largest mining company, Anglo American. The company owns two mines, the open-pit of Iduapriem and the

underground operation of Obuasi. With environmental permits received in June 2018, the mining giant is set to start construction and production. According to the Ghanaian government and company officials, an estimated $2.2 billion in state revenue will be received from this new exploitation, while local content is expected to reach $2.4 billion (Interview with Mr. Mark Morcombe, Senior Vice President, AngloGold Ashanti Ghana, September 4, 2015). On the other side, the oil sector is dominated by relatively small foreign-owned companies. With revenues of $1.7 billion in 2017Tullow Oil operates in 16 countries, including in Ghana since 2006. It extracted the first oil in 2016 from its two licences and producing fields and is developing the Jubilee Field in Ghana.

Other mineral resources, including diamonds and bauxite (IMANI Ghana, 2010), account for a sizeable part of the country's exports. Chromite, asbestos, andalusite, barite, mica, nepheline, syenite, cassiterite, columbite, monazite, beryl, spodumene, molybdenite, alluvial ilmenite, and rutile are also mined in the country. Given that there are no specific, comprehensive governance structures covering these other mineral resources, an analysis of the potential impact these could have on foreign-owned enterprises' contributions to peace, stability, and economic growth is limited to specific areas of the mining and energy sectors.

Ghana's legal and regulatory framework deserves special consideration, since the country has achieved stability and developed a substantial number of instruments for natural resources governance, including some that support the achievement of the aforementioned outcomes. Guidelines for policy implementation, specifically to implement the country's laws and regulations, are relatively extensive when compared to the frameworks of other countries on the continent. The legal and regulatory framework for the mining and energy sectors, as well as natural resource governance more generally, includes: *Internal Revenue Act*, 2000 (Act 592) as amended and associated regulations; *Minerals and Mining Act*, 2006 (Act 703) as amended; *Minerals (Royalties) Amendment Act*, 2010 (Act 794); *Petroleum Commission Act*, 2011; *Petroleum Revenue Management Act*, 2011 (Act 893) as amended; Minerals and Mining (General) Regulations, 2012 (LI 2173); Minerals and Mining (Support Services)

Regulations, 2012 (LI 2174); Minerals and Mining (Compensation and Resettlement) Regulations, 2012 (LI 2175); Minerals and Mining (Licensing) Regulations, 2012 (LI 2176); Minerals and Mining (Explosives) Regulations, 2012 (LI 2177); Minerals and Mining (Health, Safety & Technical) Regulations, 2012 (LI 2182); Ghana Investment Promotion Centre (GIPC) Act, 2013 (Act 865); Petroleum Regulations, 2013 (LI 2204); Companies Amendment Act, 2016; and *Petroleum (Exploration and Production) Act*, 2016. The extensive legal basis for natural resource governance in Ghana, as well as associated policy guidelines for their implementation and operationalization, provide the immediate and anchor conditions for the country to determine the limits of foreign-owned private-sector activities.

The Minerals Commission is responsible for regulating and managing mineral resources as well as coordinating mining policies. However, as it stands, Ghana's extractive sector is highly susceptible to illicit financial flows, which amounted to $1.7 billion in 2013 (ACEP, 2015a). Because of this the country was ranked 93/145 among developing countries in 2013 (ACEP, 2015a), due to corruption, illegal exploitation, tax evasion by mining companies through various illegal deals (like transfer pricing), and resource smuggling. Lack of enforcement depreciates the capacity of a governance system to leverage foreign-owned private-sector actors as a facilitating force for peace, stability, and economic growth

To begin to remedy some of these legislative and governance issues, Ghana became a signatory of the Extractive Industries Transparency Initiative (EITI) — achieving compliant status in 2010 — thus establishing accountability and transparency in the local mining industry. According to the 2013 Resource Governance Index, Ghana ranked 15/58, the highest-ranked African country and one of only a few African countries to be featured in the Index. Because the government does not publish comprehensive information on key aspects of the mining industry, the most critical area for Ghana's governance of natural resources remains reporting and publicly available information practices (Revenue Watch Institute, 2013). Notably, there is much donor

interest in supporting the work done by NGOs on transparency issues in oil and gas (interview with Dr. Yao Graham, Third World Network, 4 March 2014).

Second, under the provisions of the *Petroleum Revenue Management Act* (PRMA) of 2011, Ghana's Public Interest and Accountability Committee is designed to enhance public participation of citizens' groups in the management of resource (including hydrocarbons) revenue, serving as a platform for public debate on how petroleum revenues should be spent. Its 13 members are drawn from organised professional bodies, think tanks, advocacy groups, and traditional institutions (Government of Ghana, 2011). The Committee monitors and evaluates government, foreign enterprises, and other institutions' compliance with the law, provides an independent assessment of petroleum production and payment of corporate taxes, and publishes its findings in semi-annual and annual reports. In its 2012 and 2014 annual reports, for example, the committee underlined that oil revenue provided the government with considerable fiscal relief, thereby emphasising that there is an urgent need for Accra to create a better budget to focus spending and improve the socio-economic development of the country as a whole (Raji, 2016). Unfortunately, in July 2014, crude oil prices began to drop from US$115 per barrel, eventually freefalling by January of the following year by 55% (IFS, 2015). According to the Institute for Fiscal Studies (IFS), Ghana's real GDP growth dropped from a projected 4.0 to 3.5 per cent for 2015; budget contributions from oil extraction fell by 58 per cent; government capital expenditure dropped from 26 to 17 per cent; and the government pulled from stocks to help reduce budgetary shortfalls (IFS, 2015).

Despite economic challenges, modern Ghana is a hallmark of political stability and democratic power transfer in Africa. PricewaterhouseCoopers (PwC) argues that Ghana's stable democratic institutions since 1992 erect it as a model for other countries, with democracy becoming deeply rooted in the fabric of the country (PwC, 2015a; PwC, 2015b). Deloitte adds that Ghana's political stability is further consolidated by a strong, independent media, active public dialogue, and guaranteed political rights, all of which placed it at number 8 on the Ibrahim Index of African Governance in 2016

(Deloitte, 2017). However, Ghana's political stability and the comfort afforded by regularized legislative regimes have not necessarily been translated to management of the natural resources sector.

## Role of Foreign-Owned Private Sector in Promoting Positive Change in Ghana's Mining Sector

The institutional milieu in Ghana is what dictates whether foreign-owned private-sector enterprises can play a positive or negative role in the country. Since the 1980s, Ghana has created a 'good investment environment' as a preliminary step toward establishing sustainable economic growth.

### *The Mining Fiscal Regime*

The mining fiscal regime, which has been designed to capture resource rents from operating private foreign-owned enterprises and to promote FDIs, has remained fairly stable since the mid-1980s. As a result of this effort, the contribution of the mining sector to foreign exchange earnings has increased from 14 per cent at the beginning of the 1990s to an average of 41 per cent since the mid-1990s (ACET, 2015). According to the Ghana Revenue Authority and the Minerals Commission, the sector provided about 19 per cent of government direct tax revenues in 2013 and is one of the largest contributing sectors to government revenues, only second to the oil industry ICMM, 2015, 23). Moreover, purchases of local supplies by the mining sector were worth over $1.2 billion in 2012 (Aubynn, 2013).[8] In terms of job creation, the sector employed around 21,000 people in the 1990s (Bank of Ghana, 2003), down to 15,000 in 2013 (ICMM, 2015), only 2 per cent of which are expatriates, with indirect and induced job creation measuring six times the number of direct employees (each of these employees typically supports 8 to 10 family members). According to the ICMM's report on Ghana's mining industry's impact on employment, "over the period 2010–22, the sample of

[8] For a recent analysis of how money is spent by gold mining companies and how it is split between stakeholders, specifically employees, suppliers, communities, investors, and the government, see World Gold Council (2013).

mining companies is estimated to support between 83,000 and 148,000 jobs, equivalent to an average of 111,000 jobs annually. In 2013, about 1.3 per cent of the Ghanaian labour force was supported by the sample of mining companies, a figure that is projected to decline to 0.6 per cent of the labour force in 2022" (ICMM, 2015).

Even if the mining sector is governed properly with sustainable, pro-poor policies, and regulatory instruments addressing challenges of revenue capitation and investment attraction, one of the pitfalls is that investment incentives have changed over time (Amponsah-Tawiah and Dartey-Baah, 2011), thereby failing to maximise the potential to benefit local Ghanaians. For example, even as many incentives during the 1990s had the objective of boosting investment in the gold industry, they did not include additional policies on national or local participation. Understandably, governance structures will often include policy for incentivizing FDIs and foreign private-sector investment in a designated sector. But, when this policy lacks transference protocols to appropriately distribute rents and revenues at a local level, the structures are not working to encourage broad, multi-level economic growth. Indeed, as a politically stable country, Ghana should be transitioning away from simply the enticement of FDIs toward leveraging the sector for widespread economic sustainability, requiring an unabridged position on taxation and royalty collection akin to its middle-income economic status. Poor policy planning for mineral resource governance can contribute to class disparity, animosity, and antagonism between communities and companies — and ultimately instability.

Governance structures contribute to sustainable economic growth in politically stable countries when they include effective dispersal from national-level coffers to communities. Mandated operationalization of community investment, as such, would entail a series of organizational steps needed to launch relevant and locally conducive community development projects based on community needs and in consultation with community leaders by private-sector actors. Currently, the vast majority of mineral-related investment is tied to the gold industry, indicating that there is an overdependence on one commodity, although little of this income continues to trickle

down to communities, especially those adjacent or associated with mine sites. It suggests that gaps in conditions of state governance institutions for natural resources can prohibit sustainable economic development, even in a politically stable country.

While there is a burgeoning literature on how to stimulate sustainable development in the mining sector (Hilson and Murck, 2000; Janneh and Ping, 2011; Boakye, Dessus, Foday, and Oppong, 2012), a major challenge facing the Ghanaian government — and a lesson espoused by the Political Economy of Natural Resource Governance framework — is the means by which one can change perceptions within mining communities themselves of how the private sector, especially foreign-owned corporations, can contribute to sustainable development. Akabzaa, Seyire, and Afriyie (2007) examine the effects of mining activities in the Ashanti Goldfields Company's (AGC) Obuasi mine in Obuasi, the capital of Adansi West District, and surrounding communities, which constitute a major centre of mining activities in Ghana and sub-Saharan Africa as a whole. Since 2004, AGC merged with AngloGold to create AngloGold Ashanti, part of Anglo American Group, a London and Johannesburg-based multinational mining company and the second-largest gold producer in the world (AngloGold Ashanti, 2017). In 2017, AngloGold Ltd. extracted 3.76 million ounces of gold mainly from its facilities on the African continent, the United States, and Brazil, and is part of a US$26.24-billion group in revenue with operations in iron ore, diamonds, and base metals (Anglo American, 2017). The Obuasi mine is an exemplary case study of unsustainable development:

"There is no consensus on the true economic impact of mining by AGC on the local population. Industry backers use increased mine production and gross export value of mine products. However, increased negative environmental and social impacts on local communities and evasive foreign earnings from the sector as a result of the generous incentives to companies make the actual economic impact of the sector debatable." (Akabzaa, Seyire, and Afriyie, 2007, 82)

The social impacts were manifested in increases of the cost of living in communities due to pricing practices favouring the high incomes of mining workers and expatriates,

brutalities by private security agents against illegal artisanal gold miners, increases in mining-related respiratory diseases such as silico-tuberculosis, increased demographic pressure and shortages of foodstuffs due to workers leaving the agricultural sector for the mining sector, the prevalence of prostitution by members of the communities, and displacement of populations due to pollution. The environmental impacts included land and vegetation degradation, offsite migration of pollutants, and surface and underground water pollution caused by open-pit operations. What makes the Obuasi case unique is that the conflict between the police and the illegal artisanal miners is not about grievances over land expropriation by locals, but is rather an economically motivated conflict in which the miners are non-natives seeking control of gold resources and have formed an informal association that has been key to their survival (Okoh, 2014; Akabzaa and Darimani, 2001).

This example also highlights the persistent gap in the governance of natural resource systems in Ghana: the inability to influence, through policy and legislative mechanisms, private-sector actions and foreign-owned enterprises so as to remedy these issues. Indeed, Ghana should seek foreign direct investment (FDI) into its matured mineral resources sector by leveraging the strength of its government and governance systems, respectively; stability and risk aversion matter deeply to private-sector actors, especially when broaching the often-believed (although not correctly in many cases) to be frontier spaces of the African continent.

The issue of illegal artisanal gold miners is both contentious and ambiguous (Teschner, 2012). Although the Ghanaian government at one point showed interest in formalising and organising the miners, it did not follow through, with the result that they have lost control over the informal sector. Police tactics to eliminate ASM often involve violence and have largely been ineffective. In fact, artisanal miners provide significant amounts of sustained income to local communities, bridging the gap left by deficiencies in the governance system, with the result that attempts to clamp down on them could lead to community abjection (Bush, 2009). One observer argued that the only way forward is to work with artisanal gold miners and formalise the sector, which would minimise the

negative impacts while enhancing the positive effects in an economy with such a high unemployment rate (interview, Department of Geography, University of Ghana, and 25 February 2014). Over the past decade, some transitory artisanal miners have forged strong bonds with host communities by sending pre-negotiation teams and arranging mutually beneficial agreements with local actors, indicating that there have been attempts to formalise their activities and contribute to community development (Nyame and Grant, 2014).

Interviews identified that some artisanal miners have been panning for gold in abandoned mines, which points to the need for more formalisation (interview with Prof. Abeeku Essuman-Johnson, Department of Political Science, University of Ghana, 28 February 2014). One observer suggested that improved relationships between small- and large-scale miners can only be achieved if the understaffed Minerals Commission is provided with assistance from other government institutions and international agencies such as the World Bank (Hilson, 2002). When touring the Western Region bordering Cote d'Ivoire, Ghana's president mentioned that the government has been seeking World Bank support to register artisanal miners and support mining technics dispersion, after which they will have additional opportunities to cover mining holes and plant trees to recover and reclaim the land (interview with Prof. Abeeku Essuman-Johnson, Department of Political Science, University of Ghana, 28 February 2014). To date, only a US$300,000 project has been approved in June 2018 to provide technical assistance to the extractive industries (World Bank, 2018).

ASM and illegal artisanal mining may be a by-product of jobs failing to materialize from private-sector investment in the natural resource sector. As Osei-Tutu (2012) observed, in Ghana's Western Region, regarded as the bread basket of the country, farming and fishing have suffered due to lost access to land and sea following the establishment of oil rigs, pipelines, and storage facilities, as well as fishing restrictions. In an ironic twist, while it is illegal for fishermen to travel within a one-mile radius of rigs, the rigs' power lights attract fish, reducing their prevalence elsewhere and creating further problems for fishermen.

Another significant challenge is youth unemployment (interview with Dr. Kwesi Aning, Kofi Annan International Peacekeeping Centre, 24 February 2014; interview with Dr. Elias Ayuk, UN University Institute for Natural Resources in Africa, 24 February 2014). Youth, who had hoped to secure some level of employment on the rigs, have become angry, frustrated, and resentful at the lack of opportunities and the fact that companies have hired expatriates or experienced Ghanaians from other regions. The Western Region's literacy and university enrolment levels are relatively low, which has translated to lower skills rate and fewer opportunities. Moreover, employed youth such as carpenters, welders, and masons have been disappointed by the lack of development projects such as the building of schools, hospitals, and roads. Since oil and gas were discovered offshore, products thus far have been transported by air and companies have not needed to build any infrastructure in communities. The rigs by their very presence serve as a visible reminder of the challenges associated with using governance as a vehicle to achieve peace, stability, and, in the case of Ghana, sustainable economic growth — where foreign-owned private-sector actors have been able to bypass the governance structure.

Indeed, at a macro level of analysis, local beneficiation and value addition in the natural resources sector should be primarily discussed within the context of the political economy of resource generation and transfer. In Ghana, value addition produced by mining companies' expenditures has a great impact on both government and household income levels. The construction sector, local trade, manufacturing, and utilities receive most of the supplier expenditures (ICMM, 2015). There are also opportunities outside of gold and oil. The Ghanaian government recently introduced the National Export Strategy for the Non-Traditional Sector (Government of Ghana, Ministry of Trade and Industry, 2016), which deals with processed items and horticulture, among other things. The strategy aggressively promotes manufacturing, processing, and semi-processing, with aspirations to move from $2 billion in non-traditional revenue in 2013 to $5 billion in 2017.

The Ghana Investment Promotion Centre, a government agency established in 2013, is an important governance vehicle for promoting investments that should lead to resource-based industrialisation and expansion of the country's trade portfolio (Republic of Ghana, 2013). Meanwhile, the *Free Zone Act* of 1995 seeks to promote economic development and job creation through a variety of incentives, which include an exemption from payment of duties and levies on all imports for production and export from free zones and an exemption from payment of income tax on profits for 10 years, after which it is only 8 per cent rather than the normal 25 per cent. To further promote investment and boost economic prospects, the government is considering creating an enabling environment through special incentives for investors looking at the productive sector, particularly in regard to energy, adding value to extracted minerals, large-scale agricultural production, and manufacturing (interview with Mr Wisdom Togobo, Ghana Ministry of Energy, 3 March 2014).

Other priority areas include building economic infrastructure to support investment: power supply, water access, telecommunications and transportation, reducing clearance times at ports, and streamlining the fiscal regime to reduce challenges associated with, among other things, taxes and interest rates (interview with Mr. Wisdom Togobo, Ghana Ministry of Energy, 3 March 2014). The Ghana Investment Promotion Centre has also established a land bank that encourages landowners to send their titles to the land bank, which are then made available to investors, including local investors. It also recognises and awards the companies with the best corporate social responsibility (CSR) practices through the Ghana Club 100 in order to encourage further competition and improve products and services.

Appropriate governance of foreign-owned enterprises' investments would involve moving beyond the accrual of natural resource revenues and lacklustre attempts to stimulate sustainable economic growth and continued stability, to maximising national value creation through local content, beneficiation, and value addition based on the revitalization of successful institutions like the Ghana Investment Promotion Center and the Public Interest and Accountability Committee, as well as addressing elite-level

political issues. It is critical that the government does not serve the interests of foreign-owned enterprises alone, whether that be through intentional dismissal or ignorance of necessary implementation governance reforms or outright preferential treatment. Such actions have the potential to give rise to social instability, unrest, or violence targeted at both the private sector and the government — consequences that could hinder sustainable economic growth and continuing peace.

*Emergence of the Hydrocarbon Sector*

While the mining sector has the potential to contribute to Ghana's future, the emerging hydrocarbon sector is set to shape the country through economic transformation, provided it is governed appropriately so as to influence positive contributions by foreign-owned enterprises. Ghana's oil reserves, the bulk of which are in the Jubilee oil field, are estimated to range between 800 million and 1.8 billion barrels, and production, which began in 2010, is expected to continue for 20 years (NRGI, n.d.).[9] The Ghanaian Government is currently drilling and producing oil under the terms of the *Petroleum (Exploration and Production) Act*, 2016, which creates a scope of action designed to encourage increased private participation and investment through an open, competitive public tendering process for the allocation of petroleum rights; clarify ground rules for operators; and provide for "safe, secure, sustainable, and efficient petroleum activities in the country" (Ghana Justice, 2016). The 1984 version of the Act originally established the Ghana National Petroleum Corporation, a state-owned enterprise that began operations in 1985 and which has, in the past, broadly regulated the oil and gas industries. The Corporation is now involved in exploration, development, and production, and looks to form joint ventures that leverage domestic and foreign investments, with the objective to provide a reliable supply of petroleum products and reduce the country's dependence on crude oil imports through the development of the country's own oil and gas resources.[10]

[9] For an overview of Ghana's oil discoveries, see Asamoah (2012).

[10] For more information, see Ghana National Petroleum Corporation (n.d.).

There are various contemporary discourses on how to manage Ghana's hydrocarbon resources to stimulate economic transformation and sustainable growth. Suggestions include altering governance structures and laws, boosting participation in the oil industry and creating oil and gas funds, implementing various investment strategies, focusing on upstream oil and gas strategies, and ensuring spatial development (Chitor, 2012; Asamoah, 2013a; Aryeetey, Osei, and Quartey, 2014; Asante and Owasa, 2014; Boatemah and Owusa, 2014; Laryea, 2014).[11] This section, however, focuses on governance, given the fact that the revenues from the oil and gas industries have already surpassed total mining receipts: they almost doubled from $444 million in 2011 to $846 million in 2013, as oil companies started paying corporate income taxes (EITI, 2012). The most recent data from the Bank of Ghana indicate that the country has generated approximately $3.285 billion in oil revenues five years into commercial production, with the Annual Budget Funding Amount receiving $1.4 billion. This figure represents 43 per cent of the oil revenues received, with the *Petroleum Revenue Management Act* of 2011 having set 70 per cent as the maximum. Yet, better transparency and accountability continue to be cross-cutting natural resource governance issues in Ghana that undergird all efforts toward economic transformation through partial participation in the sector by foreign-owned enterprises.

The Jubilee field is the starting point for an analysis of Ghana's governance of its hydrocarbon resources, and its similarities and differences to other natural resources. It is operated by the British-based company Tullow Oil, which owns 35%, along with Kosmos, Anadarko, the Ghana National Petroleum Corporation (GNPC), and Petro SA (interview with Mr. Fidelix Datson, Security Team Leader, Tullow Ghana, February 25, 2014). GNPC has praised the Jubilee field's development, but an independent review by the IMANI Center for Policy & Education (2012b) shows that field development has been considerably scaled down to less than half of the projected capacity in order to

[11] For the history of Ghana's National Energy Board, established in the mid-1980s to undertake energy planning and policy development and disbanded by the government in 1991, and for a discussion on the importance of developing comprehensive national energy plans and institutionalising the formulation and coordination of energy sector strategies, see Turkson (1990).

fast-track the path to first oil, which has exaggerated the success rate of activities whilst undermining project resilience" (interview with Mr. Fidelix Datson, Security Team Leader, Tullow Ghana, February 25, 2014). Despite this, companies operating in hydrocarbon resource extraction have simultaneously engaged in various CSR projects, with non-recoverable costs pulled from operational budgets (Tullow Oil, 2012; Platform, 2012; interview with Mr. Fidelix Datson, Security Team Leader, Tullow Ghana, February 25, 2014). External independent monitoring of the Jubilee project, which included a site visit in April 2013, found that there have been many successful social components to the project over the years, including grievance management that has been strengthened over time through training and communication facilities, with the top grievances being the Safety Zone's restriction radius around the oil rigs, the gradual decrease of fish stocks, and the lack of employment opportunities (Motherwell, 2010; Tullow Oil, 2013; interview with Mr. Fidelix Datson, Security Team Leader, Tullow Ghana, February 25, 2014).

Despite this positive evidence that foreign-owned enterprises have contributed to community development in the area, there are no guarantees that resource wealth will be effectively used to create sustainable growth. This points to a failure in governance systems to establish a scope of action for the private sector that enables restructuring for the purpose of achieving sustainable growth.

In response to this challenge, the *Petroleum Revenue Management Act* 2011 established the Petroleum Holding Fund and Ghana Petroleum Funds, which include the Ghana Heritage Fund and Ghana Stabilisation Fund. These funds are meant to address intergenerational conflict in the use of oil and gas resources, specifically by investing natural resource revenue into safe assets for the benefit of all Ghanaians (Oshionebo, 2018). However, it could be argued that investing in natural resource revenue now rather than keeping it in liquid financial assets would benefit current and future generations, especially since immediate investment would attract more capital. Amending the Act to use the Ghana Petroleum Funds as leverage to establish an infrastructure fund could also be beneficial (interview, Department of Geography,

University of Ghana, 25 February 2014). According to a three-year review of petroleum revenues from 2011 to 2013, the budget allocated to the health sector over the period was limited, while the food and agriculture subsector budget was more important, with a number of projects targeting smallholder farmers. The significance of petroleum revenues being channelled to the education sector shows that the government is indeed willing to use revenues from the extractive sector for social development. Still, the review identified inefficiencies in the appropriation of petroleum revenues and criticised the choice of priority sectors and projects (ACEP, 2015b).

Beyond generational funds, different fiscal arrangements could derive more economic growth as well as stability and peace outcome benefits from oil and gas resources (Ayensu, 2013; Van Gyampo, 2016). Specifically, production-sharing agreements as part of governance regimes would result in significant societal and economic transformation within 15 years, with socio-economic effects that could give Ghana the ability to meet all domestic requirements for oil and gas during the production life of the Jubilee fields, export the surplus, and invest the gains in the Heritage Fund. Assuming a price of $60 per barrel over the next 15 years, Ghana would earn $2.56 billion per year instead of $800 million per year projected by the Ministry of Finance under its existing royalty tax system, which could then be reinvested into much-needed infrastructure, such as access to drinking water in every community, development of all-weather roads, educational facilities, affordable rental accommodation, and expanded health facilities. The government could then afford to reduce the level of taxes on all commodities including petroleum products, the multiplier effects of which would be large and lead to a much-improved standard of living for Ghanaians (Kwawukume, 2012).

Natural gas is another important part of Ghana's discovered hydrocarbon resources. The Ghana National Gas Company (Ghana Gas) is central to industry operations, while the Chinese company Sinopec is engaged in a construction phase, although there has been some controversy surrounding project delays (Citifmonline, 2013; IMANI Center for Policy & Education, 2013a; Business & Financial Times [B&FT], 2014). Providing exploration and exploitation services in Ghana's gas fields, Sinopec International

Petroleum Services is part of Sinopec Group, the world's largest oil, gas, and petrochemical conglomerate, generating $344 billion in operating income, with a profit of over $12 billion, in 2017 (Sinopec, 2018). The government is looking to increase the use of gas and the reliability of the fossil fuel by building gas plants in Ghana to supplement the gas that is delivered from Nigeria and inviting foreign-owned enterprises to enter the field through public-private partnership agreements (interview with Dr. Yao Graham, Third World Network, 4 March 2014).

It appears that the troubling trends in the oil industry, which impact sustainable economic growth, are also evident in the gas industry. Despite initial high expectations, community members from existing project areas have reported issues with the level of awareness and access to information, compensation payments, environmental pollution, and number of employment opportunities, with limited reprieve available through existing governance mechanisms (Sakyi et al., 2012). Ishmael Edjekumhene, Executive Director of the Kumasi Institute of Technology and Environment (KITE), recommends paying more attention to the environmental impact assessment (EIA) process for future projects, being more realistic about the expected benefits of projects, paying outstanding capitalisation to the Ghana National Gas Company to enable it to pay outstanding community compensation, and establishing a special programme to cater to the needs of small- and medium-sized enterprises to enable them to take advantage of what is happening in their communities (KITE, 2014). Other observers have noted challenges faced by Ghana Gas, with projects falling behind schedule and shifting deadlines. These are major problems, since the number of gas fields — and thus the potential for gas extraction — is large and the delays are resulting in missed opportunities for increased investment and sustainable economic growth (interview with Dr. Yao Graham, Third World Network, 4 March 2014).

Comprehensive laws, regulations, and policies have been a prominent feature in Ghana's efforts to regulate and manage hydrocarbon resources. However, government's focus on oil and gas at the expense of other sectors, including agriculture, can be economically dangerous since global prices for the former have fluctuated

severely over recent years. In fact, the Ghanaian government largely continues to see both the mining and energy sectors as persistent sources of revenue (interview with Dr. Franklin Cudjoe, IMANI Center for Policy & Education, 4 March 2014). As a result, to quote Dr. Graham: Ghana is facing an "intellectual Dutch disease." Moreover, the national government's ability to positively influence economic and social outputs from foreign-owned enterprises participating in these sectors has been limited.

**Research Results: A Case of Progress with Challenges**

Effective natural resource governance can present the opportunity for lasting political stability in terms of poverty alleviation, improvements to human capacities and physical infrastructure, and sustainable pro-poor socio-economic development if conducted appropriately and in collaboration with all relevant groups. Private sector-led engagement in resource extraction could further stimulate positive change. Indeed, the ideal role of the private sector in natural resource governance in a stable country such as Ghana is to support efforts to establish sustainable economic development and political stability. Its ability to do so, however, hinges on effective governance at both the national and local levels that works to encourage and influence this type of outcome.

However, according to interviews conducted for this research, there has been little meaningful improvement to the sustainable development of mining communities by national structures, as the Ghanaian government has so far failed to induce most foreign mining companies to contribute to improving living standards in the communities where they operate. Efforts to do so by some companies have been made mostly out of self-interest (interview, Kofi Annan International Peacekeeping Centre, 24 February 2014). While some boards and chief executive officers feel morally and ethically bound to provide tangential and direct benefits to local communities, whether through direct funded projects and opportunities or via value addition, it would not be such a stretch to assume that social consciousness is considered by most to be yet another means to achieve financial salience (Galant and Cadez, 2017; Pan et al., 2014: Asmeri, Alvionita, and Gunardi, 2017).

Host nations must work to establish a policy and legislative system by which to require value addition, economic sustainability, adherence to environmental standards, and beneficiation at all levels of society. In the case of Ghana, while the country has made strides in the regulation and governance of natural resource sectors in this regard, the traditional implementation gap continues to plague the country's ability to leverage those resources, and the private-sector actors exploiting them, for long-term sustainable economic growth development.

*Impact on Regulation and Governance*

According to recent World Bank indicators, Ghana "continues to show good performance on democratic governance, arising from a strong multi-party-political system, growing media pluralism and strong civil society activism" (Osei-Assibey, 2014, 522). It could be said that the country's relative political, social, and economic stability could be linked in some respect to natural resources extraction. After all, the mining sector contributes somewhat to employment and the mining and energy sectors contribute to government revenue through royalties and taxes as well as improved living standards of Ghanaians (Aryee, 2001). In 2005, Ali and Yelpaala determined that the deregulation of the Ghanaian diamond industry and the increased extractive practices from foreign and locally owned companies would "lead to a relatively reduced environmental burden in Akwatia [diamond-producing area in Ghana] and more revenue for the GCD to invest in the human development needs of communities in the town." Furthermore, while government policy that has helped to drive improvements in income levels and standards of living for some mining communities, it has also resulted in negative environmental impacts (Darimani, 2013). Notably, democracy appears to increase political space for the autonomy of organised private capital, its access to the government, and policy influence (Kraus, 2002).

The issue of participation — integral to effective governance — is one with which Ghana is still struggling, with an imbalance of power existing between the government, foreign-

owned enterprises, and communities. Considering that changes have occurred over time in Ghana, the institutional and administrative environment may improve in the short term. The Ghanaian government pays attention to civil society and is willing to respond in certain cases, given how these can sometimes affect public perception. As an example, a public dispute over the China Development Bank's strict credit requirements proved how the Ghanaian government responds to high-profile situations (VibeGhana, 2012).

Ghana has a long and strong tradition of civil society participation in policy formulation, including in the extractive sector. For example, the Ghana Civil Society Platform on Oil and Gas, comprising 120 organised groups, individuals, and professional bodies (Hanson, D'Alessandro, and Owusu, 2014), tried to mitigate negative socio-economic and environmental impacts and advocated for the increased participation of local communities and stakeholders in oil management and governance. A second example: in collaboration with government institutions, the African Centre for Energy Policy launched the online platform OurOilMoney (http://www/ouroilmoney.org) in 2015. OurOilMoney was designed to improve transparency and accountability of oil management through the participation of relevant stakeholders. Given that it provides open access to the most updated information and data on oil exploitation, revenues, and projects, together with mobile-based access integrated with WhatsApp and other social media, OurOilMoney is a powerful tool for mobilising public support for advocacy initiatives — and has the potential to leverage Ghana's policy efforts for environmental protection related to the extractive sector.

For the mining sector to play a greater role in facilitating poverty reduction, social development, economic transformation, and environmental protection, the *40-Year National Development Plan* must include the implementation of regulatory systems that address corruption and infrastructure issues and facilitate integration among the natural resource sectors.

For instance, while the *Petroleum Revenue Management Act* of 2011 set in place some of the most extensive accountability and transparency rules seen thus far on the continent in this sector, as well as a regulation to prioritise local jobs in oil and gas projects (Okpanachi and Andrews, 2012), these rules have yet to include full contract disclosure or apply equally to Ghana's mining sector. The Act should be considered as an innovative legal instrument for hydrocarbon resource taxation as it outlines clear mechanisms for collecting and distributing petroleum revenue. (Conversely, the country's mining sector, a traditional mineral sector that inherits and progressively improves previously existing regulations, is less innovative than the more recently created petroleum industry. Indeed, the latter's regulations have built on the most up-to-date international rules on oil and gas.)

That said, Ghana's burgeoning hydrocarbon extraction industry faces similar implementation challenges, and the focus on consumption instead of investments is a major concern. Exemplifying this trend, one interviewee and an IMANI member who was invited to join a government committee resigned after realising that monies were being channelled into consumption-related areas instead of critical investment areas, as outlined in the Act (interview with Dr. Franklin Cudjoe, IMANI Center for Policy & Education, 3 March 2014).

Since 2010, the Ghanaian government has been cooperating with developed countries in the area of natural resource management to improve various aspects of governance, including transparency and accountability (Asamoah, 2012; Twerefou, 2014). Drawing on the experience of Norway's Oil for Development programme and its principles of good governance, Ghana is striving to ensure economically, socially, and environmentally responsible management of its petroleum resources. Twinning arrangements between public-sector institutions in Ghana and their sister institutions in Norway have promoted continuity, sustainability, and a holistic approach with emphasis on the principles of transparency, accountability, and anti-corruption (EITI, 2012). Furthermore, Star Ghana, a funding mechanism for private-sector actors that promotes

good governance and accountability, is successfully gathering funds from donors, specifically the Netherlands, United States, and United Kingdom.

In recent years, the Ghanaian government has made significant progress in terms of policy-making, contributing to a political economy that is anchored in laws and regulations and focused on wealth creation. Nonetheless, Ghana's economy has suffered the consequences of loose fiscal policy, high budgets and debts, and current account deficits, suggesting that natural resources governance could be improved if it hopes to establish a meaningful scope of action for facilitating restructuring. In addition, the issue of elite-level politics may be the hardest to address, but the most critical problematic going forward. There is considerable pressure inside administrations (self-imposed and from colleagues) to obtain a share of natural resource revenues, something which has consequences for political decision-making that could undermine the establishment of a culture of good governance (interview with Dr. Yao Graham, Third World Network, 4 March 2014).

Although a large part of the budget funded by natural resource revenues is allocated to capital expenditure projects — specifically infrastructure, agriculture, and capacity-building projects — these initiatives have not produced all the expected outcomes. A smaller part of the budget is saved for future generations in the short-term Ghana Stabilisation Fund, which cushions the impact of a shortfall in oil prices, and in the longer-term Ghana Heritage Fund, which can only be accessed beginning in 2025 and is modelled on a similar Norwegian fund. Both funds form part of the Petroleum Account at the Bank of Ghana. Data from June 2016 indicate that, five years into the commercial production of oil, the Ghana Stabilisation Fund has so far received approximately $618 million, representing 19 per cent of oil revenue, but currently stands at about $191 million due to a prolonged period of low oil prices and lowering of the cap on the fund. The Ghana Heritage Fund has received approximately $256 million over the same period, representing about 8 per cent of oil revenue, and currently has a balance of $268 million (Abbey, 2016). These figures together are modest compared to Botswana's Pula Fund, which in April 2015 had $7 billion worth of assets under management (Raji,

2016). The economic challenges that Ghana faces are related to gaps in governance implementation, of which both public and private actors in the mining and energy sectors are guilty.

*Impact on Community Development*

The role of the private sector in promoting sustainable economic growth and continuing political stability is not only to incorporate sustainable economic development principles into their mainstream operations, but also to "chaperone the activities of all their associated companies — suppliers, joint ventures, foundations, and others — to make sure that they fall in line with a benign sustainability agenda" (Asamoah, 2012, 55). Conducting efforts in a sustainable manner means that economic operations must meet environmental and social sustainability requirements and norms, specifically those related to health, safety, environmental, social, and ethical responsibilities. In addition to the three pillars of sustainability (economic, social, and environmental), a governance dimension should become the fourth pillar — supporting the others and maintaining a balance between them, particularly by ensuring that correct trade-offs are made in business decisions (Asamoah, 2012). Even if this is done, however, the private sector's successful participation in this endeavour still hinges on effective governance at both the national and local levels, at which formal governance structures and informal governance arrangements overlap.

Ghana's experience with investment has primarily been with individual private extractive companies, not governments (interview with Mr. Christopher Agyekumhene, Kumasi Institute of Technology and Environment, 27 February 2014). In many cases, companies simply compensate communities for their land, especially when crops and property are involved. Under their overall legislation and governance structures, the government expects companies to engage in CSR activities by providing choice amenities to communities, but companies insist that it is not their responsibility to develop communities, especially when they pay taxes to the government (interview with Dr. Abeeku Essuman-Johnson, Department of Political Science, University of Ghana,

28 February 2014). Even so, in 2012, companies voluntarily contributed $26 million to community sustainable development projects, such as trust funds, and economic development and community empowerment programmes, with spill-over effects in transportation, hospitality, and other sectors (Aubynn, 2013). For instance, sponsored by the Global Fund, the private extractive company AngloGold is now involved in malaria control efforts in one district (interview, villagers from the mining area of Tarkwa, 6 March 2014 & interview with Mr. Mark Morcombe, Senior Vice President, AngloGold Ashanti Ghana, 4 September 2015).

Given that certain communities have yet to seen any social projects by mining and oil companies operating in their region, the argument can be made that Ghana's governance system is characterized by inconsistent application in all parts of the country (interview, villagers from the mining area of Tarkwa, 7 March 2014). Moreover, the environmental consequences of some projects should be underlined, as well as the possible responses developed by the communities. One observer regarded the Wassa Association of Communities Affected by Mining to be the "best answer" to the failures of the government on mining-related issues given that it is single-handedly taking on the government on behalf of certain communities, such as those whose water sources have been polluted by mining activities (interview with Dr. Abeeku Essuman-Johnson, Department of Political Science, University of Ghana, 28 February 2014).

As it stands, only a handful of companies have built programs, through public relations and such, to conduct business in harmony with adjacent communities, but only because it supports their own interests — they are not compelled by the government to do so (interview with Dr. Kwesi Aning, Kofi Annan International Peacekeeping Centre, 24 February 2014). This also points to a deep chasm in Ghana's governance system, and its scope of action, which continues to motivate or compel foreign-owned enterprises from contributing to sustainable economic growth and stability. As a result, the standards of living in mining communities with large-scale extractive activities have only improved modestly If Ghana expects to use its mineral wealth to facilitate broad-based community development, which in turn drives political stability, it must ensure that CSR

responsibility is included in governance regimes and subsequent compliance by private-sector actors, thereby closing the policy and legislative implementation gap and creating a robust scope of action that will lead to meaningful restructuring (Garvin et al., 2009). Further, it must do so through the junctures and entry points of change noted above, whereby governance can be strengthened so as to improve effectiveness and impact. How to ensure such compliance without facilitating the abandonment of Ghana by those same extractive firms, however, is a challenge.

*Impact on Local Content Policies*

Local content policies aim to leverage the extractive value chains to generate sustained and inclusive growth through economic diversification and employment opportunities (Bicker, 2014; Kusi-Sarpong et al., 2014). Existing mining regulations establish the local content requirements for the mining sector and focus on three main areas: employment and promotion of local labour forces; the procurement of locally produced goods and services; and additional licensing and reporting requirements. They require mining companies to hire a minimum proportion of national staff and the percentage of expatriates must be reduced progressively to a maximum of 6 per cent of the company's total workforce in the country. With the aim of promoting local knowledge, mining companies must submit a comprehensive five-year plan to the Minerals Commission, which details the replacement of expatriates with Ghanaians and outlines training programmes. A five-year procurement plan must also be produced, showing how preference is given to local materials, products, and service providers. Penalties for violating local content provisions are provided. Having said this, however, local content could be greater if the Ghanaian government became more involved in the operations of mining companies, for example by becoming a shareholder (interview with Mr. Sulemanu Koney, Ghana Chamber of Mines, 3 September 2015).

Despite these recent regulations, Ghana's local content policies largely remain generic, preventing the application of an effective scope of action that will help to reshape governance structures and the actions of foreign-owned private-sector actors.

Additionally, the policies have not taken into consideration the views of the private sector. Foreign-owned enterprises would likely be more willing participants in programming that encourages sustainable growth and stability if they were treated as economic partners by the Ghanaian government, rather than simply sources of revenue. An entry point or juncture would be to ensure that the roles of stakeholders, including the government, private sector, CSOs, and donors, are better outlined in Ghana's local content policies (Esteves, Coyne, and Moreno, 2013). An added issue is to the degree of corruption and lack of government oversight. In Ghana, corruption is an endemic concern in all aspects of governance, driving up the costs and insecurity of doing business in the country (BMI Research, 2015). Ergo, challenges at the policy level must be addressed:

"The challenges are in the adequacy of the measures and in how to go about implementation, monitoring, and measuring achievements. On one hand, success depends on the procurement decisions of the large mining firms, which dominate the Ghanaian industry, on how much local procurement decisions are in the discretion of individual firms, and on the capacity of local supply firms. On another hand, success depends on the clarity and deliberate directions of government policies as well as on complementary government-industry relationships. Successful local content strategy must create a framework for learning and adaptation and should involve both government and industry." (ACET, 2015, 42–3)

When it comes to the hydrocarbon sector, government tenders are reserved for local companies (interview with Georgette B. Sakyi-Addo, Georgette Barnes Limited, 1 August 2015) and good governance structures have been introduced. The *Petroleum Commission Act*, the Local Content and Local Participation in Petroleum Activities Policy Framework, and Petroleum Regulations (L.I. 2204) facilitate policy implementation in the sector and provide a comprehensive legal framework for local content. As oil is considered the key resource for short-term economic growth and transformation, if well managed, considerable effort has been made to ensure the country does not suffer from the supposed 'resource curse' (Kopinski, Polus, and Tycholiz, 2013).

The African Centre for Energy Policy has lauded Ghana for its hydrocarbon sector legislation that will, in its opinion, foster greater transparency in the sector, but faulted it for the continued absence of penalties for conflict of interest by public officials (Adam, 2016). Ghana is one of the few African countries with a local content framework for the petroleum industry. The framework targets job creation and value-addition through the use of local expertise, goods, services, and businesses to ensure the retention of benefits within Ghana over the longer term. Senoo and Armah (2015), however, find that the alignment of the legislative content with the intended outcomes, the social, economic, and political context, the leadership by the Petroleum Commission (which regulates and manages upstream petroleum activities and coordinates associated policies), and the level of stakeholder involvement do not support effective implementation.

The local content framework found in these legislative arrangements puts the onus on the government to take the necessary steps to help ensure value addition is given priority by the private-sector actors operating in the country (Arthur and Arthur, 2014). While the government oversees the implementation process, a Local Content Committee — comprising public- and private-sector stakeholders from government ministries, agencies and departments, NGOs, and operators, contractors, and sub-contractors — coordinates and manage this process. The intent is to ensure a minimum of 5 per cent equity for local petroleum licences, permits, and contract operators, and at least 10 per cent equity for local providers of supplies and services. This should ensure local private-sector participation (Ministry of Energy and Petroleum, 2013). The framework also stipulates that within 10 years of the inception of a project, 90 per cent of the required services and supplies must be provided by Ghanaian individuals or companies and allowance (Asamoah, 2012). The government's intent is to maximise value addition using local expertise, goods, and services, thereby creating jobs and allowing skills to be retained in the country.

According to the local content framework, every stakeholder (contractor, sub-contractor, authority, etc.) involved in the oil and gas sector must have an Annual Local Content Plan (similar to the five-year plans for the mining sector) for its projects, activities, operations, and transactions. Such a document must be updated and reviewed every year. The government provides fiscal incentives and rewards to stakeholders who exceed the goals laid out in their plan. The framework also encourages and promotes the participation of women in the sector, but does not provide further details.

While Kayizzi-Mugerwa and Anyanwu (2015) argue that extractive companies would benefit from using local suppliers, six constraints hamper their ability to be hired: (1) unable to produce goods and services at the required quality; (2) lack access to credit;; (3) inadequate regulatory and institutional environment; (4) lack appropriate skills; and (5) substandard infrastructure. Therefore, governance implementation challenges are not limited to the will to do so, but are equally hamstrung by very practical real-world challenges.

One of the main goals of the PENG framework is to build skills capacity through education, technology transfer, and research and development — thereby helping to build institutional and organisational capacity, and competitiveness, of local businesses and industries related to the petroleum sector (Ministry of Energy and Petroleum, 2013). To support the capacity-building dimension of the policy, the framework suggests the establishment of a dedicated Oil and Gas Business Development and Local Content Fund, under the Ministry of Energy, which oversees education, training, research, and development. The framework also explains how the fund should be financed and maintained over time.

While a recent assessment found that Ghanaian local content has moved in the right direction in terms of establishing and improving local polices, the absence of precise directions for local content policy implementation and operationalization, as well as the lack of a sound business environment for policies to be properly implemented, have contributed to policy implementation gaps (AfCoP, 2016). Specifically, local human

capacity and technological skills remain inadequate to ensure the meaningful participation of local companies and lack of financial capacity penalises companies and local investment by forcing local companies to take on loans with high interest rates averaging 20–30 per cent. As Abor and Quartey underline, Ghanaian SMEs development is constrained by “a number of factors, such as lack of access to appropriate technology; limited access to international markets, the existence of laws, regulations and rules that impede the development of the sector; weak institutional capacity, lack of management skills and training, and most importantly finance” (Abor and Quartey, 2010). An assessment by the African Capacity Building Foundation concluded that local content requirements can have a positive role in driving economic transformation if they are aligned with the national development strategy and supported by capacity development efforts. Recommended junctures for effecting change include incentivising the private sector to help support local content policies through their design and implementation, building capacity to encourage local specialised companies to merge and apply for jobs in the oil and gas sector, and implementing capacity-building initiatives that target financial gaps, human capital deficits, and environmental problems. Importantly, the local content framework must enable policies to be adapted to current contexts and local and external changes over time.

**Technical Training and Education**

To help build individual capacity, some scholarships for Ghanaians to study abroad to gain specific skills in the oil and gas sector exist, but they are not well targeted. Plus, they do not lead to the development of technical schools in Ghana, and locals consequently are not a prominent part of service companies in Ghana (interview with Mr. Silas Olan'g, Natural Resource Governance Institute, 3 September 2015). Beyond academic degrees, external investments of $6 million have been used to develop the Jubilee Technical Training Centre at Takoradi Technical University, targeting intermediate technical skills (Takordi Technical University, 2016). The Centre is the first vocational training polytechnic in West Africa, offering accredited courses in technical subjects such as instrumentation, process, mechanical engineering, and electrical

engineering. In 2014, 16 students were studying at the Centre.[12] These initiatives are certainly positive, but the number of Ghanaians trained here is too limited to have a real impact on increasing local capacities in the sector (Oxford Analytica, 2014). Besides the oil and gas sector, Ghana's tertiary education system produces a high number of science, engineering, manufacturing, and construction graduates when compared to regional standards. Nevertheless, although these figures match the requirements of the labour market, graduate unemployment remained at around 50 per cent in 2015 (BMI Research, 2015).

An additional, ongoing weakness in the local content framework is the vagueness of its monitoring and evaluation requirements. Arguably, the Ghanaian government has not made any effort to hold the private sector accountable because there is no comprehensive plan for meeting targets, especially regarding broader objectives of sustainable economic growth and stability. This gap creates the danger that local communities will become resentful and angry when extractive companies do not fulfil promises. The Petroleum Commission's monitoring reports are not required to be public and, as indicated by the Ghana EITI, most information on the Ghanaian extractive sector is not directly available to the public. A way to solve this problem would be for Ghana to choose to make local content disclosures part of EITI reports. Ghana could draw on lessons from EITI's innovative multi-stakeholder approaches (e.g., the Bayelsa Expenditure and Income Transparency Initiative in Nigeria's Bayelsa state) to develop partnerships for local content monitoring and reporting. Ultimately, Ghana sits in the middle of the spectrum in terms of local content. In the future, it will be essential to ensure local content regulations are adhered to, especially in upstream activities. Also important is the promotion of backward linkages in Ghana's mining and energy sectors, specifically the local impact of downstream refining, transport, distribution, marketing and sales processes, as well as mid-stream/side-stream sector activities from a holistic

[12] All the information related to pedagogical, academic, and technical training activities in which Tullow Oil is involved are available at the Tullow Group Scholarship Scheme (see https://www.tullowgroupscholarshipscheme.org/index.php). The programme operates in various African and South American countries.

perspective. Bloch and Owusu (2012) argue that, rather than being an enclave activity as it is widely perceived, gold mining is deeply linked to the Ghanaian economy and backward linkages can likely be strengthened through policies and support.

*Impact on Beneficiation and Value Addition*

Beneficiation and value addition can also help ensure profits from the hydrocarbon and mineral sectors are maximised and utilised to benefit the stability and economic growth of the country as a whole. Beneficiation refers to any process, such as smelting, that helps produce the maximum value from a given raw material, while value addition refers to processes, such as special processing, manufacturing, or marketing, that increase the value of a product. Together they can stimulate industrialisation, employment creation, and economic growth when processes are conducted in-country to maximise local economic contributions. According to the Ghana Chamber of Mines, building a smelting plant for the West African region would be an asset for Ghana, making it a regional hub for copper production. Ghana is therefore considering importing raw copper from Zambia to produce copper electric cables (interview with Mr. Sulemanu Koney, Ghana Chamber of Mines, 3 September 2015). Similarly, the Precious Minerals Marketing Commission, the official authority for gold, diamond and silver, was building a large gold refinery in partnership with the Russian company Geo Professional Services Limited (interview with Mr. Simon Atebiya, Ghana Ministry of Lands and Natural Resources (Mines), 2 September 2015). The company's managers were later arrested, and the company shut down due to illegal use of local mining licences (Ghana News Agency, 2017). Today, two gold refineries, Sahara Royal Gold Refinery and Gold Coast Gold Refinery, are smelting and refining raw minerals. For Ghana, this has already attracted international investors while helping to decrease illegal traffic in gold. Experts have noticed that value addition in gold and diamonds offers greater prospects than other minerals (Amoako-Tuffour et al., 2015).

Beneficiation and value addition could certainly progress faster in Ghana, but the process is led by the Ministry of Land and Natural Resources, while the Ministry of

Trade and Industry is not directly involved, limiting the impact of policies (interview with Mr. Sulemanu Koney, Ghana Chamber of Mines, 3 September 2015). Consequently, efforts to advance private-sector development do not take into consideration beneficiation and local content requirements (interview with Mr. Silas Olan'g, Natural Resource Governance Institute, 3 September 2015). Nevertheless, Ghana is developing a comprehensive program on artisanal mining that addresses local content and beneficiation (interview, African Centre for Economic Transformation, 4 September 2015). The Government recommended that mineral beneficiation should be part of the *40-year National Development Plan for Ghana*, which was launched in 2017. Considering the weight and strategic importance of the sector for the country, this is crucial but, according to the Ghana Chamber of Mines, its role is not properly recognised in the future development strategy (interview with Mr. Sulemanu Koney, Ghana Chamber of Mines, 3 September 2015). In fact, the Ghana Industrial Policy and the Industrial Sector Support Programme do not focus at all on minerals to optimise their potential. This is unfortunate, given that the mining and hydrocarbon sectors are not labour-intensive. Stimulating local content and, in turn, resource-based industrialisation and economic growth that involves agriculture, manufacturing, services, and tourism would increase employment and, ultimately, result in socio-economic benefits such as poverty reduction as well as political stability.

*Impact on the Hydrocarbon Sector*

Before oil extraction began in 2010, the government held many consultative meetings with chiefs and affected community members to seek permission to use their land and catchment areas in the sea. At the Western Region House of Chiefs, chiefs requested that 10 per cent of natural resource revenues be given to the Western Region, since those resources were found in that region. In response, however, the government explained that natural resources belong to the state and will be used for the betterment of the entire country. A number of education initiatives in the region explained what would happen during the production phase, with companies entering the area, fishermen prohibited from sailing within a one-mile radius of the rigs, and the navy

patrolling the sea. These discussions were held during the presidential elections of 2008, during which all political parties redrafted their manifestos to link their messages to the potential and promise of natural resources, a tactic that generated grand expectations about jobs, incomes, and infrastructure across the country.

Since those elections in 2008, government communication initiatives have failed to manage people's unrealistic expectations of the possibilities offered by oil and gas (interview with Dr. Kwesi Aning, Kofi Annan International Peacekeeping Centre, 24 February 2014). Indeed, despite drafting the Right to Information Bill in 2002, the bill has not yet been passed into law and stakeholders have repeatedly raised the issue of a lack of communication and information flow from the state (interview with Mr. Christopher Agyekumhene, Kumasi Institute of Technology and Environment, 27 February 2014). In addition, the government has failed to raise awareness about the continued reliance on oil-driven growth at the expense of maintaining other sectors of the economy, such as agriculture. The government's emphasis on oil-driven prosperity has been detrimental to the agricultural sector, with Ghanaians leaving the sector to seek jobs in the energy industry (interview with Dr. Elias Ayuk, UN University Institute for Natural Resources in Africa, 24 February 2014).

The issue of land requires special attention, with tenure insecurity being a considerable problem (Arthur, 2012). People continue to sell their agricultural land for ASM, hoping that they will get more money that way. As a consequence, that land cannot be restored and reclaimed at a later stage (interview with Dr. Kwesi Aning, UN University Institute for Natural Resources in Africa, 24 February 2014). Moreover, young people who had been engaged in illegal ASM have been displaced following land disputes that have resulted in the establishment of large farms (interview with Dr. Yao Graham, Third World Network, 4 March 2014). Local chiefs have argued strongly that the government must review its communications on the subject (interview with Elias Ayuk, UN University Institute for Natural Resources in Africa, 24 February 2014). Outright land grabs by the Ghanaian government have been known to happen, too, with chiefs unaware of whose family land they were selling off. Even though land is communally owned, chiefs

manage it on behalf of communities and investors often simply negotiate directly with the community leaders and traditional authorities, and then move straight into initiating projects on the ground (interview with Mr. Christopher Agyekumhene, Kumasi Institute of Technology and Environment, 27 February 2014). Permits are needed to mine, and chiefs are not allowed to give land for mining, but in some cases they have applied for these permits to mine themselves (interview with Mr. Sulemanu Koney, Ghana Chamber of Mines, 3 September 2015).

In parallel, when the Ghanaian government established its oil and gas sector, it had neither the capital nor the expertise to effectively establish value-added and local development-facilitating legislative arrangements, limiting its ability to create a scope of action from the outset of extraction. As a result, concessions in contracts were generous for those who were willing to risk their investments. Moreover, the imperative among political elites to succeed in elections, together with structural inequalities between investors and the government, resulted in the negotiation of oil licences on terms favouring foreign-owned oil companies; longer-term planning decisions were deprioritised in favour of shorter-term gains (Mohan and Asante, 2015). Now that Ghana is a bona fide oil-producing country, the risk element has been significantly reduced. For the time being, few Ghanaian private-sector entities have the risk-taking potential to partner with foreign companies in the energy sector, which has resulted in the interim solution to promote the Ghana National Petroleum Corporation (GNPC). One observer noted that almost half of the funds received between 2011 and 2014, during a critical infrastructure building period, has been devoted to capacity building within the GNPC, with no details about these investments (interview with Dr. Franklin Cudjoe, IMANI Center for Policy & Education, 4 March 2014).

Unfortunately, efforts by donors to improve governance, transparency, and accountability of both the Ghanaian government and private-sector actors are being duplicated, possibly establishing overlapping scopes of action to usher in restructuring: The World Bank, Switzerland, Norway, the United States, and the United Kingdom all provide government-oriented support in Ghana but have not coordinated their efforts.

For example, GIZ, the World Bank, and the United Kingdom provided $38 million to build institutional and human capacity in natural resources in Ghana. Unfortunately, funders had only put a roadmap in place, rather than a strategic plan, which was insufficient to carry out effective capacity-building initiatives. The United States, on the other hand, brought in advisers attached to ministries to guide natural resource governance. As a result of these initiatives, one observer suggested that Ghanaian government institutions have become complacent after being given significant amounts of funding from donors (interview with Dr. Allan Lassey, GIZ, 26 August 2015).

Alongside oil and gas, the Ghanaian government has also committed to renewable energy development. The *Energy Commission Act*, 1997 (Act 541) established the Energy Commission, which has overseen regulations, management, development, and utilisation of energy resources, specifically acting as the technical regulator of Ghana's electricity, natural gas, and renewable energy industries and as an advisor to the government on energy matters. Notably, it introduced the Strategic National Energy Plan 2006–2020, which outlines Ghana's plan for sustainable energy production in a context of development-oriented policies (Arthur, Baidoo and Antwi, 2011; Gyamfi, Modjinou and Djordjevic, 2015). The *Renewable Energy Act*, 2011 (Act 832) established the country's renewable energy regime, which includes obligatory schemes and provisions such as feeding tariffs. The regime seeks to create an enabling environment for investors through fiscal frameworks, and this has resulted in an oversubscription of interest in solar initiatives. Renewable energy, particularly solar options such as subsidised solar lanterns, offers the best decentralised approaches to electricity generation for communities that cannot currently be reached by grid extension. Ghana has already committed itself to the development and integration of renewable energy into its energy mix, with renewables currently accounting for more than 70 per cent of the mix through the use of biomass, mainly from wood fuels, and approximately 70 per cent of electricity generated by hydropower. Hydroelectricity is a priority option going forward, since it has additional benefits such as supporting river transport, fishing, agriculture, and irrigation. However, from a micro-economic perspective, the adoption of renewable energy has been hindered due to the relatively high cost of certain products

and the inability of end users to pay such fees, which has led to the introduction of grant facilities and loan schemes to offset risks for the private sector (interview with Wisdom Togobo, Department of Renewable Energy, Ghana Ministry of Energy, 4 March 2014).

## Future Opportunities

### *Corporate Social Responsibility and Local Content*

Governments have a commitment to their citizens to hold companies and, in particular, foreign-owned enterprises accountable to good corporate practices, the latter defined through a governance-created scope of action in relation to context and the needs of specific countries. Today, oil revenues are not necessarily contributing to poverty alleviation and sustainable growth (interview with Dr. Kwesi Aning, UN University Institute for Natural Resources in Africa, 24 February 2014). As natural resources do have the ability to promote sustainable development, peace, and stability for a broader segment of the population through political balance, meaningful collaboration in resources governance is key. The resource curse does not need to be the norm. Rather, as in Ghana, resource extraction can lead to economic growth and contribute to achieving a country's economic priorities — there are resource blessings. Of course, Ghana is by no means a perfect example, as corruption, mismanagement, and poor practices have been and continue to be a hindrance. Under a functional and effective natural resources governance system that encourages a sense of obligation to exercise sustainable economic development, foreign-owned enterprises can effect growth through taxes, royalties, and so on. But transforming economies fully and pulling people out of poverty can only happen when there is a critical effort to promote secondary industries that rely on or feed into the mining/hydrocarbon sectors to generate employment opportunities for communities and revenues for the country.

Foreign-owned enterprises have a responsibility to contribute to the national wellbeing of resource-rich countries. Indeed, emergent literature argues that private-sector actors, especially mining companies, are becoming key partners and leaders in promoting and

facilitating development, often assuming this responsibility from ill-equipped government and traditional donors (Black and O'Bright, 2016; Ite, 2016).

In contrast, mining companies and some observers have argued that it is the responsibility of the Ghanaian government, not the job of the private extractive sector, to invest in and improve the livelihood of communities through sustainable economic growth. Arguably, the government should be targeting the revenue from royalties for community development, which is currently missing. Royalties going back to communities are usually channelled to community leaders, district chiefs, or local chiefs who use it for private expenditures and not necessarily for the benefit of their respective communities. Mining companies should also have a say in how the government targets royalties to increase oversight, linkages, and integration. For instance, the mining sector could have a positive and direct effect on building individual human capacity. Indeed, research findings by the African Development Bank show that new revenues from the extractive sector in Ghana could help fill most of the funding gap in the country's education sector (Toigo, 2015).

Thanks to improved legislation and governance, all Ghanaian mining companies now have CSR agreements, outlining community-driven sustainable development projects that involve employment, infrastructure, protection of natural resources, and cultural heritage. Gold mining companies are involved in public-private partnerships and multi-stakeholder initiatives that include community representatives, NGOs, traditional authorities, political leaders, and youth (ACET, 2015). These arrangements remain substantially weak and should not be left to mining companies alone (Andrews, 2016). The social and economic activities produced under these agreements should be aligned with broad national development plans as much as possible. Hoping to transform the CSR landscape, the Ghanaian government is currently preparing a CSR policy that challenges, but not compels, companies to respond to these imperatives (Government of Ghana, Ministry of Trade and Industry, 2014), but the policy does not have any legal backing (interview with Mr. Wisdom Togobo, Ghana Ministry of Energy, 3 March 2014).

CSR will remain important, but it is crucial to move from voluntary to mandatory initiatives to make companies more accountable.

Given the generous fiscal and other incentives for the mining sector, the government has come under increasing scrutiny to institute sustainable resource management policies — the institutionalization of a scope of action. To promote accountable business practices at both the national and local levels and to maintain stable relations between community members and the private sector, the Ghanaian government must effect change. It can do so by signing more advantageous contracts and holding strong negotiations that ensure social and human security and compliance with progressive environmental laws to protect communities from unforeseen circumstances. The government must also demonstrate to communities that Accra will stand up for them when either foreign or local corporations break laws. Calls for reforms in this regard have come amid unacceptable socio-economic and environmental impacts linked to mining companies' operations, including high poverty rates and loss of land in ASM communities (Hilson, 2002). In this vein, some observers have suggested establishing a Mining Common Fund to support and develop mining-affected areas, as well as to put in place inclusive planning and decision-making structures in addition to the introduction of a sound mining policy framework (Boon and Ababio, 2009).

Stakeholders have also discussed the possibility of developing CSR guidelines for Ghana as a whole (interview with Mr. Christopher Agyekumhene, Kumasi Institute of Technology and Environment, 27 February 2014). One observer argued that the government should make a conscious effort to communicate how oil revenues are being used to implement development initiatives and to limit Ghana's borrowing dependency (interview with Dr. Abeeku Essuman-Johnson, Department of Political Science, University of Ghana, 28 February 2014). The approach would help generate information about local content, beneficiation, and value addition potential, provide options for sustainable development, and reveal why resources and development activities are not producing the expected outcomes. In addition, it would add further pressure, from a governance perspective, on foreign-owned enterprises to contribute more readily to

these outcomes. It is important to identify and address binding constraints on both sectors, specifically within their value chains. Importantly, limiting the socio-economic and environmental negative impacts requires that all stakeholders embrace responsibility for enforcing human rights (Owusu-Koranteng, 2005), gender diversity (Osei-Assibey, 2014), and labour and environmental norms and standards.

In light of the fact that private-sector actors are the drivers of economic activity and development in developing countries, Asamoah (2012) states that local content policies, in conjunction with stronger CSR frameworks for external private-sector actors, particularly foreign-owned, typically include the development of local skills, technology transfer, employment of local workers, and local manufacturing — with the aim to build a skilled labour force that can compete as a supplier base. Local content policies that promote capacity building, spur the creation of small- and medium-sized enterprises (SME), and promote local products and services do help provide jobs to local populations and help keep wealth within a country's borders. They also generate opportunities for regional integration and trade — thus gradually reducing dependence on external aid. Barriers to local content development can include lack of infrastructure, inefficient business licensing, pre-qualification and certification procedures, shortages of skills and strict regulations on labour migration, and low access to credit, all of which increases costs for local enterprises. In this vein, the Ghanaian government has introduced local content policies for both the mining and energy sectors — but more could be done.

Georgette Barnes Limited (GBL) is an example of local content in the Ghanaian mining context and more widely in West Africa. GBL is a drilling supply company created in Accra in 2009 by its CEO Georgette Barnes Sakyi-Addo and operating in West Africa. GBL supplies drilling muds and consumables to the exploration industry. These are industry-specific products that cannot be used for other purposes, but such locally owned businesses have great value in promoting local content. They lead to more beneficiation, with Ghanaians learning procedures and developing skills while experimenting in progressive business practices. In sum, as a juncture or entry point,

local content adds considerably to the mining industry in terms of training. It also generates employment and income. According to Sakyi-Addo, local content should be supported by the private sector, including foreign-owned companies. The government needs to empower local mining supply companies like GBL and compel foreign-owned mining companies to source their products from them, even at a premium cost, rather than directly from the global market.

The poor state of infrastructure — an obstacle to investment in the country — will likely be at the core of the Ghanaian government's Long-Term National Development Plan for Ghana (2018–2057) (Abubakari et al., 2018). As part of its strategic drive toward industrialisation, the government is looking to ensure that the country's energy requirements are met by 2018 (interview with Minister Ekwow Spio-Garbrah, Ghana Ministry of Trade, 2 September 2015). With respect to the management of the Ghana Infrastructure Fund's board, opening up the membership to include the private sector would help to increase infrastructure financing, as companies appear unwilling to invest when they have no say in project management.

The World Bank has acknowledged in interviews that Ghana's laws are very positive but underlined the lack of implementation. Overall, Ghana's security and political stability provide for a safe environment for investments, but institutional reforms are deeply needed. Given this situation, the diversification of commodities would be beneficial (interview with Dr. Santiago Herrera, World Bank, 1 September 2015). Improvements should also be made by other actors, including international agencies — for instance, an improvement by the International Finance Corporation (IFC) to its Environmental, Health, and Safety Guidelines to enhance the level of protection in deep-water offshore oil and gas exploration (CAO, 2011; IFC, 2015).

Development outcomes largely depend on how national and local government actors in resource-rich countries manage their relations with the private sector, especially foreign-owned enterprises. The private sector has the potential to be the engine of growth in stable resource-rich African democracies. However, this can only be fulfilled by

imposing strong, coherent, and strategic national and local governance structures that clearly define the role of foreign-owned enterprises in facilitating sustainable economic growth, peace and stability, and outlining their responsibilities to all stakeholders, including mining communities.

Overall, the Ghanaian government has been working to promote peace and social cohesion in resource-rich communities by respecting local beliefs, attempting to produce clear communication strategies, and creating incentives for the private sector to be socially responsible. However, policy implementation gaps remain an issue. Much more time should be spent on identifying the gaps in policies and regulations, and initiating actions to remedy the problems. A larger issue is the lack of political will (interview with Dr. Kwesi Aning, Kofi Annan International Peacekeeping Centre, 24 February 2014; interview, UN University Institute for Natural Resources in Africa, 24 February 2014).

In this context, it is also critical to consider implementing new ideas from the bottom up, drawing on the expertise of on-the-ground experts in Ghana, specifically regarding advocacy, community participation in decision-making, and monitoring frameworks (Owusu-Koranteng and Owusu-Koranteng, 2010; Kuyole, 2013; Owusu-Koranteng, 2013). Importantly, community service organisations (CSOs) lack substantial support, specifically in terms of resources and technical knowledge, to effectively participate in natural resource governance. One promising avenue is that donors identify credible local NGOs and CSOs, design working documents collaboratively, discuss concepts and ideas, and then implement them. Such collaboration could start as a pilot program and then be scaled up (interview, GIZ, 27 August 2015). Within civil society, top-down and bottom-up strategies could be put forth by community groups and research institutions. CSOs and NGOs should have a larger voice in governance for such strategies to receive more attention.

## Conclusion

When it comes to Ghana's performance in both the mining and hydrocarbon sectors, the national government could improve efforts to turn natural resource revenues into sustainable economic growth, human development, and political stability through the management of resources and institutional processes; channel funds to regions and various actors; and transfer funds into other forms of capital that are measurable assets to help build human capacity. Moreover, Accra should create evaluation tools to assess the impacts and shortfalls of initiatives and efforts every year beyond looking at extractive revenues nationwide. Specifically, the government needs to evaluate the effectiveness of initiatives and analyse whether these are meeting national priorities in line with national strategies. This is especially crucial, as there is mounting evidence that initiatives have not been effective and priorities are not being met (for instance, see IMANI Center for Policy & Education, 2013b). At the moment, political parties introduce their own manifestos and objectives and use these to decide how to channel resources.

An additional major problem in Ghana — one that negatively affects priority spending by government on established national issues — is that public-sector expenditures are very high. An unsustainable percentage of government revenue is spent on salaries in line with increased revenues from oil, while reform efforts have slowed down despite ongoing development challenges and high internal and external unpaid debts (IMANI Ghana, 2012). For example, the IMANI Center for Policy & Education (2010a) advocated unsuccessfully against the introduction of the Single Spine Pay Policy in 2010, arguing that this policy ignores the economic situation and rewards employees depending on their level of education. Channelling money into salaries also facilitates consumption rather than investment in much-needed human capacity-building and infrastructure. On top of that, there is low capacity for revenue collection. While corruption and lack of transparency in contracts can be problematic, the government is failing to collect revenue and foreign-owned enterprises are taking advantage of loopholes and leakages in the revenue collection system, both of which are reducing revenue and need to be addressed at the national and local levels (interview with Dr.

Elias Ayuk, United Nations University Institute of Natural Resources in Africa, 24 February 2014). The government's contracts with foreign oil companies need to be publicized while Accra should prevent further secrecy in contracts, opaque revenue payments, and any increase in spending when it enters into negotiations with foreign partners (Asamoah, 2013b).

Moving forward, drawing on examples elsewhere, research should be initiated to determine how effective decentralisation and CSOs have been in Ghana.[13] Decentralisation should be evaluated in terms of legal/political structure, expenditure responsibilities, and revenue access (Dafflon and Madiès, 2013). Given how much power the government has in policy enforcement, it may be difficult to measure the performance of CSOs in terms of policy implementation. However, CSO performance could be categorised into various levels, such as the contribution to knowledge generation and the contribution of relevant resources during the deliberative and analytical stages of policy formation. Looking at the process and outcomes of law and policy implementation with the findings in mind could be fruitful (interview with Mr. Christopher Agyekumhene, Kumasi Institute of Technology and Environment, 27 February 2014). At the same time, some CSOs, such as the Wassa Association of Communities Affected by Mining, focus on how Indigenous populations relate to mining companies and promote human rights education and advocacy. Their contributions should also be noted and evaluated at the outset.

Therefore, even in a politically stable country such as Ghana, foreign-owned enterprises initiate conflicts in the natural resource sector that could be addressed by including whole communities and the people who live in affected communities. Issues such as conducting EIAs and paying adequate compensation to community members when necessary will be important. The government needs to remain vigilant when it comes to holding private-sector actors to account with respect to adhering to existing governance structures and ensuring the quality of their interactions with communities. Issues around

[13] An exceptional starting point is Polus (2013).

Free Prior Informed Consent Protocols would need to be closely examined to assess the extent to which private-sector actors are continually and adequately informing and getting the consent of resource-rich local communities on their investments and extractive activities. Equally important, government needs to assess to what extent these actors support the goal of the Political Economy of Natural Resources Governance framework — namely, a sustainable economic growth in social, economic and environmental terms.

Based on community size, NGO observers recommend establishing guidelines to regulate interactions between public and private sectors, and the communities, including which representatives are involved in these interactions. This is in order to ensure genuine exchange with a relevant sample size within each community (interview with Mr. Christopher Agyekumhene, Kumasi Institute of Technology and Environment, 27 February 2014). This issue of participation, at the centre of the new concepts brought by the author, should then by strengthen by the Ghanaians authorities to provide a strong and positive impact of governance in the natural resources sphere.

The funding of social projects and activities at the local community level, coupled with mechanisms to ensure that revenue is channelled to nationwide social and economic initiatives, are critically important to the establishment of a positive corporate reputation, the creation of opportunities to boost sales, and the elevation of brand recognition. To date, mining companies have failed to recognise that CSR essentially refers to their role as development partners rather than to profit-making strategies, or that their mining activities may positively or negatively affect the environment, the society, and the economy.

The ideal role of the private sector in natural resource governance in a stable country such as Ghana is to support efforts to establish sustainable economic development and political stability. However, Ghana falls short on many aspects, including the provision of a strong Political Economy of Natural Resources Governance framework that promotes sustainable, broad-based development.

## SIERRA LEONE CASE STUDY

### Introduction

With a population of approximately 6 million, Sierra Leone remains one of the world's poorest countries in the world, ranking 179/188 on the UNDP's 2016 Human Development Index (UNDP, 2016). Decades of economic decline — massive inflation climbed dramatically from 1.9 in 1967 to 14.7 per cent in 1983 and annual GDP declining from 3.7 to 1.9 per cent by 1983 — along with more than 10 years of civil war have had a dramatic negative impact on the economy. More than half the population lives below the $1.90/day international poverty line, earning less than $1.25 per day (Luke and Riley, 1989, 141; UNICEF, 2013b; Davies, 2003).

Following independence in 1961, Sierra Leone eventually fell under the authoritarian rule of Siaka Stevens. As its first president from 1971 to 1985, Stevens increased his authority after transferring parliamentary rule to the presidential republic (Chege, 2002).

While the country experienced moderate per capita GDP growth of 2.5 per cent between 1961 and 1970, the global oil crisis, combined with a negative balance of payments and rising inflation, resulted in a reversal of fortunes. At the time of Stevens' retirement, Sierra Leone's economy was in unstoppable decline. The Sierra Leonean civil war would begin in 1991 when the RUF initiated its uprising against the ruling government of Joseph Saidu Momoh, Stevens' successor as president.

### Illicit Mining

Under Stevens' rule, mining rights were used as a strategic tool to ensure the loyalty of supporters and to form armed illicit diamond mining groups, comprising mostly unemployed youths who served as 'presidential forces' and intimidated political opponents when deemed necessary (Reno, 2003). The diamond industry, the country's

most important economic driver, peaked between 1960 and 1970, a period when only about half of the country's diamond output was exported legally (Smillie, Gberie, and Hazleton, 2000).

The Stevens' autocracy resulted in the emergence of the Revolutionary United Front (RUF). Led by Foday Sankoh, the RUF was a loosely organised rebel group supported by several external actors, including the former Liberian president Charles Taylor. In supporting the RUF, Taylor aimed to overthrow the APC government and gain control of the country's diamond-producing regions (Lancaster, 2007). Throughout the 1980s, continued economic troubles, including a highly overvalued domestic currency, fueled illegality within the mineral sector. During this time, state licensing of private diamond exports generated a payoff system between Stevens' government and traders with foreign connections (Chege, 2002). Indeed, widespread corruption and economic mismanagement, which reduced the government's ability to deliver social services, provide access to basic necessities, and create jobs, were the key triggers for the onset of civil war (Gberie, 2005). Since 1985, the sale of mineral prospecting rights on a covert basis to supporters by the incoming Momoh government that same year has resulted in less regulation of the diamond industry, with government revenues consequently declining even more and a deepening of the economic crisis (Davies, 2003).

After heavy fighting in a particularly violent setting with the widespread use of child soldiers (Richards, 1996; Hoffman, 2011) and much political turbulence, the civil war resulted in the deaths of an estimated 70 000 people and the displacement of approximately 2.6 million people (approximately half of the population). Following the end of the civil war in January 2002, general elections were held (Kaldor and Vincent, 2006), with the SLPP under Kabbah gaining a landslide victory with 83 of 112 seats in parliament (African Elections Database, 2012). While the SLPP government was credited for its efforts to end the country's civil war, it was also blamed for widespread corruption and economic mismanagement, particularly in the mineral and mining sector. Disappointment with the state was once again widespread, with concerns raised about

the viability of sustained peace. Ernest Bai Koroma of the APC, a businessman turned politician, narrowly won the 2007 general election; his party gained a slight majority in parliament, securing 59 of 112 seats compared to the SLPP's 43 seats (African Elections Database, 2012). Despite the widespread remobilization of former combatants as political tools, security was maintained in the country during the elections (Christensen and Utas, 2008).

The period of APC rule was characterised by a dynamic increase in economic growth and transformation marked by a reduction in poverty and a shift to a market economy, which brought widespread support for Koroma. These changes were made possible by restoring relations with the International Monetary Fund (IMF) and other international donors, which led to a resumption of development assistance and increased technical assistance. This occurred despite problems faced by the government in satisfying donor and IMF conditionalities, especially in terms of enacting governance and macroeconomic reforms based on free-market principles, including moving toward a strong investment climate and limiting the economic role of the government (Bertelsmann Stiftung, 2014). The government instituted a new FDI policy, particularly in the mineral, hydrocarbon, and agricultural sectors, which emphasised these sectors and promoted the country as a stable investment destination relative to other conflict-prone states in the region (Bertelsmann Stiftung, 2014). Sierra Leone's economic reforms advanced despite the bitter rivalry between Koroma's APC and the SLPP. Owing to his rising personal popularity and the Party's standing among the electorate, Koroma consolidated his grip on power by gaining re-election in the 2012 general election, with the APC and the SLPP obtaining 69 and 42 seats, respectively (EU Election Observation Mission, 2012).

**Quest for Inclusive Economic Transformation from Mining Extraction**

Although post-conflict Sierra Leone has not yet been able to convert its natural resources into sustained economic growth and development, effective governance of its natural resources presents an opportunity for positive change — as it did with Ghana —

and lasting peace and stability. With respect to natural resource extraction, foreign-owned enterprises can play an important role in facilitating and contributing to post-conflict reconstruction, economic transformation, and socio-economic development and in enhancing governance capacity.

Starting in 2003, the Government of Sierra Leone embarked on its first post-conflict development programme, Sierra Leone Vision 2025. It established an ambitious long-term framework for post-conflict reconstruction efforts aimed at sustained economic growth and human development within the context of a peaceful political landscape and stable macroeconomic environment, establishing a link between economic growth and private-sector actors, as well as the need for a robust scope of action (UNIPSIL, 2003). From a consultation process, strategic areas of focus were developed in concert with all relevant stakeholders (including the private sector and foreign-owned enterprises); these were meant to constitute the building block for government policies moving forward. Building on the Poverty Reduction Strategy Papers (PRSPs) I (2003-07) and II (2008–12), which together with the 2002 National Recovery Strategy focused on the promotion of post-conflict economic resilience, human rights, and service provision, the government embarked on the next five-year economic transformation programme for the country in 2013.[14] PRSP III (2013–18), referred to as the Agenda for Prosperity, established clear goals and targets for the period, as well as the overall goal of obtaining middle-income status by 2035.

The Agenda consists of eight central pillars: 1) diversified economic growth; 2) managing natural resources; 3) accelerating human development; 4) international competitiveness; 5) labour and employment; 6) social protection; 7) governance and public-sector reform; and 8) gender and women's empowerment (Government of Sierra Leone, 2013). Integral to achieving the Agenda's goals is the need to rapidly grow

[14] The National Recovery Strategy's four priority areas were: transforming and promoting community development; rebuilding state authority and state organisations; initiating economic reconstruction; and engaging in peace-building and the restoration of human rights. For more information, see Relief Web (2002).

mineral production and exports, led by the private sector, in order to meet high global demand and garner favourable prices for the country's precious minerals.
The National Minerals Agency (NMA), established in 2012, is expected to take the lead in applying strategies aimed at maximising the benefits accrued from mineral resource exploitation while minimising negative social, political, and environmental effects, in effect actualizing and operationalizing the Vision 2025 within the mining sector.

In terms of promoting diversified economic growth, the government has acknowledged that while mining activities are vital to the country's reconstruction efforts and poverty reduction strategies, as are commodity exports, these alone will not fuel economic growth indefinitely, particularly if governance efforts are unable to manage private-sector activities. The country would need to diversify (EIF, 2014). Ergo, the government aims to promote small-scale, large-scale, subsistence, and cash crop agriculture, as well as develop the tourism and manufacturing sectors. Efforts to date have included providing wider financial services to small entrepreneurs, improving infrastructure, and promoting greater participation of women in the economy (EIF, 2014).

Economic indicators for Sierra Leone are promising. Since the end of the civil war, Sierra Leone experienced one of the highest GDP growth rates in West Africa, including growth of more than 7 per cent between 2004 and 2007, stable growth of 5.5 and 4 per cent in 2008 and 2009, respectively, and growth of 15.2 per cent in 2012, 16.3 per cent the following year, and 13.8 per cent in 2014 (World Bank, 2010; AfDB, 2014). The country's GDP increased from $635.9 million in 2000 to $4.1 billion in 2013 (World Bank, 2015b) and $3.6 billion in 2016 (World Bank 2016).Today, GDP growth is stabilized around 6 per cent (World Bank, 2016). Gross national savings as a percentage of GDP increased from -7.5 per cent in 1999 to 13 per cent in 2012, although it has yet to reach pre-war levels of over 15 per cent (World Bank, 2009a, 2011, 2015). Gross national income per capita increased as well from $150 in 2000 to $660 in 2013 (World Bank, 2013).

Yet, despite these successes, Sierra Leone's Human Development Index value of 0.420 in 2014 — a slight increase from 0.336 in 2011 — remained below the regional average of 0.502 for the rest of sub-Saharan Africa (UNDP, 2014a). Challenges include continued socio-economic marginalisation of youth, economic mismanagement, and stagnation of government performance in various areas, including control of corruption (Kaufmann, Kraay, and Mastruzzi, 2007). This suggests that relatively strong economic performance over the past decade has failed to meaningfully improve the livelihoods of Sierra Leoneans, at least in the context of sustainable development — a key factor outlined in the Political Economy of Natural Resource Governance (PENRG) framework. The country appears to be a victim of the resource curse — unable to develop adequate governance structures that would enable it to benefit from the wealth of its natural resources and having failed to restructure/manage the actions of the private sector with respect to natural resource extraction.

Evidently, the capture of mineral rents have helped the Government of Sierra Leone operate over time, but the informalisation of the mining sector coupled with the civil war have hampered the expansion of the private sector (an engine of growth for the economy) in the extractive industries — and thus its ability to contribute to the country's sustainable growth, economic transformation, and post-conflict reconstruction. Stalled development aside, socio-political relations in the form of free and fair democratic elections and new development programmes since 2002 have largely improved in Sierra Leone in spite of the sordid legacy of over a decade of armed conflict (Berghs, 2012). The removal of administrative barriers is a further attempt by the government to attract foreign investment, particularly in the natural resource, agricultural, manufacturing, and tourism sectors (EIF, 2014). However, while attempts were made to make it easier to conduct business in the country — elevating Sierra Leone's position on the Ease of Doing Business Index (out of 183 countries) to 141 in 2012 from 160 in 2008 (World Bank, 2011; World Bank, 2012a), These have been short-lived, with the country downgraded to 160 in 2017 (World Bank, 2017).

Overall, the political landscape continues to be a challenge for foreign-owned enterprises. Sierra Leon's potential to develop socially and economically is inexorably tied to not only political stability but its ability to govern its natural resources in such a way as to encourage the involvement of foreign-owned enterprises in ongoing peace-building and reconstruction efforts.

**Role of the Private Sector in Peace-Building and Reconstruction Efforts**

Since the end of the civil war, the Sierra Leone government has made progress in removing administrative obstacles in an attempt to attract foreign investment. This is reflected in the country making the 2010/11 Doing Business list of top 10 business reformers (World Bank, 2012a).

Much work remains, however, in this post-conflict environment to eliminate the obstacles that seriously hamper both the level of investment that can be leveraged from foreign-owned enterprises and the country's long-term economic stability.

Obstacles that continue to deter foreign investors include the severe shortage of skilled workers and managers, rampant corruption, minimal infrastructure, cumbersome customs procedures, a weak judiciary, the absence of an effective land titling system, and an underdeveloped banking system (Collier and Duponchel, 2013), not to mention a nationwide lack of electricity and telecommunications infrastructure and a poor national water supply (United States Embassy, 2011). Another problem arises when corporations that operate and invest in Sierra Leone do not live up to their potential. According to civil society reports, many foreign-owned enterprises neither engage civil society nor contribute to ongoing conflict resolution efforts that would foster mutual trust and social capital among workers within the communities in which they operate (CIVICUS, 2006). Tax revenue from mining activities in particular has the potential to strengthen the government's ability to provide services but could lead to dependency on the mining industry at the expense of growth in other sectors. On the domestic front, a lack of infrastructure (road, railway, electricity, and water systems), inadequate capital

reserves and access to credit, and a lack of capacity needed to tap into investment opportunities hamper private-sector investment.

Efforts to improve the investment climate should focus on political stability, prudent fiscal discipline, greater personal security, and liberalisation of the economy. These should be pursued alongside macroeconomic reforms that impose greater transparency and accountability upon public servants and foreign-owned companies. Such reforms are needed to ensure proper governance procedures as well as post-conflict reconstruction — which, collectively, are integral to the successful management of Sierra Leone's economy. In light of Sierra Leone's politically fragile and economically vulnerable state, there is a need for external financial and technical support, including from private-sector actors, to sustain peace-building and reconstruction efforts. To answer the IMF conditionalities, the government of Koroma launched a national privatisation programme to privatise many state-owned enterprises; this measure may well serve to spur on the development of the private sector (Bertelsmann Stiftung, 2018). The process represents a cornerstone of the government's strategy for national development, which will lighten the burden on government finances while stimulating the economy and creating jobs. However, any effort at resource governance must link liberalisation and investor-friendly policies with corporate social responsibility, so as to encourage local beneficiation and value addition, domestic retention of revenues, localized development, and environmental sustainability (Campbell, 2012).

Interviews with key policy-makers, donor community members, and private-sector actors, conducted between March and April 2014, highlight the current challenges the government faces in mobilising international and domestic private-sector resources in order to promote sustainable, broad-based growth and poverty reduction. These include the need to:

- Strengthen domestic resources mobilisation and absorption capacity with regard to foreign direct investment (FDI), remittances, and development assistance. Specifically, the government needs to address issues pertaining to the capture, retention, and effective utilisation of national savings through tax revenues, the

investment by foreign-owned enterprises in local economies, and higher tax revenues from the mining sector.

- Boost capital inflows, especially from the mining sector, and ensure that revenue has economic transformation, post-conflict reconstruction, and developmental impacts, particularly in the areas of value addition, beneficiation, and the provision of decent work, which comprises safe working conditions and appropriate levels of payment.
- Strengthen aid effectiveness and promote trade and market access for actors within the domestic private sector.
- Institute steps to manage debt in an efficient and effective manner.

These challenges are linked to Sierra Leone's continued dependence on government and international institutional development assistance for its reconstruction agenda — and the reason behind the government's emphasis on promoting FDI and private-sector development. In 2012, approximately 44 per cent of the estimated $1.92 billion for the implementation of the PRSP II was sourced from donors via budgetary support and other developmental assistance initiatives (PRSP, 2012). This continued reliance on development assistance for budgetary support constitutes a risk for Sierra Leone, as the country cannot depend on donors given the unpredictability associated with multilateral development cooperation, donor fatigue, and changes in donors' bilateral policies and agendas (Sierra Leone UNDP, 2017; ActionAid, 2011; Kanyako, 2016). In this climate of uncertainty, there are opportunities for foreign-owned enterprises to play an active role as partners in sustainable development, economic transformation, and reconstruction. Using public-private partnerships, for example, the Government of Sierra Leone has been looking at setting up a public-sector mandated unit charged with vetting some $1.7 billion in unsolicited private-sector proposals (iMC Worldwide, 2017).

Opportunities to expand the role of foreign investors and the domestic private sector are largely hindered by weaknesses and inaction at the governmental level due to limited financial resources and slow implementation of policies aimed at stamping out corruption. Legislation crafted to attract foreign investment as well as measures such as

the national privatisation programme are designed to promote private-sector involvement but don't go far enough to address current challenges, such as skilled worker shortages, insufficiently developed institutions and infrastructure, inadequate capital reserves and access to credit, and continued dependence on development assistance (Kargbo and Adamu, 2009; Johnson, 2011). Concrete policy options would help to improve natural resource governance in a way that increases the ability of foreign-owned enterprises to drive broad-based sustainable development, peace, and stability.

## Sierra Leone's Mining Sector

### *Conflict and Security*

Diamonds helped perpetuate decades of turmoil, civil unrest, smuggling, conflict, corruption, and environmental degradation in Sierra Leone. Although Collier (2000) did not factor diamonds into his econometric analysis, which informed his 'resource curse' argument, other scholars such as Lujala, Gleditsch, and Gilmore (2005) content there is a direct link between diamonds and violent conflict. They also indicate that the mining of primary diamonds (particularly kimberlite, which is prevalent in South Africa and Botswana), has had a smaller impact on the onset and prevalence of violent conflict, as primary diamonds are usually linked to more stable state systems and institutional support from government and private-sector actors. In 2001, le Billon presented a typology on the political economy of natural resources and specific types of conflict, suggesting:

"… a point resource may be more easily monopolised than a diffuse resource, but that its desirability usually makes it vulnerable to contestation and often depends on international recognition for mobilising investors, hence the likelihood of coup d'état or secession as a function of relative proximity. Rewards from resource control are maximised by insurgents when resources are easily accessible and marketable and sufficiently valuable, such as distant diffuse resources, hence the association with

warlordism. Finally, proximate diffuse resources involving large number of producers would be more likely to lead to rebellion or rioting in nearby centres of power." (572–73).

The author also suggested that resource rents in dependent countries are the ultimate prize for achieving political control, sparking violent attempts at overthrowing existing regimes, as was the case with Charles Taylor in Liberia. Undoubtedly, resources can equally exacerbate greed among political elites (le Billon, 2001, 574). Finally, le Billon argues that resources can promote secession conflicts, motivating regions rich with natural resources to split from the larger geopolitical entity (le Billon, 2001, 574). Secondary diamonds, such as alluvial diamonds, play a significant role in the occurrence of certain types of civil war, such as the one that beset Sierra Leone (Lujala, Gleditsch, and Gilmore, 2005). They are easy for ordinary people and militias to retrieve and sell for arms to fuel violent conflict.

However, according to one interviewee, a lesser known cause of Sierra Leone's war was the collapse of the central authority and its "inability to deliver development," which alienated young people and led to them being used by those in power to extend conflict and promote destabilization. (interview with Mr. Alimany Bangura, Director, Economic Policy and Research Unit, Sierra Leone, 27 February 2014). Another respondent indicated that the government failed to meet the mounting expectations placed upon it by the country's large youth population, which was engulfed in a vicious cycle of unemployment and economic insecurity without any prospects of escaping abject poverty (interview with Mr. Alimany Bangura, Director, Economic Policy and Research Unit, Sierra Leone, 27 February 2014).

In the years following the war, various donor agencies flooded the country with development assistance and foreign-owned enterprises staked claims in the diamond sector — fuelling hope. However, the expected development did not materialise, an outcome often blamed on the government and donors' loss of confidence in development. One interviewee argued that blame can be laid on donors, who displayed overcautious attitudes and failed to address immediate pressing issues such as the

need to restore electricity production (interview with Mr. Sheka Bangura, M & E Officer, Development Assistant Coordination Office, Office of the Vice President of Sierra Leone, 27 February 2014). With respect to oil, little movement has been made on drilling and production contracts (interview with Mr. Yero Baldeh, Resident Representative, African Development Bank Sierra Leone, 25 February 2014; interview with Mr. Ibrahim Ansu Bangura, Senior Macro Economist, African Development Bank, Sierra Leone, 26 February 2016), and given the decline in oil prices, it is now doubtful whether extraction and export of these off-shore discoveries will be commercially viable or profitable to investors.

The mining sector has historically held a central position in Sierra Leone's economy since the discovery of diamonds in the 1930s. Prior to the civil war, the sector accounted for 25 per cent of the country's GDP on average (Maconachie and Binns, 2007), and constituted some 70 per cent of foreign exchange earnings and 15 per cent of fiscal revenue (RWI, 2011). Decades of poor natural resources governance, however, resulted in a broad-based failure to restructure private-sector activities — leading to lost government revenues, a decline in living standards, particularly in mining communities, and environmental degradation. During the 1990s, the illicit sale of diamonds was a key source of funding for several warring factions. The RUF relied on the diamond trade to sustain its war campaign, while both government forces and rebels battled over diamond-abundant areas (Keen, 2005). Rebel commanders are believed to have profited immensely from the illegal diamond trade, pocketing approximately $200 million per year over the course of the war (Alao, 2007, 144).

Today, about 14 per cent of the total workforce (UNEP, 2009) — 250,000 are employed as artisanal miners alone (McMahon and the CEMMATS Group, 2007) — depends on the mining sector for their livelihood. After subsistence farming, the mining sector is the second largest employer in the country and Sierra Leone's largest source of foreign exchange (McMahon and the CEMMATS Group, 2007).

Following years of misappropriation, exploitation, and mismanagement in the extractive sector, the government, in conjunction with donors, multilateral institutions, and private-sector actors, has begun to implement measures aimed at promoting improved governance, transparency, and accountability. These include the introduction of a scope of action, rules, regulations, and policies designed to eliminate those factors that have destabilised the economy and perpetuated conflict (Kwamoto, 2012). However, progress has been hampered by the government's continued emphasis on increasing revenue generated by the mining sector — which has only served to promote policies and pass legislation that have increased unregulated investment and activities, including by those same private-sector actors. (In fact, a growing number of African countries have relinquished control over their mining industries in favour of policies beneficial to private investment, particularly foreign.)

In this vein, Sierra Leone's Ministry of Mines and Mineral Resources (MMMR) — previously called the Ministry of Mineral Resources and Political Affairs (MMRPA) — has been accused of issuing licences that carry few regulatory restrictions. It has also faced allegations that it has not held foreign actors suitably to account, despite knowing that some minerals were below the prerequisite marketable grade for exports (MMRPA, 2009). Even with a strengthened scope of action, the MMMR has been unable to fully restructure the activities of private-sector actors in the mining sector, largely due to capacity constraints and infighting.

Despite these challenges, diamonds will likely remain key to post-conflict reconstruction efforts currently under way in Sierra Leone, given their role in funding the civil war in the first place (Reno, 1997; Smillie, Gberie, and Hazelton, 2000; Hirsch, 2001; Maconachie and Binns, 2007). According to a report compiled by the World Bank (2009), the country's post-conflict management framework was established on three major pillars: (1) the Kimberley Process Certification Scheme (KPCS), which is aimed at halting the trade in conflict diamonds and ensuring that diamond sales do not finance rebel groups that undermine the rule of law and legitimately elected governments; (2) the Diamond Area Community Development Fund (DACDF), established in 2001, which is aimed at

reallocating 0.7 per cent of the total export value of artisanal diamonds for distribution among chiefdoms across mining communities in the country; and (3) the surge in deep-shaft kimberlite mining, which is encouraged by the government and expected to accelerate sustainable development.

Recognizing that diamonds remain a conflict-sensitive resource, Sierra Leone has begun to encourage diversification in the mining sector, particularly in the production of iron ore, ilmenite, rutile, zircon, and gold, along with a shift from artisanal to large-scale mining. Currently, there are five large-scale mining companies in operation, two others at an advanced stage of commencing considerable gold mining operations, and there are 186 companies at the exploration phases, as well as 12 small-scale mining companies in operation. One major company is Tonkolili Iron Ore Ltd., formerly owned by London-based African Minerals Ltd. and now the property of the Chinese Shandong Iron and Steel Group Co Ltd., one of the world's largest steel producers. Tonkolili is building a major 200-kilometre-long railway between the extractive site and Pepel Port, at an investment of US$ 1.5 billion (Cornish, 2013; The Guardian, 2018; Bloomberg, 2018).

As a result of increased investments by foreign enterprises in these other raw commodities, total diamonds exports dropped from 41 per cent in 2006 to 29 per cent in 2011. In nominal terms, diamond exports dropped to $80 million in 2009, down from $125 million in 2006 and $140 million in 2007 (MMMR, 2015), before increasing to $221 million in 2014 and $158 million in 2016 (Kimberley Process, 2018). This decline resulted in significantly reduced government revenues, with most earnings now coming from a 3 per cent export duty (MMMR, 2010). Meanwhile, total exports of titanium ore and concentrate rose to 29 per cent from 11 per cent over the same 2006–11 period (EIF, 2013).

Increased global demand and favourable commodity prices have helped to promote the exploration and production of minerals other than diamonds, with the mineral sector now accounting for approximately 60 per cent of the country's export revenue (EIF,

2013). The short- and medium-term economic potential of the mining sector is greater than that of any other sector — and if the conduct and contribution by foreign-owned enterprises are governed appropriately, to the sector will undoubtedly have the most immediate and widespread impact on poverty reduction over the medium term.

The government has made it a priority to revisit mining agreements and policies in order to generate more revenue — a key factor in achieving sustainable economic growth, peace, and stability (State House, Republic of Sierra Leone, 2012; interview with Mr. Kawusu Kebbay, Director, Development Assistance Coordination Office, Office of the Vice President of Sierra Leone, 27 February 2014; interview with Dr. Osman Gbla, Dean of the Faculty of Social Sciences, Fourah Bay College, University of Sierra Leone, 3 March 2014). The government established a task force in 2008 to examine the mining sector and generate recommendations, which included the revision of its Mining Law and the establishment of the National Mining Agency (NMA). The approval of a transformation plan to restructure institutional arrangements for the sector will result in better-organised institutions aimed at building capacity, improved governance, accountability and transparency, and greater facilitation of investment. In March 2018, Sierra Leone's newly elected president, Julius Maada Bio, criticized the lack of transparency, by his predecessor, Ernest Bai Koroma, and called for an immediate review of both the *2009 Mines and Minerals Act* and the individual licences of mining companies (Reuters, 2018).

*Legal and Regulatory Framework*

Currently, the Ministry of Trade and Industry provides policy direction, while the NMA implements and sets standards for the regulatory framework. One interviewee noted that the framework remains weak and is easily exploited (interview with Coordinator, Enhanced Integrated Framework National Implementation Unit, Sierra Leone Ministry of Trade and Industry, 25 February 2014). The same individual also asserted that bribery is common, given that low-paid officials handle large sums of money and are constantly tempted with payoffs to turn a blind eye on failures to meet contractual obligations. This

view is supported by the World Bank in its 2013 report *The Political Economy of Extractives Governance in Sierra Leone*, which notes that the heads of Sierra Leone's directorships of Mines and Geological Surveys are presently housed within the NMA and have seats on the country's Minerals Advisory Board (MAB). Such a significant conflict of interest means that technical advice provided by NMA officials, who are charged with upholding and enforcing the regulatory framework, is subject to being overturned by political appointees to the MAB. Correspondingly, the report notes that even though one of the NMA's functions is to promote the needs of communities, including the sound administration of Community Development Agreements (CDAs), the NMA does not have the resources or staff dedicated to delivering that portion of its mandate (Fanthorpe and Gabelle, 2013).

Despite this, several interviewees perceived the NMA in a positive light (interview with Mr. Andrew Keilli, Director, CEMMATS Group, Sierra Leone, 25 February 2014). One official called for more ingenuity in policy-making that opens doors to other sectors and avenues for revenue (interview with Mr. Sahr Wonde, Director General, National Mineral Agency, 25 February 2014). Interviewees also claimed that in order to further improve policies and negotiation positions vis-à-vis mining companies, the government needs to perform detailed land surveys to confirm which resources are available, where they are located, and who owns the relevant land (interview with Hon Abdul Koroma, Deputy Minister, Sierra Leone Ministry of Mines and Mineral Resources, 26 February 2014; interview, 28 February 2014). This point plays into a wider analysis of what must be done to ensure sustainable and broadly beneficial economic development in Sierra Leone. Better land surveying by the government complements conditions identified in the African Development Bank Group's 2013 report *Green Growth Sierra Leone*. This report notes that clarifying land tenure and land rights, strengthening public procurement, and providing improved, publicly available social, economic, geographic, and environmental data and information sources are essential to the implementation of socially and economically beneficial growth policies (AfDB, 2013a).

Interviews with academics, civil society representatives, and policy-makers also highlight positive views of President Koroma, who, in light of his private-sector background, promised to lead the country "like a business" (interview with Mr. Raymond Gbekie, Director, Investment Promotion, Sierra Leone Investment and Export Promotion Agency, 26 February 2014; interview with Mr. Samuel Braima, Senior Officer, Sierra Leone Port Authority, 27 February 2014). Interviewees pointed to several positive presidential projects, including the restoration of electricity to Freetown after a disruption caused by a broken shaft in the Bumbuna Dam, the introduction of solar-powered streetlights in provincial towns, and free health care to lactating and pregnant women and to children under five (interview with Mr. Claudi Ferrer, Economic, Trade and Regional Cooperation Section, European Union Delegation to Sierra Leone, 27 February 2014).

Working with donors and multilateral institutions such as the International Monetary Fund (IMF), the government formulated the Extractive Industries Revenue Bill, which is designed to establish a new taxation regime for extractive industries. Tax and non-tax rules have been combined into a single legal instrument and a resource rent tax on all windfall profits has been introduced. This Bill has generated positive results. In 2011, the government reported earnings of $27.6 million, amounting to approximately 11 per cent of total natural resource exports, compared to an annual average of 4.2 per cent between 2006 and 2010 (SLEITI, 2011). Revenues amounted to $7.2 million in 2006, and increased to $10.2 million the following year (EITI, 2010).

Although this would seem to be a positive step toward maximising the potential of the mining sector and its contribution to the country's economic reconstruction efforts, natural resource revenue is still well below that which mining communities and civil society groups have called for in light of the fact that the proportion of total government revenue from mining amounts to a mere 5 per cent. For a resource-rich country that requires significant revenue to finance post-conflict reconstruction, this is far from optimal (NACE, 2011).

The private sector — foreign-owned enterprises in particular — continues to be blamed for not doing enough to advance the government's socio-economic development plans and is viewed with suspicion by both civil society and some government officials. Part of this problem stems from continuing legislative and regulatory challenges associated with revenue generation from the natural resource sector. While the government attempts to introduce new transparent regulations for companies interested in investing in the country, original agreements need to be allowed to run their course (interview with Mr. Christian Hallum, Program Advisor, IBIS Sierra Leone, 26 February 2014). Having many different standards for companies operating in Sierra Leone has placed the country in a precarious situation. Consequently, the government is not only facing strong opposition from those same foreign-owned enterprises but also runs the risk of those companies migrating to other resource-rich countries.

Another issue involves corporate income taxes. Tax losses are pegged as high as between $240 and $270 million (interview with Mr. Santiago Herrera, Lead Economist, World Bank Sierra Leone, 26 February 2014; interview with Mr. Alvin Hilaire, Resident Representative, IMF Sierra Leone, 27 February 2014) due to tax evasion and the informal market for artisanal mining (Steinweg and Römgens, 2015, 13; Sidi Bah et al., 2010; interview with Mr. Fredline M'Cormark-Hale, Director, Policy and Research, Institute for Governance Reform, 25 February 2014). Since the beginning of 2015, companies have been required to pay the 30 per cent corporate income tax (interview with Mr. Richard Hogg, Head of Office, DFID Sierra Leone, 26 February 2014). Property tax evasion is also common, and misunderstandings are frequent when local councils, to which property taxes are owed, are not informed of companies' property tax exemption agreements with the national government (interview with Ms. Grace Macauley, Program Officer, EIF-NIU, Sierra Leone Ministry of Trade and Industry, 26 February 2014).

Mining companies, mostly foreign, are further being accused of environmental degradation associated with large-scale, formal mining. They have been implicated in contributing to socio-economic dislocation in mining communities where they operate

and in areas of resettlement, to loss of livelihoods among farmers who lose their land, and to increasing land and surface rents. Mining community members argue that surface rents have been disproportionately distributed among a select few stakeholders, including local councils, paramount chiefs, and national government agencies, with little filtered down to community members. Indeed, interviewees in mining communities complain about the misuse of these funds by these stakeholders in the form of kickbacks (interviews with mining communities in Kono, Tonkolili, and Port Loko Districts, 3–6 March 2014). Another argument is that the paramount chiefs' share of surface rent is too large and exact amounts have often been either hidden or inaccurately reported.

Meanwhile, other mining community members believe that local councils often receive the lion's share of the surface rent paid by foreign-owned enterprises. This is particularly troubling, given that in the eyes of many community members, these local councils have little influence in their communities and are often not accountable to their constituencies. They are viewed with great suspicion by community members — which is troubling given the increased likelihood of dissatisfaction, instability, and reversal of post-conflict reconciliation among members of mining communities, where tensions have been rising and opportunities for increased violence are thought to be high. Although the distribution of surface rent takes place via a process that involves the national government, paramount chiefs, and local councils, community leaders do not appear to be involved in the distribution. Furthermore, no clear procedure could be determined that could explain how final decisions on the distribution of surface rent are made — giving rise to concerns about the opaque nature of the entire process.

In light of the lack of social services and the poor quality of infrastructure, as well as the government's inability to create sufficient employment opportunities for the thousands of youth entering the workforce (Enria, 2018). Calls for accountability in CSR were also frequent, with one respondent suggesting the need for an independent monitoring organisation. Community representatives noted that mining companies have destroyed buildings rather than maintained them; furthermore, when asked for help with bringing

children to school after a company created difficulties by rerouting roads, the company did not provide help (interview with mining community leaders in Lunsar, 26 February 2014).

This is particularly relevant given the foreign-owned private sector's inability to meet these expectations due to the limitations of their operating requirements and their shareholder and legislative obligations. Before the enactment of the *Mines and Minerals Act* in 2009, there were no rules in place requiring foreign-owned enterprises to adhere to any CSR principles relating to social service delivery or infrastructure development projects in the communities in which they operate. Companies were often free to formulate their CSR commitments with little or no oversight and limit the amount of funding and technical support that could be funnelled directly toward sustainable economic transformation and post-conflict reconstruction and stabilization. Despite the fact that the legislation has terms obligating such companies to adhere to CSR and related initiatives, there appears to be no enforcement from the government when it comes to unfulfilled commitments or promises made by the private sector to mining communities.

These limitations have been corroborated by Kaldor and Vincent (2006), Maconachie (2012), and Fanthorpe and Gabelle (2013). Furthermore, there is no monitoring by or coordination with donors and national government agencies such as the NMA, and CSR programmes are not necessarily linked to community development initiatives and local needs — in fact, they are often divorced from national development priorities. Moreover, many companies operating in Sierra Leone appear to be intending to reduce or remove the legally binding terms that compel them to adhere to CSR initiatives, and are increasingly demanding involvement in the creation of new legislation (interview with Ms. Aminata Kelly-Lamin, Regional Programme Director, Network Movement for Justice and Development [NMJD], 26 February 2014).

When it comes to how mining revenue is managed, community development funds (CDF) administered by the MMMR are often mishandled and money is channelled to

elites within the government and mining communities (interview with Mr. Alpha Sesay, Programme Director: Governance, IBIS West Africa, 25 February 2014). According to the UNDP, Sierra Leone has been mired in administrative mismanagement and corruption since the civil war, despite ambitious initiatives in mining governance. This has led to distrust of politics among the country's citizenry, making the impetus to adhere to mining codes and legislation all the more imperative (Kaldor and Vincent, 2007). Linked to the failure of CDFs, mining companies have recently been heavily criticized with regard to their local content (interview with Mr. Herbert M'Cleod, Senior Governance Specialist on Sierra Leone, 25 February 2014) and the fact that they have had too few positive impacts on communities (interview with Mr. Andrew Lavali, Executive Director, Institute for Governance Reform, Sierra Leone, 25 February 2014).For any opportunities that have been created, the skills of the local people have not matched professional requirements due to education gaps (interview with Mr. Bernard Mokam, Head of Mission, UNDP, 25 February 2014).

In an attempt to rectify this situation, the government recruited the services of the United Kingdom's Department for International Development (DFID), along with those of GIZ and the International Finance Corporation (IFC), to study how the Local Content Policy is being applied. Although concrete figures were not provided, the government's intent is to significantly increase local content on an economy-wide basis by 2018 (DFID, 2012). According to the representative of the Sierra Leone Chamber of Commerce, Industry and Agriculture, mining companies need to broaden CSR beyond philanthropic activities to include more tangible development initiatives identified by mining communities, including local content (Obalola, 2008). These initiatives should align with communities' development, health, and education needs, and address government priorities as outlined in economic agendas. Despite the above, the potential and expected effects of the mining sector on the national economy remain a key subject of debate.

**The Potential of Iron Ore Companies to Eradicate Extreme Poverty**

The recent discovery of approximately 10.5 billion tonnes of high-grade iron ore deposits in the country's Marampa, Tonkolili, and Bermbeye mines implies a significant increase in government revenue over the coming decades (GoSL, 2013). The expected economic impact of increased mining production and exports has spurred the government's initiative to promote higher FDI and foreign-owned enterprise involvement in mining communities. Statistics indicate that by 2020, the country could be expected to export approximately $1.2 billion worth of mineral resources and retain approximately 7 per cent of their value. If this money is used correctly, approximately 900,000 Sierra Leoneans could be lifted out of extreme poverty. Although this is an optimistic projection for the mining sector and a positive development with respect to mining companies' contribution to economic growth and development, mining community leaders and civil society groups associated with the sector have been comparing Sierra Leone's situation to those of other countries in Africa. For example, mining revenues in countries such as Tanzania and Ghana account for approximately 10 per cent of total government revenue (NACE, 2009). Revised assessments of revenue derived from minerals are needed in light of the recent collapse in world commodity prices, the suspension of iron ore mining following the Ebola outbreak in 2014, as well as the health care costs and economic losses associated with the outbreak.

Sierra Leone's mining sector has undergone significant changes since the civil war, with new minerals gaining ground on alluvial diamonds following the enactment of the *Mines and Minerals Act* in 2009. Yet these changes do not belie the ongoing development and security challenges that hinder sustainable development in the country. The mining sector still lags on key governance indicators despite improved socio-political relations in the country and the enactment of progressive legislation. Indeed, the challenges appear to dwarf the opportunities created by the expanding role of foreign-owned enterprises, with stakeholders providing insights into socio-economic dislocation, the failure of CSR to provide tangible development outcomes, and various interviewees revealing community resentment to the point of creating a potential for violence (Human Rights Watch, 2014). Given that sub-national governance and related CSR initiatives are voluntary, government intervention may be the deciding factor on whether the

private sector plays a positive or negative role in driving sustainable economic growth, peace, and stability.

There is clearly a need for more financing to support natural resources governance, but better oversight is a prerequisite for funding provision. It is also imperative the government address corruption at various levels of governance, as any changes in legal and regulatory frameworks have yet to meaningfully effect substantive change.

**Community Development Agreements in Mining Communities: An Entry Point for Restructuring Action**

Despite being deeply affected by mining operations, mining communities see very few dividends from extractive industries. As a result, these communities are increasingly putting pressure on the government to require the private foreign-owned sector to implement long-term local CSR initiatives as part of their business and sustainability strategies.

Information gleaned from interviews with IBIS Sierra Leone, the CEMMATS Group, the Network Movement for Justice and Development, and the German Agency for International Cooperation (GIZ) suggests there is still much work to be done to address the concerns of mining communities, local councils, and civil society regarding the lack of direct economic impacts of CSR practices in Sierra Leone (interview with Mr. Allan Lassey, Senior Advisor, Extractive Resource Governance, GIZ, 4 March 2014). In its recent report on the Ebola response, the UNDP notes that foreign-owned enterprise assistance in developing sustainable economic opportunities in communities throughout Sierra Leone has been muted due to inadequate promotion of public-private partnerships and other CSR-related activities (UNDP, 2015b). However, it is important to note that this is not a uniform conclusion, as some businesses in Sierra Leone, including mining companies, have endeavoured to deliver direct, socio-economic benefits to local communities.

Ultimately, critics associated with the problems of mining communities in Sierra Leone, including academics, development partners, civil society groups, local administrators in mining communities, mining communities, and government officials, complain of a lack of definition of CSR. They also note that CSR is typically practised when it is most convenient for a company to do so, which does not lead to sustainable progress (interview with Dr. Aisha Ibrahim, Senior Lecturer and Director, Institute for Gender Research and Documentation, Fourah Bay College, University of Sierra Leone, 2 March; interview with Mr. Yero Baldeh, Resident Representative, African Development Bank Sierra Leone; interview with Mr. Ibrahim Satti Kamara, Communications Manager, Sierra Leone National Minerals Agency). If CSR is poorly defined, does this indicate a wholesale failure of governance structures to determine the scope of action for the private sector, allowing the latter instead to dictate terms? Investigating the function of community development agreements (CDA) is a fruitful starting point to answer this question.

CDAs are linked to the voluntary principles of CSR and function as a company-defined corporate responsibility arrangement for an area in which a company operates (O'Faircheallaigh, 2013; O'Faircheallaigh, 2015; Dupuy, 2014). They aim to promote greater transparency and accountability in the area of corporate practice, while allowing the private sector to develop a positive standing among its domestic and international stakeholders, maintain a social licence to operate within mining communities (Yakovelva, 2005; ICMM, 2012; World Bank, 2012c). They have two fundamental principles: (1) gradual strengthening of relationships between mining communities, mining companies, and civil society groups; and (2) support for and encouragement of mutually beneficial dividends from mining activities, including schemes designed to empower mining communities and provide them with alternate sources of income that may fall outside the immediate scope of a mining project (World Bank, 2012b).

To date, CDAs represent the most ambitious attempt to hold mining companies accountable for their social responsibilities and for leveraging their technical and material resources to achieve sustainable economic development, peace, and stability.

These agreements also facilitate foreign-owned enterprises' contributions to Sierra Leone's post-conflict peace-building and reconstruction efforts, particularly with respect to advancing pro-poor sustainable development initiatives in mining communities.

There is an understanding on the part of the government that Sierra Leone's fragile peace-building and reconstruction efforts could be jeopardized if adequate steps are not taken to address the grievances of mining communities. Indeed, at the community level, the promised benefits of natural resources exploitation have often failed to materialize, with governance systems being either unwilling or unable to require foreign-owned enterprises to meaningfully contribute to communities through CSR schemes or CDAs. Governance structures are only as effective as their implementation mechanisms. As such, the role of mining companies, particularly foreign-based, in the country's current transformation process is paramount, given their fragile relationship with mining communities and the way these communities have become increasingly emboldened with the passing of new mining legislations. There remain, however, many shortcomings and challenges regarding the successful implementation of CDAs in Sierra Leone. For example, while the *Mines and Minerals Act* aims to empower mining communities entering into CDAs with mining companies, the legislation does not clearly indicate when and how such agreements should be constituted (Otto, 2017). As mining companies generate larger profits, citizens are increasingly demanding that the government legislates for "more equitable revenue-sharing codes and adopts a larger developmental role for the state" (Besada and Martin, 2013).

The government has an interest in ensuring that mining revenue is shared and that mining companies provide social services and public goods — not only to retain power, but also to ensure peace and stability, all of which is cyclically reinforced through economic sustainability and growth (Hilson, 2012; Maconachie and Hilson, 2013; interview with Mr. Charles Mback, Project Manager, Local Governance & Economic Development, UNDP Sierra Leone, 4 March 2014). As an illustration of this trend, structured and unstructured interviews in 10 mineral-rich chiefdoms of the Kono, Port Loko, and Tonkolili Districts found that mining communities considered the Diamond

Area Community Development Fund (DACDF) to be the most important source of revenue.

CDAs cover all minerals (including bauxite, gold, and iron ore), In contrast, DACDFs are restricted to diamond-producing areas. But most importantly, the DACDF structure dictates that all small- and large-scale mining companies must enter into agreements with mining communities to promote local development projects that community members have settled upon (Maconachie, 2012; Maconachie, 2011). Under this structure, of the 3 per cent in export taxes collected on artisanal diamonds each year by the state, 25 per cent is allocated to the fund to facilitate community-run development projects. Direct cash transfers to diamond mining communities are formally presented by local government officials and a representative of Sierra Leone's Ministry of Mines to all those present at a chiefdom meeting.

Specifically, DACDFs are disbursed to district and chiefdom councils as follows: 20 per cent collected in a given period is distributed among diamondiferous district councils; 20 per cent to diamond mining chiefdoms with artisanal mining licences based on a flat rate, irrespective of the number of licenses held; remaining 60 per cent to chiefdom councils according to the number of artisanal mining licences they hold (World Bank, 2009b). By 2007, the Sierra Leone government had received approximately $4.25 million in diamond mining revenue, of which the DACDF distributed about $3.5 million to mining communities (Temple, 2008).

According to the government's DACDF operational guidelines, allocated monies are not automatically distributed to chiefdoms. Projects must be defined and approved prior to fund dispersal (Ministry of Mineral Resources, 2008, 3). For chiefdoms, the following requirements must be met:

1. Each chiefdom must form a project committee with at least five residents elected at an annual general meeting.

2. The committee solicits project ideas from the community, with priority given to those that demonstrate effectiveness, impact, sustainability, feasibility, partnership with other funding sources, and a balanced portfolio.
3. The project committee then completes and submits a project proposal to a chiefdom committee for consideration against broader appraisal criteria and specific development plans.
4. The chiefdom committee sends selected project proposals to a district-based review committee for approval or rejection.
5. Once summary reports from district committees have been received and vetted by relevant government departments, cheques are issued from the DACDF.
6. Projects are monitored and audited (Ministry of Mineral Resources, 2008, 3–15).

Although participants interviewed as part of this study credited some paramount chiefs and local councils with the sound management of funds and financing of important local development projects, the initiative has been hindered and somewhat compromised by reported incidents of cronyism, bribery, and fraud (Maconachie, 2012). Allegations of fund misspending and misappropriation and the refusal by national government officials to accept responsibility resulted in the suspension of the disbursement of funds in December 2006 (MMMR 2009; interview with Mr. Rashid Sesay, Regional Direcor, HEIFER, West Africa, 5 March 2014). A lack of citizen participation in the decision-making process with regard to fund allocation, as well as a lack of community awareness about the nature of the fund and its intended use, could also explain in part the challenges that have accompanied the management of the DACDF.

It is also important to note that mining companies operating in Sierra Leone have taken issue with what they see as unfair expectations levied upon them by mining communities and various levels of government. This is particularly true of small-scale mining firms, which believe that their obligations to local communities should consist of adhering to laws, paying lawfully authorised fees and taxes, providing employment opportunities alongside other indirect economic benefits (e.g., the rise of local businesses that support mining operations) and undergoing environmental reclamation.

Many of these companies believe they should not have to provide infrastructure and social services to communities, arguing that these are the purview of the government. Such differences in opinion can lead to enmity between these stakeholders, as well as longer-term instability. It can also create operational difficulties for small-scale mining companies that fail to engage in greater CSR activities. Moving forward, the government should distinguish between small- and large-scale mining companies in terms of its CDA expectations, so that it may better satisfy its national development priorities (World Bank, 2008).

Interviews with both mining community leaders and the NMA reveal three major issues that have undermined the monitoring and evaluation process. First, communities do not have the necessary technical capacity and institutional structures to negotiate effectively with mining companies and especially foreign-owned enterprises for improved developmental programming. Second, the NMA does not have the resources to send field inspectors to mining communities across the country on a regular basis, since its budget is tightly controlled by the MMMR (Fanthorpe and Gabelle, 2013; interview with Mr. Kristian Lempa, Project Director, Regional Resource Governance in West Africa, GIZ, Sierra Leone, 5 March 2014). Third, the competition between these two government entities is intense, even though their mandates are different, albeit complementary (Fanthorpe and Gabelle, 2013; interview with Mr. Whitsun Ade-Cole, Head of Government Relations, London Mining, Sierra Leone, 5 March 2014).

A further regulatory failing pointed out by respondents is the absence of a mutually agreed-upon reporting framework between foreign-owned mining companies and mining communities, as well as the lack of an oversight mechanism, particularly for the use of funds distributed under CDAs. Although the MMMR has overall responsibility for ensuring the implementation of CDFs in cooperation with the NMA, the demarcation of roles and responsibilities between these two entities is unclear, which effectively undermines the entire process and leaves mining communities feeling frustrated and, at times, helpless (Fanthorpe and Gabelle, 2013; interview with Ms. Daniele Arrobas, Senior Mining Specialist, Sustainable Energy, Oil, Gas and Mining, World Bank, March

6, 2014). Ambiguity about CDAs in the *Mines and Minerals Act* of 2009 adds to the problem.

Although the law provides discretionary power to the MMMR to make a final decision on the appropriate allocation of resources and implementation of development projects in instances of disputes between mining communities and mining companies, there appears to be a lack of clarity over the monetary value of the penalties that can be imposed on mining companies accused of reneging on their responsibilities to communities (Kanu, 2010; interviews with mining communities in Kono, Tonkolili, and Port Loko Districts 3-6 March 2014). To the detriment of mining communities, the ad hoc administration of CDFs between communities and mining companies means that communities are not given the support they need to drive sustainable growth (Kanu, 2010; interviews with mining communities in Kono, Tonkolili, and Port Loko Districts, 3–6 March 2014).

According to reports from civic groups, many corporations — particularly those involved in resource extraction — still do not engage them in their operations, particularly with respect to development agreements, nor do they have a conflict resolution strategy that would help foster mutual trust among workers and develop social capital within the communities in which they operate (CIVICUS, 2006).

**London Mining Company**

In 2012, the London Mining Company flooded communities, destroying crops and pumping water in fishing areas, thus reducing the communities' ability to sustain themselves. Exemplifying the lack of CSR policies, the company made the Manonkoh communities sign off agreements ensuring that London Mining would provide a few hundred machetes and hoes, leaving communities with very few resources. On October 2014, the UK-based company's shares dropped by more than 70 per cent while the company's value decreased by 99 per cent in 2014. Suffering from the Ebola outbreak,

London Mining appointed PricewaterhouseCooper (PwC) as administrator on October 16, 2014 (MetalBulletin, 2015).

While tax revenue has the potential to strengthen public services and moderate aid dependency, Sierra Leone has also sought to create new opportunities using the CDA mechanism. The development agreements are an improvement upon CSR initiatives, as they are formally engineered by donors with the participation and consent of the government, the private sector, and mining communities. To strengthen the management of CDAs and CDFs, interviewees suggested an array of policy options: evaluating and harmonising policies on mineral rents and allocated resources to mining communities; developing documentation on the calculation and distribution of mining revenue; publishing mining-related revenue and payments; promoting community participation at the local level; and fostering multi-stakeholder engagement on the administration, management, coordination, monitoring, and evaluation of CDAs. In this sense, global initiatives, such as the EITI, appear to be a productive start for countries like Sierra Leone to address the revenue repartition of extractive industries and to promote inclusive policies aimed at long-term development (Aaronson, 2011).

Although CDAs represent a progressive step toward sustainable development via foreign-owned enterprises, if corruption issues linked to their administration are not addressed, sustainable development, stability, and post-conflict reconstruction expectations will not be met.

## Research Results: Hope and Unfulfilled Potential

### *Impact of Governance and Regulation*

The government, specifically the MMMR, has taken major steps to establish legal, regulatory, and institutional capacities with a view to increase the effectiveness of the sector's sustainable management and contributions to economic growth, peace, and stability. The first major step was to pass the *Mines and Minerals Act* in 2009 (interview

with Hon Abdul Koroma, Deputy Minister, Sierra Leone Ministry of Mines and Mineral Resources, 4 March 2014). Civil society, donors, and local councils have all lauded the Act as a positive step forward in promoting the establishment of a regulatory framework to allow the private sector, in particular foreign-owned enterprises, to play a role in the country's economic growth and development programmes — which are designed to contribute to ongoing peace, stability, and post-conflict reconstruction (Akiwumi, 2011). The Act does not adequately address environmental protection, health and safety, and community development, which could undermine such peace process efforts. However, to the government's credit, the legislation allows the Minister of Mines and Mineral Resources to develop a framework for transparency in the reporting and disclosure of revenue that mining companies pay to the government. The Act makes EITI implementation compulsory for mining companies, allows for the resettlement of mining communities affected by mining, and articulates the responsibility of mining companies toward mining community members affected by mineral exploration and development. With regard to environmental protection, the legislation requires mining companies to undertake environmental impact assessments, apply for environmental impact assessment licenses, and to put environmental management plans in place (GoSL, 2009).

The second major step was to close the regulatory gaps related to the environmental, social, and operational management of the mining sector. How the sector would protect the economic and social-cultural interests of workers, communities, and the environment are now specified in new regulations covering workplace health and safety, waste disposal, the storage and transportation of minerals, explosives and blasting, dredging, underground mining, and mine closure — the first time in 70 years of mining operations in Sierra Leone (*Mines and Minerals Act*, 2009; interview with Mr. Ibrahim Satti Kamara, Communications Manager, Sierra Leone National Minerals Agency, 4 March 2014). New environmental and social regulations ensure that mining activities are carried out in a sustainable manner by minimising or eliminating negative impacts on the environment and communities. The regulations also specify how the environmental and social risks of mining will be identified and mitigated. This is a major

achievement toward building goodwill and partnership between foreign-owned enterprises operating in the mineral sector, mining communities, and governments (both national, provincial, local, and traditional).

The third major step involved the operationalisation of a world-class Mining Cadastre Office (MCO) to process, record, and monitor applications, licences, and revenues. In a significant step toward full transparency, the government launched the GoSL Online Repository in 2011 to share licensing and revenue information online (interview with Mr. Mohamed Bah, Chief Inspector of Mines & Head Of Monitoring & Compliance, Sierra Leone National Minerals Agency, 3 March 2014).[15] The MCO is fully operational throughout the country and revenues from all fees and taxes is transparently calculated, collected, and reported. The geological maps held by the MCO allow a geographical view of mining and exploration concessions, as well as satellite imagery for detailed analysis. Other land uses can be visualised, for example to review potential disputes. The GoSL Online Repository lists by company all licences and applications; payments can also be viewed by licence, company, and year and downloaded for further analysis. The repository's integration with the National Revenue Authority and Gold and Diamond Office covers most revenue streams that the EITI requires to be monitored (interview, 28 February 2014; interview, 5 March 2014).

The fourth major step was institutional reform to deliver better-organised oversight institutions that have a mandate to manage and enforce legislative requirements for private-sector contributions to economic sustainability. Key to this was the establishment of the NMA, which is responsible for the day-to-day implementation of the *Mines and Minerals Act* and related regulations. The NMA is also responsible for managing mineral rights, collecting and disseminating geological information, and regulating the trading of precious minerals. The principles that underpin the new institutional model for the mining sector are founded upon best practices in natural resource governance and public-sector reform from around the world, including those

[15] For more information, see http://sierraleone.revenuesystems.org.

adopted in a number of African countries such as Namibia and Botswana. Specialisation has resulted in increased efficiency, while a well-managed professional agency gives the private sector the confidence to make long-term investment decisions.

The government reached yet another milestone in its attempt to reform its natural resource governance entities. The suspension of the country from the EITI in February 2013 was a result of the government's inability to account for more than $1 million in mining licence fees paid by the African Minerals company in 2010. In April 2014, however, the EITI International Board recognised Sierra Leone as EITI-compliant, signifying that the country's government sufficiently publishes the amount of revenue derived from its natural resources. As a result of renewed confidence generated by government reforms, the mining sector has attracted new investment and expanded existing operations.

Despite these successes, the MMMR still faces a number of immediate, critical challenges that limit its capacity. These include budget uncertainty surrounding its ability to support the Act, the limited capacity of the Geological Survey Division to provide accurate data to encourage inward investment, and ineffective monitoring and compliance of precious mineral trading. Additional constraints include a weak investment climate, which hinders Sierra Leone's abilities to compete in the highly competitive world of mineral exploration; a lack of exploration opportunities, since a small number of companies control the vast majority of the resource base, making it unattractive for reputable global mining companies; and the smuggling of precious minerals, which continues to be challenging given the prominence of artisanal mining. Similar issues have been raised in other African countries, where regulations suffered from the easiness to smuggle precious minerals.[16] Gold and diamonds in particular are easy commodities to smuggle.

[16] See the criticisms around Section 1502 of the *Dodd-Frank Act* and the smuggling of gold from the Democratic Republic of Congo, Uganda, Rwanda, and Burundi.

The Government of Sierra Leone views the private sector as a pillar of sustainable economic growth, stability, and a vehicle through which post-conflict recovery programmes can be implemented. During the last period of global austerity and decreasing donor support for developing countries, coupled with investments in the mining sector that have accounted for a substantial proportion of economic growth in recent years, the government has taken steps to improve the investment climate — a measure aimed at growing the private sector and strengthening the economy. Positive change can only occur from government interventions designed to improve the country's investment climate and curb corruption, all while reducing the costs of doing business. The government needs to develop a strong partnership with foreign-owned enterprises if it is to generate employment and reduce poverty.

In recent years, the government has taken various steps to attract FDI Through legislation such as the *Investment Promotion Act* (2004), the Investment Code (2005), the *Business Registration Act* (2007), the *Investment Promotion Agency Act* (2007), the *Companies Act* (2009), the Bankruptcy Act (2009), and the National Private Sector Development Plan, which came into effect in 2009 (United States Embassy, 2011). These reforms were enacted to provide greater protection for companies investing in Sierra Leone, to streamline the process of business engagement, and to create more opportunities for private ownership and control. After a decade-long decline in FDI during the civil war that saw the country receive on average less than $7 million annually between 1990 and 2000, FDI amounted to $97 million in 2007, dropped to $33 million in 2009, then slowly increased to $36 million in 2011 with the help of Chinese investments (UNCTAD, 2011; United States Embassy, 2011).

Investors can play a crucial role in providing economic opportunities and related stability via job creation, infrastructure development, and the provision of social services such as schools and health care, which would simultaneously support ongoing peace-building efforts. Given that foreign aid and debt relief — the traditional remedies offered to overcome Africa's dependency and underdevelopment issues — have been ineffective, the private sector is increasingly viewed as the missing link in the push to improve

Sierra Leone's competitiveness. As such, there is a need for an investment-friendly, enabling environment to attract FDI and encourage the growth of small- and medium-sized domestic enterprises. Sierra Leonean legislators must nevertheless balance these considerations with the need to implement policies that prevent opportunistic, predatory rent-seeking while fostering effective forward and backward linkages between foreign private investors and the country's domestic enterprises.

*Impact of the Private Sector and Local Community Development*

Community groups, non-governmental organisations (NGOs), and donors continue to express concerns that decisions are made arbitrarily, often in favour of the private sector and at the expense of local, sustainable development initiatives, which creates unhealthy animosity between potential development partners. Interviews with Mr. Jinnah Ibrahim, Director of Precious Minerals Trading, National Minerals Agency, Sierra Leone, 27 February 2014 revealed a continued distrust of the private sector, with respondents accusing the corruption-plagued private sector, particularly foreign-owned companies, of backtracking on promises to provide leadership and promote developmental outcomes that benefit the broader population. Mining companies have themselves been hesitant to negotiate and consult with communities, with one interviewee noting that a manager from African Minerals who participated in a community-held meeting was later penalised by the company (interview with Mr. Patrick Tongu, Program Officer, NMJD, 26 February 2014). The same informant observed that people living in areas where companies are just entering are becoming more vocal, as they feel that they are not being compensated appropriately, with some in the Chiefdom of Tonkolili even requesting to negotiate on their own. Where companies negotiate directly with community members, promises in the form of verbal agreements are often not kept, creating instability.

The government has also failed to provide a detailed and holistic account of the total revenue it receives from the mining sector, instead producing irregular and incomplete data on mineral production, revenue, and taxation. This creates conditions in which a

scope of action for effecting restructuring cannot be appropriately implemented. In the past, Sierra Leoneans have complained that they have not received many benefits from the sale of diamonds, given that business remained in the hands of artisanal miners and illegal traders, while exporters and traders made purchases with hard currency (PAC, 2004). Such trade was problematic for the government, which was eager for the proceeds to be used to help generate employment and kick-start secondary industries that are dependent on, or contribute to, the mining sector. Interviewees pointed out that export taxes of 3 per cent did little to generate revenue for poverty alleviation programmes and promote sustainable development projects (interview with Mr. Joseph Rahall, Executive Director, Green Scenery, 27 February 2014). In conjunction, foreign-owned enterprises continue to be criticized for their unwillingness and inability, in some cases, to provide detailed accounts of taxes and payments made to the government and to the mining communities in which they operate. To the disappointment of mining communities, donors, and the civil society, Parliament does not have the technical, administrative, or financial capacity to examine and inspect government- company revenues, tax payments, and agreements (interview with Ms. Christine Sheckler, Country Program Manager, USAID, 3 March 2014).

When the government fails in its role to provide meaningful transparency of its revenue from the natural resource sector, foreign-owned companies will often limit their contribution to socially responsible activities, particularly when governance systems and institutions are poorly enforced. Indeed, the World Bank (2008) notes that mining companies have contributed to the limited provision of social services in mining communities in Sierra Leone. In addition, there appears to be an absence of official figures corroborating how many positions have been added to the country's mining sector since the end of the civil war and an International Labour Organization report from 2010 suggests that unskilled positions are relatively easy to come by, while surveyors and geologists are largely recruited from abroad. Local engineers are often overlooked for such positions on the grounds that they lack the practical experience or specialised knowledge required by mining companies. The document also notes that mining companies' CSR initiatives tended not to target youth employment, as the

corporations consider employment in Sierra Leone to be a national problem, irrespective of age (Arai, Cissé, and Sock, 2010).

Interviews with community members highlighted this “positive and negative view of the private sector” division present within the population. On the one hand, representatives of mining companies, diamond dealers, and local and paramount chiefs were pleased with the economic impacts of mining in affected communities, citing employment opportunities and reduced crime rates. However, one town chief did note that expected employment numbers do not always materialise (interviews with mining communities, Kono, Tonkolili, and Port Loko Districts, 3–6 March 2014). On the other hand, the majority of women’s and youth group representatives expressed more negative opinions, with youth groups having a particularly negative view of mining companies. Concerns included destruction of lives and dwellings, displacement, lack of water and arable land, increasing drop-out rates in schools, and blasting as especially disruptive.

Indeed, youth unemployment is an important issue in a country where young people comprise over 30 per cent of the population, but gains extra importance considering that youth unemployment in a context of state delinquency rates was one of the major factors in the recent civil war (Peters, 2011; Ferme, 2001). Youth employment remains a pressing issue in the West African state, with an estimated 60 per cent of men and women between the ages of 15 and 35 considered unemployed in Sierra Leone in 2012 (GoSL, 2012).

Interestingly, women’s groups were more balanced in mentioning both positive and negative impacts, noting challenges such as the resettlement of schools, deprivation of agricultural land that women use to provide for their families, and the dangers of blasting. Representatives from the clergy and education sector criticized the lack of prioritisation of children’s schooling, deforestation, uncovered pits, and displacement, although teachers who were interviewed acknowledged the benefits of increased taxes, higher salaries, and CSR activities.

A lack of institutional structure and coordination has meant that little effective progress has been made in decreasing youth unemployment (GoSL, 2012; interview with Prof. Ekundayo Thompson, Director of the Directorate of Planning, Research and Development & Coordinator of the Peace and Development Studies Programme, Njala University, 25 February 2014).

*Impact of Value Addition and Beneficiation*

Mineral beneficiation and value addition have great potential to advance Sierra Leone's economic transformation, sustainable economic growth, and stability. As the authors of the Political Economy of Natural Resources Governance framework state, value addition and beneficiation play a crucial role in stabilising a post-conflict country like Sierra Leone. A comprehensive study examining and promoting backward linkages in Sierra Leone's mining sector could improve local economic prospects for mining communities and the broader public. The goal for Sierra Leone should be to establish a systemic approach to identifying binding constraints on the country's industries, thereby creating a direct portal for bottom-up information transfer between communities and government actors. The key to this is the ability to study the entire mineral value chains in order to identify the obstacles to beneficiation and value addition in the country. Awareness and understanding will help tailor actions and make policy adjustments over time to utilise mining revenue effectively and generate optimal sustainable development outcomes.

A commissioned report by the Sierra Leone Ministry of Trade and Industry and the UK aid organisation DFID, entitled *Local Content Assessment Report*, presented startling revelations about the extent of local content in the country's mining sector. It identified that the utilisation of local supply had reached a mere 5.8 per cent, which was mainly blamed on low capacity in the local market. One of the reasons behind the low utilisation rate is the lack of knowledge of the government's Local Content Policy and its application with regard to foreign-owned, private-sector actors. Private companies have argued that local service providers have poor operating capacities and lack technical

expertise and knowledge, and that distorted tax agreements favour foreign investors. Local enterprises are often part of the lower value chain and do not contribute to the strengthening of local secondary industries or beneficiation. The report highlighted the fact that respondents perceived the public procurement process as unfair, with most respondents stating that local firms do not receive preferential treatment. Respondents strongly argued for the country's education system to be overhauled to include technical vocational training and courses catering to industry requirements.

The mining sector is expected to account for nearly 30 per cent of governmental revenues by early 2016 (interview with Mr. Dominic Hope, Investor Relations Associate, Sierra Rutile Sierra Leone, 5 March 2014), and the state is grappling with how to ensure that the sector does not continue to serve the interests of the public and private elites over average citizens. Currently, local beneficiation and value addition in Sierra Leone's mining sector are limited and forward-facing only, with the average Sierra Leonean not benefiting from mineral proceeds, increased investment, or economic growth. This situation has given rise to social instability, unrest, and sometimes violence — which could slow the government's efforts to promote the private sector and foreign-owned enterprises as partners in generating sustainable economic growth, stability, and peace.

Recent efforts have been made to address the potential risks associated with the mining sector's inefficiencies, as well as to capitalise on increased investments to spur economic growth. The passage of the Local Content Policy in May 2012 aims to "promote strong linkages between multinational private sector actors and the local economy" (Adam Smith International, 2013) by encouraging the private sector and foreign-owned enterprises to play a more developmental role in the country's transformation process. The Policy sets out expectations with regard to employment generation, beneficiation, value addition, the promotion of secondary industries reliant on the mining sector, and supply chain development. Similar to continental and regional efforts led by the African Union and the different regional organisations, the Policy is also designed to increase the capacities and technical abilities of Sierra Leonean service providers by promoting linkages between local service providers and foreign

entities operating in the country; training Sierra Leoneans, stipulating that 50 per cent of intermediate positions and 20 per cent of managerial positions at foreign-owned companies must be held by Sierra Leoneans (Fanthorpe and Gabelle, 2013). Much hope has been placed in the Local Content Policy, although it has had little effect thus far (interview with Mr. Herbert M'Cleod, Senior Sierra Leone Governance Specialist, 27 February 2014).

Based on interviews conducted with government officials and representatives from the private sector in March 2014, the local private sector's weak productive capacity to meet local and external market demands is a major challenge. Even the larger foreign mining companies that operate in the country have complained that they are forced to import from markets outside the Economic Community of West African States (ECOWAS) due to weak manufacturing capacity in the country. DFID (2012) echoes these sentiments, noting that there is a limited number of domestic businesses capable of offering suitable goods and services to mining companies in Sierra Leone. The report also states that data on the supply and demand sides of the sector is limited, as local output figures are predominantly based on anecdotal accounts, while mining firms' supply requirements are unknown. In addition, mining companies appear to lack comprehension or understanding of the local content requirements.

The business-operating environment is expected to improve in the long term with the passage of the *Finance Act* of 2013, which is designed to help promote FDI, simplify tax administration, and boost mineral revenues. However, current and prospective investors are worried that the policy may undermine business operations and negatively impact on profits in the future, detrimentally hampering their ability to be partners in sustainable development, given the difficulties in sourcing skilled labour locally (interview with Mr. Claude Perras, Head of Sustainability, London Mining Plc, 25 February 2014).

In an effort to address these concerns, the government agreed in November 2013 to a Local Content Compact with the private sector. A dialogue with foreign-owned enterprises is expected to lead to a robust national compact on local content

development and governance. The planned consultative process will involve government members from the National Ministerial Committee who deal with local content, major foreign-owned private-sector actors, industry associations, civil society groups, and development partners such as GIZ, the World Bank, the EU, and DFID. Only time will tell if this compact will remedy the remaining endemic ills of this post-conflict country's natural resource sector and help drive sustainable development and growth.

## Future Opportunities

### *Possible Approaches to an Effective Governance Framework*

Sierra Leone's challenges are somewhat unique to its environment, resource deposits, governance systems, and context. The country's *Mines and Minerals Act* stipulates a comprehensive overhaul of CSR activities with priority on the promotion of community development initiatives. First, mining companies are required to obtain a land lease for any mining activities (GoSL, 2009b). The terms of the lease include rent paid to landowners in mining communities. Second, mining companies are expected to compensate landowners or lawful occupiers in mining communities for any damage to their livelihoods, vegetation, crops, or infrastructure (GoSL, 2009b). Third, mining companies are required to implement community development agreements (CDAs) by using no less than 1 per cent of their gross revenue earnings from mining activities undertaken during the previous year.[17] According to the Act, the primary host community expected to reap the benefits is a "single community of persons mutually agreed [upon] by the holder of the small-scale or large-scale mining license and the local council" (GoSL, 2009b). In the event that there are no existing communities within a 30-kilometre radius of any boundary encompassing a large-scale mining licensing area, CDA funds would be provided to the local council. The Minister of mines and

[17] The *Mines and Minerals Act* states 'one percent of one percent of gross revenue earned by the mining operations in the previous year,' but this been repeatedly reported as a mistake by the director of mines, who is largely responsible for the management and implementation of the Act.

mineral resources is entrusted with the power to resolve disputes that may arise when identifying mining communities, while the director of mines has the legal authority to approve a CDA in any given mining community (Fanthorpe and Gabelle, 2013).

Interviews with 75 community members from the Kono, Tonkolili, and Port Loko Districts point to a broad lack of knowledge about CDAs in general. After a brief explanation, respondents indicated that CDAs should be based upon community-wide consensus and previously agreed-upon objectives; the respective roles and responsibilities of mining companies and mining communities should be clarified, in consultation with the government; timelines for development projects should be timely and transparent; progress with regard to development outcomes in the community should be impartially assessed; and conflict and disputes between communities and mining companies should be resolved with the government acting as an impartial arbitrator. CDAs should be drafted with the mining companies by (in this order) local chiefs, paramount chiefs, artisanal miners, traders, women's group leaders, youth leaders, civil society groups representing mining communities, local government officials, religious leaders, and farmers within the prescribed 30-kilometre radius.

In an effort to strengthen the management of CDAs and CDFs, members of donor communities and mining communities presented the following recommendations for leveraging foreign-owned enterprises as active contributors to sustainable economic growth, peace and, stability (interviews with mining communities in Kono, Tonkolili, and Port Loko Districts, 3–6 March 2014):

- Evaluate and harmonise various policies related to mineral rents and resources allocated to mining communities.
- Develop detailed and all-inclusive documentation on guidelines for calculating and distributing mining revenue locally and nationally.
- Publish mining-related revenues and payments and make available to mining communities.
- Promote community participation at the local level.

- Foster multi-stakeholder engagement between civil society, the government, and mining companies to improve the administration, management, coordination, monitoring, and evaluation of CDAs.

Respondents also expressed interest in the creation of a CDA monitoring body comprising members of mining communities, civil society groups involved in community development programs, donors, government officials, and mining companies. This body would oversee budgets and fund disbursement, and evaluate impacts in communities. Funds should be deposited into a special, audited account, accessible only to designated signatories representing the national, district, and community-level governments, and that audited financial statements from mining communities be made available.

A call was made also to establish a Community Natural Resources Management Committee (CNRMC), District Natural Resources Management Committee (DNRMC), and a National Natural Resources Management Committee (NNRMC) to oversee CDA fund disbursement and project completion at the local level, and so on. The committees would be.

- CNRMC (comprising eight local individuals, including chiefs, representing different community groups [i.e., women's groups, youth groups, artisanal mining associations, farmers' associations]) — manage CDA projects and processes at the local or community level; oversee the successful completion of CDA projects and submission of comprehensive reports to the DNRMC prior to submission to the NNRMC; organise meetings and engage in consultations with representatives of mining communities pertaining to the income and expenditure of funds earmarked for development projects; solicit input, ideas, and feedback from mining communities regarding development projects that could benefit from CDA funding.
- DNRMC (comprising a district council chairperson, representatives of mining companies, members of civil society groups, donor community members, district mining engineers, and elected community representatives) — develop,

implement, and evaluate CDA activities in communities within the 30-kilometre radius specified in the *Mines and Minerals Act*; register communities that are expected to benefit from a CDA and funding; review community applications and proposals submitted by the CNRMC and make recommendations to the NNRMC; ensure compliance with the provisions of a CDA and the Act.

- NNRMC (comprising members of civil society groups representing mining communities, members of parliament, a representative of mining companies operating in the district, and director of mines) — review decisions on CDAs received by the DNRMC; make decisions on funding, distribution, deadlines, and criteria for implementation; monitor and evaluate projects; consult with and inform communities on outcomes of approved projects and the allocation of required resources.

Interview results also indicate that many resource-rich communities view Diamond Area Community Development Funds (DACDFs) as a better alternative to CDAs, citing benefits such as road improvements, agricultural investment, the establishment of trading routes, road construction and maintenance, the construction of clinics, the provision of scholarships for secondary school students to study in Freetown, financial support for local and traditional administrations, vocational training, law enforcement, and the provision of basic services such as water and electricity (Kanu, 2010). However, reality indicates that DACDF projects in the three districts were badly constructed or abandoned halfway, with some failing to take into consideration the needs of special interest groups, particularly those of children, the disabled, and the elderly. With respect to CDAs, many mining communities in the three districts have yet to reap benefits, although a few chiefdoms, particularly in the diamond-rich Kono District, have recorded substantial gains in utilising ceded mining revenue from mining companies. The clear majority of these development projects were built with CDFs, In the three districts, concerns remain that ceded mining revenue allocated from CDAs and the DACDF is not being used effectively (Dupuy, 2017).

In light of the continuing opportunities and challenges with both CDAs and DACDFs, a comprehensive study should be undertaken to examine and promote backward linkages, specifically with respect to the local impact and response (current and prospective) of downstream refining, transport, distribution, marketing and sales processes, as well as midstream/side-stream sector activities. Such a study would improve understanding of local content identification and inclusion, resource value chains, national procurement institutions, the influence of emerging technologies, and contemporary transnational business practices.

Furthermore, backward and sideways linkages need to be enhanced, something that is a key objective of the African Mining Vision (AMV) of the African Union (AU). This proposed study would help establish a systemic framework, which could be used to help Sierra Leone identify constraints affecting its industries. It could also take specific action to improve and strengthen its industries, while becoming a direct portal for bottom-up information transfer between communities and government actors. A systems approach would also allow stakeholders to study the entire mineral value chains from exploration to extraction, processing, fabrication, and marketing, in order to identify the obstacles to beneficiation and value addition in Sierra Leone. A necessary starting-point would be to map AMV-compliant participatory policies and mechanisms with regard to both the public and private sector. The information could then be made available via online platforms. The proposed study should also consider the following documents:

1. The UNDP's multi-level *Strategy for Supporting Sustainable and Equitable Management of the Extractive Sector for Human Development* focuses on strengthening the capacities of sub-national governments and civil society by leveraging analytical and research capabilities, in order to develop participatory legislation, policy and planning, as well as people-centred extractive practices.
2. The operationalization of the African Mining and Country Mining Visions would constitute a selection of specific guidelines related to leveraging natural resources for development and economic growth.
3. The OECD *Policy Dialogue on Natural Resources-based Development Framework*, to which the AMV is party, argues for the establishment of an

operational framework for public-private collaboration on resource-based value creation by building an empirical basis upon which decision-making can be made. It is aimed at inclusive participatory processes, the leveraging of opportunity areas for 'quick-wins' and long-term collaboration, the creation of an enabling environment for business while ensuring sustainable action and meaningful local engagement, and the establishment of a monitoring and evaluation process.

4. The High-level Expert Group Meeting's *Towards the Post-2015 Development Agenda and the African Agenda 2063* provides, among other things, an assessment of the AMV implementation progress, the selection of best practices and lessons learned for local beneficiation and inclusivity, and recommendations that aim to contribute to the implementation of the AMV and the building of new partnerships among all key stakeholders.

A holistic, locally driven, and upgraded Sierra Leonean mineral value chain also requires careful consideration of the following:

1. The limited local beneficiation and value in the current mineral value chain should still be discussed within the political economy of resource generation and transfer. Such a political economy has implications for the transparency of the extractive industry (the mining sector included), particularly in combatting the high incidence of illicit financial flows from Africa that occur on several fronts, such as abusive transfer pricing; trade mispricing and unequal contracts, all for purposes of tax evasion; aggressive tax avoidance; and the illegal export of foreign exchange (Illicit Financial Flows, 2015). Bond considers these activities, as a whole, an output of Africa being tied to a system of global power, accumulation, and state-based class disputes that facilitate the looting of the continent as a whole, maintaining its levels of poverty so as to enrich the global north (Bond, 2006).
2. Promoting natural resource-based industrialization (including minerals) requires the harmonization of fiscal and mineral policies and regulatory frameworks, all of

which form the cornerstones of regional integration programs and proposed development corridors across the continent.

3. An in-depth understanding of the interests and the relationships among relevant stakeholders will help considerably to align interests, build trust, establish transparency, determine the proper incentives for making the value chain work, and promote the fair distribution of benefits among stakeholders.

Sierra Leone is in a unique position to take advantage of contemporary global economic patterns that have increased demand for its mineral resources, but a decline in the commodities super cycle, which have contributed to the country's impressive recent economic growth rates, has affected the price of commodities. This means that diversification alternatives must be explored along the value chain and regional market opportunities must be considered. Minimizing the socio-economic and environmental impacts of mining requires that stakeholders outside the private sector accept responsibility for enforcing human rights and gender dimensions, as well as labour and environmental norms and standards.

Collaborative governance, especially in the form of CDAs and DACDFs, has great potential to leverage private-sector actors and foreign-owned enterprises as partners in advancing Sierra Leone's economic transformation, post-conflict reconstruction and, as a result, stability and peace. The country's citizens would benefit from the Political Economy of Natural Resources Governance framework, where strong governance systems promote development and stability in the social, economic, and political spheres. It has proposed that a comprehensive study to examine and promote backward linkages in Sierra Leone's mining sector, which could improve local economic prospects for mining communities and the broader public. The goal is to identify binding constraints on Sierra Leone's industries and suggest specific actions to improve and strengthen them, thereby creating a direct portal for bottom-up information transfer between communities and government actors. The key is the ability to study the entire mineral value chains in order to identify the obstacles to beneficiation and value addition in the country. Awareness and understanding will help tailor actions and make policy

adjustments over time to utilise mining revenues effectively and generate optimal sustainable development outcomes. In line with CDAs, mineral beneficiation and value addition could unlock Sierra Leone's social and economic potential if the infrastructure undergirding natural resources governance functions efficiently and is able to adapt to changing needs and circumstances.

## ETHIOPIA CASE STUDY

### Introduction

Over the past decade, Ethiopia has achieved and sustained a relatively high economic growth, with the average annual GDP growth rate from 2004–3014 at around 9 per cent (World DataBank, 2016b). This is remarkable given the low-income status of the 102 million people who live there, and where the guaranteed national income per capital is $1,719.4. Notable gains have also been made in human development (World DataBank, "Population," 2016e, World Databank, "GNI Per Capita," 2017), helping to elevate Ethiopia to among the top 10 countries globally that has attained the largest absolute gains in its human development index (HDI) in recent years. For example, from 1990 to 2015, life expectancy rose from 47 to 65 years, infant mortality rates dropped from 121 per 1,000 births to 41, and labour productivity grew from 1.7 to 5.5% (World Bank, "Indicators – Decent Work, 2016b; World Bank, "Indicators – Mortality," 2016a).

Despite this impressive economic performance over the past decade, not all Ethiopians appear to have benefited from this growth. Livelihoods of Ethiopian farmers and pastoralists, who account for over 80 per cent of the population (Ali et al., 2007), have remained precarious due to a lack of transformation in the smallholder agricultural sector.[18] In 2016, droughts across the country caused 10.2 million Ethiopians to require emergency food relief (WFP, 2016), up roughly 65 per cent from the 6.2 million Ethiopians in need of food assistance in 2009 (Bues and Theesfeld, 2012; Rahmato, 2011). The average wage for unskilled agricultural labour in Ethiopia was reported to be $0.80 per day in 2008 (Shepherd, 2013).

[18] Smallholder agriculture is practised by families using only or mostly family labour. It includes crop raising, animal husbandry, forestry, and artisanal fisheries.

Food insecurity remains a perennial threat to the well-being of the majority of Ethiopians who live in poverty due to lack of access to productive resources, particularly arable land, and economic opportunities. The country's economic growth has yet to be leveraged to deliver inclusive and sustained economic gains for all Ethiopians.
This state of affairs, compounded by inherent inequitable outcomes of economic growth, underline a growing fragility in terms of brewing ethnic tensions, which in turn undermine political and social stability — prompting the characterisation of Ethiopia as a conflict-threatened country (Kefale, 2013). Since Ethiopia's first national multi-party elections in 1995, the central government's policies have become increasingly authoritarian and ethnically based or even divisive, which has created dissatisfaction among several of the country's different ethnic groups in recent years (Erk, 2017). Human Rights Watch reported that in 2015 and 2016 Ethiopia experienced widespread ethnic-based protests against the existing political order, which allegedly resulted in the killing of some 500 people by internal security forces (HRW, "Ethiopia - Events of 2016). Indeed, the House of People's Representatives' 547 is largely controlled by the ruling party, which currently occupies 502 seats. This situation creates a de facto one-party state and tendency toward a dictatorship type of government, which has been facilitated by persistent crackdowns on independent media and civil liberties (HRW, "Ethiopia - Events of 2016).

Clashes between Ethiopian Somalis and Oromians in mid-2017 followed serious anti-government protests across the country in the year prior (Burke, 2016; bbc.co.uk, 2017; Gaffey, 2017). The Oromia region has been the site of large-scale anti-government marches, clashes and the like for many years since the Ethiopian People's Revolutionary Democratic Front (EPRDF) came into power (Africannews.com, 2017). In October 2017, the Ethiopian Human Rights Commission, which also characterised the country as conflict-threatened while studying violence in Oromia, Somali, Gambella, and the Southern Nations and Nationalities and Peoples regions, concluded that security forces and traditional leadership have been unable to stem the growing tide of crisis and called for a national policy on conflict-prevention (Africanews.com "Ethiopia Needs," 2017).

At the same time, opposition parties have argued that “people are fed up with what the regime has been doing for a quarter of a century, hence, they’re protesting against land grabs, reparations, stolen elections, and the rising cost of living (Hayden, “Ethiopia’s Battle,” 2016). Some argue that if the government continues to repress while the people are demanding their rights in the millions, civil war is one of the likely scenarios (Hayden, “Ethiopia’s Battle,” 2016). Anti-government protests have revolved around access to and the use of land, stemming from what protesters perceive as unabashed land grabs, repatriations of wealth, and the reduction of land rights for average Ethiopians — a precursor to civil war (Hayden, 2016). This situation is further exacerbated by what is becoming popularly known as a quintessential exemplification of climate-induced conflict, with violence along border regions with Egypt, particularly in the Nile River region, becoming increasingly likely (Aton, 2017). Using the metrics defined by the OECD’s States of Fragility report noted in the Methodology chapter of this dissertation, Ethiopia’s current situation demonstrates a number of relevant features: prospects for violence; absence of the rule of law especially in regard to security forces; limited institutions; and limited capacity to adapt in the face of unrest or challenge to existing government structures. Collectively, these features indicate an appropriate usage of the designation as conflict-threatened.

**Land Administration and Tenure in Ethiopia**

Agriculture has long been a central pillar of the Ethiopian economy, with more than 80 per cent of the Ethiopian population still living in rural areas (Ali et al., 2007). The sector contributes about 45 per cent to the country’s GDP, and accounts for 90 per cent of export earnings and 85 per cent of foreign currency earnings. Consequently, much of Ethiopia’s current politics and political history revolve around the access to and control of arable land (Ensene, 2018).

Unlike most African countries, however, Ethiopia never experienced colonial rule, instead being ruled for many centuries by an imperial regime, through which land

ownership was governed by a quasi-feudal structure. In 1974, following a popular uprising that overthrew the last emperor, Haile Selassie, a new left-wing military regime called the Derg took power and reconfigured the country's agricultural and land frameworks. In view of the uprising's premise — to eliminate the landholding elite — the new government redistributed land to smallholder farmers through newly created local peasant associations. With enactment of the Public Ownership of Rural Lands Proclamation in 1975, all land was nationalised and redistributed. Peasant associations — each of which had an area of at least 800 hectares — were granted the power to redistribute land on the principle that peasants could access land parcels of up to 10 hectares per household (Government of Ethiopia, 1975). Land was then redistributed at various points afterward in order to appease new claimants as the country's population increased (Holden and Yohannes, 2002). Within this new arrangement, Ethiopians were given individualised and usufruct rights, meaning land was granted from the government on a household basis, although it could not be legally transferred by sale, lease, rental, or mortgage (Government of Ethiopia, 1975).

The intent of this policy reform was to create a land system that would empower Ethiopian smallholder producers. This did, in fact, happen in large part for those in the southern peripheries where land ownership had previously been concentrated among an elite minority. In practice, however, it also served to create widespread tenure insecurity due to the requirement for regular redistributions of landholdings as the population increased. In turn, this insecurity discouraged private smallholder agricultural investments as peasants had no guarantee that their land, and any improvements within it, would not be reallocated to others in the future. Additionally, due to its individualistic nature whereby land was granted on a household basis, this policy reform alienated peasants in the northern highlands from their customary, quasi-communal land arrangements. In summary, the 1975 Proclamation, in combination with later agricultural directives such as the failed promotion of producers' cooperatives, increased public investments in state farms, a process that led to the forced resettlement of Ethiopian populations and completely debilitated local smallholder production (Belete, Dillon, and Anderson, 1991).

During the 15 years that followed the 1975 Proclamation, the prevailing Derg regime — later to be known as the People's Democratic Republic of Ethiopia — failed to stay true to the political underpinnings of the social movement that had brought it to power. The central demand embedded within the 1970s uprisings had been the call to redistribute land and power from the imperial elites to the peasantry (Makki, 2012). While subsequent policy reforms facilitated this redistribution, the Derg's rule in Ethiopia became progressively dictatorial, creating another oppressive form of centralist governance. As a result, during the decade and a half following the 1975 Proclamation, Ethiopia experienced a 70 per cent decline in agricultural output (Makki, 2012). In light of the country's sliding into authoritarianism, the regime's leader, Mengistu, was ousted in 1991 by a coalition of rebel forces led by the Tigrayan People's Liberation Front (TPLF). Once in power, this new group established the Transitional Government of Ethiopia (TGE), which eventually adopted the constitution of the Federal Democratic Republic of Ethiopia in 1994. It was later elected as the Ethiopian People's Revolutionary Democratic Front (EPRDF) in the country's first national elections in 1995. Two of the major policies enacted during this state-building process were the continued state ownership of land and the establishment of a new ethno-federal system that devolved land administration to ethnically delineated regional governments (Donham, 1999).[19]

Although other African countries actively avoided accommodating ethnicity as a formal political element due to its tendency to provoke inter-ethnic conflicts and state fragility, in the case of Ethiopia this nation-building strategy was essential to the formation of an initially stable government given the process through which the TPLF came to power (Abbink, 2011). Namely, the TPLF was able to mobilise a significant amount of support and eventually take power by building a sense of unity through the various ethnic group grievances against the Amharic-centric Derg regime (Soule, 2016). Some ethnic groups, such as the Oromo Liberation Front, members of the Southern Ethiopia

[19] The decision to maintain Ethiopian land as public property meant Ethiopians retained usufruct rights to their land, with the sale, transfer, and mortgage of land still strictly prohibited. With that said, Ethiopians can now inherit and rent land (Rahmato, 2009).

Peoples' Democratic Coalition, and the Eritrean People's Liberation Front, which had been sidelined at the hands of the largely Amharic Imperial regime, were further marginalised during the Derg's rule. Given this history, the EPRDF, once in power, faced a critical need to impose a governance structure that would empower aggrieved ethnic groups and unite them under a shared political agenda.

As a result, the new government hailed the creation of an ethnic-based federalist model, whereby nine regional territories and governments were assigned based along ethnic lines, as a means of allowing ethnic self-determination (Abbink, 2011). By creating ethnically delineated regional governments, especially those governing more marginalised populations, the government argued there was room for greater ethnic equality in terms of government representation and, perhaps more importantly, access to resources (Aalen, 2006). One of the most notable responsibilities of these new regional governments was the administration of land within their territories. While land legislation was still under the mandate of the federal government, corresponding laws and detailed guidelines on how federal laws, proclamations, regulations, and directives would be implemented were now under the purview of its regional counterparts (Benin and Pender, 2001).

In contrast to this significant political evolution in land administration, land tenure remained unchanged. The new regime proceeded to implement and codify two major land-related policies in Ethiopia's 1995 constitution (Government of Ethiopia, 1995). In addition to implementing an ethno-federalist framework and upholding an individual usufruct tenure system, the constitution also upheld and increased the focus on land rights for vulnerable agricultural groups. Article 40 (5) entitled Ethiopian pastoralists to "the right to free land for grazing and cultivation as well as the right not to be displaced from their own lands," while Article 35 (7) granted women "equal rights with men with respect to use, transfer, administration and control of land" and "equal treatment in the inheritance of property." The decision to maintain the Derg's land tenure model of state control over the allocation and use of land was likely made with the legacy of the imperialist regime in mind. Although land rights had been usufruct for many years under

previous emperors, when Emperor Haile Selassie returned from exile in 1942, he established rules that led to the privatisation of land — a tenure system that only increased the power of the landholding elite and further deprived the peasantry of resources. From an economic perspective, there have also been ongoing debates over whether the lack of privatisation in Ethiopia's land system has prevented a rise in inequality, instability, and economic decline. Many argue that smallholders would have been vulnerable to land speculation and inequitable land accumulation had they been entitled to sell their land (USAID, 2016).

Years after the establishment of the 1995 constitution, the Ethiopian government also sought to introduce a land certification program with the aim of reducing tenure insecurity and its negative impact on smallholder private investment. Thus, starting in 2003 and over the course of five years, the Ethiopian government was able to register approximately 25 million rural parcels in four of its main regions: Amhara, Tigray, Oromia, and the non-remote parts of Southern Nations Nationalities and Peoples Region (SNNPR). According to the World Bank, this participatory, pro-poor, and gender-sensitive certification programme was "one of the largest, fastest, and most low-cost processes globally" (Deininger et al., 2011, 6).

Meanwhile, the new government also pursued complementary agricultural development policies, which were highly supportive of smallholder producers. Its Agricultural Development-Led Industrialisation (ADLI) strategy asserted that since Ethiopia was a labour-rich and capital-poor country, the government should cater to and support smallholders (Lavers, 2012a). By strengthening its most labour-intensive industry — through inputs such as irrigation, fertilizer, improved seeds, credit services, and capacity development programs — the government posited that it could generate sustainable economic growth while improving national food security and stimulating downstream and upstream agricultural linkages. One of the key pillars of this strategy was the aforementioned continued guarantee of usufruct land rights for smallholders. As previously mentioned, this strategy arguably prevented distressed land sales and the re-establishment of a land governing elite (Lavers, 2013).

Given that Ethiopia is home to over 80 ethnic groups, some of which are not recognised or do not live in their designated ethnic territories, many smaller groups were also marginalised under the new ethno-regional framework. For example, although the government gave Tigrayans, Amharas, Oromos, Afars, Somalis, and Hararis dominant ethnic status with their own regional state, it denied that right to other groups with similar claims, such the Gurage, Sidama, and Woleyta. The territorialisation of ethnicity was also illogical and detrimental in most towns and cities, which often contained a mix of ethnicities. Similar challenges were created in the countryside where whole rural districts ran counter to the ethnic group that the state had prescribed to that territory. Many ethnic minorities were marginalised, as they often did not speak the language of the new regional administration or were discriminated against by the dominant group. Ethnic tensions also increased in many areas as various groups vied for exclusive rights over a territory's administration, which provided access to central government resources (Keller, 2002).

The 2005 elections signalled to the EPRDF that significant changes needed to be made in order to stay in power. From an economic perspective, given that significant growth in the agricultural sector had yet to be realised but remained essential to the country's overall economic growth and poverty reduction strategy, the central government expanded its focus from smallholder production to large-scale commercial agriculture, trade, and foreign investment, an encouragement for foreign-owned enterprises to invest in Ethiopia's agriculture and other natural resources sectors. The ADLI strategy previously hailed by the government was thus subsumed within this new strategy and the significant economic growth it was predicted to produce (interview with Mr. Getachew Regassa, Secretary General, Addis Ababa Chamber of Commerce, 16 April 2014). Emphasis on FDI-driven commercial farming at the expense of household-based smallholder-led agriculture was the EPRDF's effort to focus on sustained high economic growth as a basis for retaining power.

**Growing Threat of Ethnic-Based Conflict and State Fragility**

The run-up to the 2005 elections demonstrated promise in terms of democratic process; the opposition parties at the time had gained significant popularity and were allowed to campaign and appear in state-televised debates (Abbink, 2011). However, critics claim that after the realisation dawned on the ruling party that the opposition would be able to form a coalition government, votes disappeared during a non-transparent vote count (Abbink, 2011). This, they argue, allowed a drastic turnaround and a narrow win for the EPRDF. Subsequent attempts to challenge the outcome of the election in Ethiopian courts offered little recourse to a recount, as the "partisanship, lack of independence and integrity, and subservience of the electoral body and the judicial system to the EPRDF" (Berhanu, 2012, 11) were clearly apparent.

Given that 'foreign' CSOs are prohibited from conducting any form of awareness-raising or advocacy initiatives with regard to agricultural and land policies, the Ethiopian government entertains very few suggestions of alternative governance models in its natural resources sector. And yet, it is in this political context that the Ethiopian government has implemented significant changes to the country's agricultural policy framework. This is embodied by its new strategy prioritising large-scale, commercial agriculture.

In pursuing the objective of facilitating economic growth and stability through large-scale, commercial agriculture by foreign-owned enterprises, the government has been accused of denying pastoralists and shifting cultivators "their right not to be displaced from their own land" (Government of Ethiopia, 1995: Article 40 (5). It creates an interesting scenario whereby efforts to "govern" foreign-owned, private-sector actors contributes to, rather than reduces, the inherent tension and instability the country faces. Many critics have pointed to the central government's indiscriminate expropriation of their land under the guise of it being 'unused,' despite the crucial role of land for the nomadic nature of pastoralism and shifting cultivation (interview with Dr. Meheret Ayenew, Executive Director, Forum for Social Studies, 17 April 2014). Though

such investments have the potential to offer much in the way of knowledge and technology transfer, there is also evidence to suggest that land acquisitions in Ethiopia have displaced smallholder agriculturalists and prohibited pastoralists to access their ancestral lands without providing them with compensatory employment opportunities (Moreda, 2015). If persons displaced by large-scale land leases are offered employment, it is typically on a casual basis with little in the way of job security (Rahmato, 2011). Moreover, despite receiving the legally mandated financial compensation from the Ethiopian government, Lavers (2012b) and Shepherd (2013) note that displaced smallholders have struggled to preserve their prosperity following the appropriation of their lands, as the compensation they receive is often thought to be insufficient.

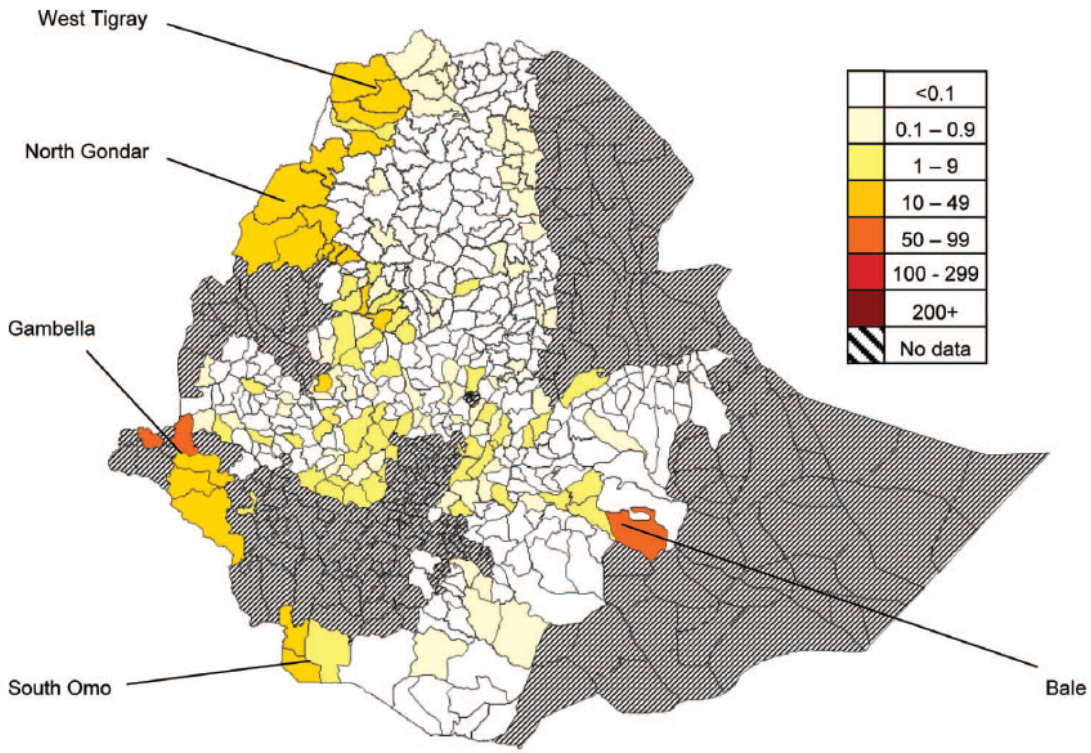
While these changes were made without consultation at the local level, they were undeniably influenced by foreign stakeholders, as the changes became an important part of retaining state legitimacy in the eyes of international donors — a situation that alludes to private-sector driven governance. The repressive tactics the Ethiopian government had been accused of using during the 2005 elections — including torture, arbitrary imprisonment, and the sustained harassment of critics (Human Rights Watch [HRW], 2015) — triggered a backlash from donors and activists alike, and soured Ethiopia's relationship with the international community.[20] Many human rights groups called on donors to revisit and reduce their aid flows to Ethiopia, as they felt they would be used to uphold an increasingly authoritarian regime (Human Rights Watch, 2005). Thus, in the years following the 2005 elections, the Ethiopian government actively sought to rebuild its reputation in order to re-establish its legitimacy as a worthy destination for development aid and foreign investments.

The government has allowed for an increased share of foreign investments (from both public and private actors) in Ethiopian land since 2005, with foreign investments accounting for 74.4 per cent of the total land requested for large-scale agricultural

[20] These included Amnesty International and Human Rights Watch, as well as the American, British, and EU governments.

production as of 2012 (Baumgartner, 2012). The largest investors in Ethiopia are now companies from the Middle East (21.5 per cent), Western Europe (22.4 per cent), South Asia (13.2 per cent), and North America (8.4 per cent) (Baumgartner, 2012), with investment dollars flowing mostly to Ethiopia's floriculture, food, meat, vegetable, and biofuel sectors.[21] The result has been drastic changes in Ethiopia's land market. According to the Ethiopian Investment Agency (interview with Mr. Aklilu Mariam, Director for Information and Investment, Ethiopia Investment Agency, 17 April 2014), three and a half million hectares of land had been allocated for large-scale lease investments between 1996 and 2008, with much of this land made available in the remote, lowland areas in the west and south of the country and an increasing portion of land allocated specifically in the Benishangul-Gumuz, Gambella, and SNNPR regions (see Figure 2).

**Figure 2. Land leased to investors in Ethiopia by village (thousands of hectares)**




[21] According to Lavers (2012b), the largest investors in Ethiopia to date are companies from India, Germany, Israel, and Saudi Arabia.

Source: Lavers (2012b).

**Lack of Positive Change in Ethiopia's Agricultural Sector**

In view of the government's argument that a shift to commercial agriculture would ultimately benefit small landholders, it is important to consider the nuanced weaknesses of the commercial agriculture model in the development context, which is often glossed over in the literature. For instance, running counter to employment creation expectations, commercial agriculture tends to replace labour-intensive smallholder farming techniques with capital-intensive technology. It has been claimed that large-scale commercial farming is also likely to degrade the surrounding environment and decrease the sustainability of nearby smallholder production, due to its more intensive use of fresh waterways, fertilisers, pesticides, and fossil fuels for machinery (Vermeulen and Cotula, 2010; Anseeuw, 2013). The United Nations Special Rapporteur on the Right to Food also noted that a significant loss of agrobiodiversity is typically associated with large-scale monocultures (Ozden, 2013), which weaken the stability, sustainability, and resilience of agricultural systems in the face of weather- and pest-related shocks. According to Altieri and Nicholls (2008: 474), polyculture agriculture yields advantages of 20 to 60 per cent because they "reduce losses due to weeds, insects and diseases and make a more efficient use of the available resources of water, light and nutrient." There is therefore a growing recognition that more balance is needed within the Western 'modernized' approach to agriculture, as the current one may be worsening the potential for ecological shocks, damaging the environment, and further marginalising the majority of the world's agricultural population (Weis, 2010).

In contrast, smallholder farming in Ethiopia emphasises ecological diversity, systems integration and synergies, and the inclusion and development of poor smallholders. This type of farming, in fact, generates more jobs than large-scale farming due to its low mechanisation (Herren et al., 2012) and allows for higher aggregate production levels per unit of land due to its crop diversification. Furthermore, it delivers greater returns, thanks to associated agricultural techniques that produce high yields with fewer inputs.

Similarly, nomadic livestock or shifting agricultural production offers the spatial flexibility needed for arid or semi-arid climates, typical of the Ethiopian highlands. In allowing herds of livestock to move over great distances, or cultivation activities to rotate over time through different plots of land, pastoralism and shifting cultivation offer important benefits to populations in areas where rainfall, and hence the availability of water and fodder, is variable (van den Brink, 2006).

Governments must do better to create effective monitoring and review processes for large-scale, foreign-owned investments, and have structures in place to establish impactful scopes of action for foreign-, private-sector actors. In the case of Ethiopia, a failure to closely review contracts in favour of quick financial returns exacerbates these challenges. Ethiopians are regularly faced with national agreements that fail to address issues of accountability among all parties, ensure the protection of traditional and subsistence-based livelihoods, defend against the displacement of farmers and pastoralists, and encourage environmental sustainability and the like. In addition, reports and interviews indicate that agriculture agreements made between the Ethiopian government and multinational corporations have largely failed to include robust frameworks that define responsibilities and outline adequate corporate social responsibility (CSR) measures, with the government placing emphasis instead on rapid industrialization and attraction of FDIs into the country (Besada, 2017).

There are also concerns regarding the potential impacts of foreign investments that have little understanding of or concern for the socio-economic and political context of the host community, especially if there is an expectation that those foreign-owned enterprises are to contribute more broadly to peace, stability, and sustainable growth. Many of these negative impacts are already occurring in Ethiopia, thereby undermining the government's argument that its encouragement and proper governance of large-scale, foreign investments will ultimately benefit smallholder producers (Taffesse, Brown, and Minten, 2018). For example, in the case of knowledge spillovers, foreign investors are often expected to provide appropriate market services and the technical knowledge to help producers upgrade their standards in order to meet market

requirements. Yet, “when related to the total number of smallholders, only a minority has actually been able to participate in such schemes” (Bosc et al., 2013: 13). The most common opportunities instead are unskilled jobs, and even these are not necessarily offered to local communities.[22] Furthermore, as unskilled jobs, these positions do little to teach smallholders about the operational requirements of large-scale farming. Meanwhile, many of the mechanised and energy-intensive farming techniques used by large-scale investors are unlikely to be viable for smallholder use given these small-scale farmers often lack the necessary resources to develop and maintain the infrastructure (Lavers, 2012a).

There has been anecdotal evidence to suggest a casual disregard, at times, for enforcing regulations requiring foreign investors to hire local labour, thereby inhibiting the former’s contribution to this aspect of sustainable economic growth (interview with Mr. Aklilu Mariam, Director for Information and Investment, Ethiopia Investment Agency, 17 April 2014). As such, not all projects provide employment opportunities and many of those who are employed are offered casual contracts, meaning they have little employment security and thus contribute little to local economic growth (Rahmato, 2011). According to data collected at the Embassy of India in Ethiopia, for example, more than 90 per cent of the 110,000 Ethiopian workers employed in 2008 by Indian companies were seasonal workers (Shepherd, 2013). One project in the lowlands also demonstrated the tension between Indigenous lowland labour and that of a growing group of highland seasonal migrant farmers who were willing to move for agricultural work (Moreda, 2015). In this case, the Indigenous community was displaced from its ancestral lands for the benefit of a foreign investor, yet were then marginalised in the subsequent hiring of local labour.[23]

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[22] In some cases, labour is imported entirely from the foreign investor’s country of origin, thereby undermining any employment benefit to local populations. Alternatively, if sourced from the country of investment, jobs are not necessarily offered to affected populations in the communities where the investment is based, as more skilled populations from around the country are willing to relocate.

[23] According to one local resident, “they [private investors] don’t want to employ our people” (Moreda, 2015, 530). The resident noted that their community was perceived as unskilled and lazy in comparison to highland farmers. This

This was confirmed separately by an EU delegation to Ethiopia, which noted that most commercial farms hired foreign workers or workers from outside the local community, causing tensions between the local and migrant groups (interview with Mr. David Mogollon, Head for Rural Development & Food Security, EU Delegation to Ethiopia, 11 April 2014). That said, the decision made by commercial farms to hire foreign workers or workers outside the local community was not necessarily related to cost-effectiveness or productivity. Often, foreign investors that transplant expatriates to investment sites do so out of ignorance of local context and needs; being new to Ethiopia, they may have acted based on experience gained elsewhere. Moreover, there were occasions that workers were hired based on recommendations by national or local government officials.

Looking beyond skills and knowledge transfer and employment opportunities, the construction of rural infrastructure, such as new roads and irrigation networks (a transactional obligation in many land deals), often caters to company, rather than local population, needs — or remains privatised. The lack of expected returns for affected communities can have serious consequences, as many farmers sell their land or relocate to make way for large-scale agricultural investments on the promise that they will experience direct benefits. When this promise is only partially met or even ignored, smallholders and pastoralists typically find themselves without land or are left to till less arable land. In these cases, they often have no recourse to secure the compensatory investments promised to them.

This creates a situation in which foreign-owned enterprises have contributed to conflict and instability. This can profoundly destabilize a conflict-threatened country like Ethiopia, which performs economically well and has operated solid institutions, but ethnic tensions due to land access and other developmental resource issues threaten

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perception is supported by an interview in a separate case study in which it was discovered that pastoralists were viewed by investors as poor labourers (Becker and Wittmeyer, 2013).

political and social stability. In contrast to such a developmental state model, a functioning governance system that leverages the private sector for economic growth, peace, and political stability. Indeed, the manifestation of this was seen in 2016, when protestors attacked foreign-owned businesses in the Oromia and Amhara regions, with opposition political parties citing the absence of broad-based development for the poorest populations of the country, despite large-scale foreign agriculture investment, as the source of discontent and conflict (Al-Jazeera, “Foreign Firms,” 2016). The people of the Oromia region argue that the government has repeatedly tried to forcibly evict them from fertile farmland, including using the expansion of regional capital to take control of arable fields for multinationals (Al-Jazeera, “Foreign Firms,” 2016; Dixon, 2016). Rural farmers point to the decades-long process of villagization and land grabbing as the cause of the forcible relocation of tens of thousands of individuals so as to allow agriculture investments from foreign-owned companies (Smith, “Ethiopians Talk,” 2015).

In contrast to other countries, Ethiopia’s infrastructure requirements for investors are minimal. According to a private investor in one case study, the Ethiopian government had noted that the government was responsible for all public infrastructure — roads, telecommunications, and electricity — while the investing company was to provide private infrastructure, such as roads and irrigation systems internal to the investment area, and accommodation for employees (Shepherd, 2013). Another study reported that the foreign investing company’s only obligations were to repair and widen a dirt track leading to the project site and provide some plastic sheeting to a community school (Rahmato, 2011). Yet even then, there were few benefits to the community: the investor cut down fruit trees to widen the road — eliminating an essential source of food security and income — and refused to compensate affected smallholders. In sum, a lack of investment regulations regarding contribution requirements to Ethiopia’s infrastructure has significantly diminished the potential returns of these investments for affected smallholders, thereby failing to encourage foreign-owned enterprises to contribute to conflict-containment strategies by ensuring participation and return for smallholders as part of land transactions and investment.

It also appears that the Government of Ethiopia has been using its own normative and security sector (hard and soft power) resources to support a push toward large-scale commercialization of the agricultural and natural resources sector. According to its 2012 *World Report,* Human Rights Watch (HRW) reported that at least 3.6 million hectares in the Gambella region have been leased to multinational and local firms since 2008, much of which has been orchestrated with the help of armed security forces driving people away from their land (Horne and Bader, 2012). According to the report, tens of thousands of Indigenous people have been forcibly removed from their homes in Gambella to join new villages with no meaningful consultation or free, prior and informed consent (FPIC) (Horne and Bader, 2012). Although the stated goals of what should be a voluntary villagization programme are to provide better access to basic infrastructure and agricultural assistance, the program has mostly taken place in areas where significant land investments have already been or will be made in the future (Horne and Bader, 2012). After interviewing more than 100 residents in Gambella who had been impacted by the villagization programme, HRW stated that it found "widespread human rights violations at all stages" (Horne and Bader, 2012). This situation creates animosity between foreign-owned enterprises and local populations as opposed to supporting a governance and regulatory system that fundamentally works to benefit the latter. The Ethiopian population would benefit from broad-based, inclusive development based on the creation of strong governance frameworks in the agribusiness and land industries. The Political Economy of Natural Resources Governance's concept provides major avenues for advancing such a governance framework.

The Ethiopian government's preference for and encouragement of large-scale, foreign agricultural investments has had a negative effect on smallholder producers. Limitations on the freedom of Ethiopian civil society and academics to speak out have diminished awareness regarding the negative impacts of large-scale land leases on Ethiopian smallholders and pastoralists (Shepherd, 2013; interview with Dr. Zerihun Mohammed,

Socio-Economic Researcher, Forum for Social Studies, 17 April 2014).[24] Moreover, foreign investments in large-scale agricultural projects have yet to provide any significant benefits to smallholder producers, as existing governance systems do not require private-sector actors to contribute to sustainable development in any meaningful way. Alternative governance models can offer more inclusive and politically decentralised growth, which is necessary to regain smallholders' support, decrease ethnic tensions — and, ultimately, achieve sustainable economic growth, stability, and peace.

**Results**

This case study broadly demonstrates that governance models which prioritise the production of labour-intensive smallholder crops, meaningful consultations with local communities, and due respect for local knowledge of agricultural production processes could facilitate inclusive and sustainable growth in Ethiopia. However, instead of being allies in the achievement of stability and sustainable growth, foreign-owned enterprises have become vehicles for further ethnic polarisation, as the current policy framework in which they operate reinforces distrust in the state's ability or willingness to overcome the oppressive and ethnically repressive behaviour of previous regimes. Ultimately, the role of foreign investors in natural resources governance in a fragile state such as Ethiopia is to support sustainable economic development efforts and contribute to conflict-containment strategies through positive and fair involvement in land transactions and investment. The success of these foreign investments hinges on effective governance structures.

[24] Although the research team for this report attempted to conduct field research on this issue in Gambella and the SPNNR with the help of Ethiopian researchers, the delay of government approvals prevented the research from moving forward.

*Regulation and Governance*

Despite expectations, five to 10 years after the enactment of the 1995 Constitution and the implementation of policies, agricultural growth, poverty, and food security did not improve significantly. Forward and backward production linkages were limited, in part due to extra income in Ethiopian households being directed to food rather than agricultural inputs. On the supply side, a lack of both public funds and capital accumulation in the private sector limited the larger investments needed to facilitate these linkages. Consequently, doubts concerning the economic arguments outlined in the ADLI strategy, which focused solely on smallholder agriculture as the engine for growth, subsequently convinced senior Ethiopian policy-makers that an expanded agricultural approach was required (interview with Mr. Getachew Regassa, Secretary General, Addis Ababa Chamber of Commerce, 16 April 2014).

In addition to limited economic impacts, the land and agricultural polices had also failed to protect vulnerable groups. For instance, despite the legal recognition of ethnic equality through federalism, the lowland regions and the ethnic groups within them remained politically marginalised. A limited degree of autonomy was also conferred on them (Lavers, 2012a): after a long history of inequality under imperial rule, during which the "lowland periphery was characterised by inequality, exploitation and extraction of resources through collection of tribute and taxes, and the slave and ivory trades" (Lavers, 2012a, 125), the ethnic groups native to these regions, such as the Anuak, Afar, and Somali peoples, were left with few skills or experience to administer their territories under the new ethno-federalist model. As a result, the central government continued to act on their behalf in governing their territories, thereby undermining the idea of ethnic equality and empowerment in these areas.

It can be argued that Ethiopia's previous policy framework for agricultural growth delivered poor economic outcomes. However, the current focus on encouraging large-scale, commercial agriculture by foreign-owned enterprises — created in a vacuum of

political opposition due to increasingly oppressive and authoritarian measures (Alemu et al., 2003; Lavers, 2012c) — means that domestic stakeholders were unable to contribute to the policy framework, which was developed and tightly controlled by the TPLF under the influence of foreign stakeholders (e.g., development banks). The current agricultural strategy has effectively recentralised the ruling party's power over agricultural land, and the policy change has created a complex link between the agricultural foreign-owned private sector and the growing fragility and instability of the Ethiopian state (Berhanu and Poulton, 2014).

In an effort to expand the number of large-scale, commercial agricultural projects across the country, the Ethiopian government produced a number of development plans. In light of a lack of public funds and capital accumulation in the domestic private sector, these plans have favoured the foreign private sector at the expense of smallholders. For example, Ethiopia's Plan for Accelerated and Sustained Development to End Poverty (PASDEP) for the 2005 to 2010 period emphasised the importance of commercial agriculture. This emphasis was then expanded to highlight foreign investment in Ethiopia's Growth and Transformation Plan (GTP) for the 2010 to 2015 period. Specifically, the GTP noted the crucial role of large-scale investors in transforming the agricultural sector and the need to "attract and support strong foreign investments that play [an] important role in the country's economic development, for those sectors given special attention by the government" (Ministry of Finance and Economic Development, 2010a, 29). Although foreign investors are prohibited from leasing land for more than 50 years, in light of these new plans and new legislation, foreign land investors are now largely exempt from paying taxes on imports of capital goods and repatriated profits (Bossio et al., 2012).

Additionally, Ethiopian land is leased for very low rents, with the lowest rents available in the remote and sparsely populated lowland regions — which does act as an incentive for investments in more disadvantaged areas. As the Ministry of Agriculture (formerly the Ministry of Agriculture and Rural Development) stated in 2009, Ethiopia offers negligible lease rates compared to the surrounding region (Makki, 2012). By shifting its

focus toward foreign investments in large-scale, commercial agricultural projects, the Ethiopian government also re-established the central government's authority over land transfers of 5,000 hectares or more through the enactment of the Council of Ministers' Regulation of 2008 (Baumgartner et al., 2015). This shift in land governance was significant, as it ran counter to the 1995 Constitution and central government's reassurances that it would allow for ethnic self-determination through the empowerment of regional governments. This regulation has added to tension and instability (interview with Dr. Meheret Ayenew, Executive Director, Forum for Social Studies, 17 April 2014).

Mainstream Western and African regional development institutions, such as the World Bank and the Alliance for a Green Revolution in Africa (AGRA), hailed the shift in focus from small- to large-scale agriculture as an essential step in improving agricultural productivity (Sharp et al., 2007, 46), as well as a crucial pillar to increasing food production and economic growth. The view is that the stagnation of the agricultural sector is attributable to the persistence of smallholder farms, and that the only solution is through increased mechanisation of agricultural operations and the economies of scale offered by large-scale farming — known as agriculture development-led industrialization (Lavers, 2011). Given the lack of public funds and capital in Ethiopia's private sector, foreign investment presented itself as an apparent avenue for agricultural modernisation, food security, and economic growth.

Ethiopia's most recent economic policies in the agricultural sector, which have focused increasingly on external foreign-owned enterprises, has coincided with diminished internal political legitimacy due to a complete lack of space for opposition and the recentralisation of significant agricultural land decisions. This diminished legitimacy is demonstrated by the fact that Ethiopia has ranked consistently in the top 20 fragile states since 2007 (Fragile State Index, 2018). When faced with significant popular opposition to policy and legislative changes, the EPRDF has typically responded by becoming more insular and making agricultural policy changes in a political environment devoid of opposition/critical opinion, using the justification of a statist approach for economic governance (van Veen, 2016). The most significant policy change, made at

the behest of mainstream Western and African development institutions, was a shift in government support toward large-scale, commercial agriculture, which effectively placed an entirely new emphasis on the role of foreign-owned enterprises in delivering growth. It also recentralized control within the country's land management structure, thereby undermining previous claims that the government supported ethnic equality. As a result, the private sector, which now mainly consists of foreign investors, is reinforcing the EPRDF's repressive tactics and therefore contributing to the country's growing fragility (Aalen, 2009). As such, this case study provides unique insights into how lacklustre regulation of foreign-owned enterprises can contribute to a country's instability at the expense of economic growth and peace.

*Beneficiation and Value Addition*

In shifting its focus to large-scale, commercial agricultural projects, the Ethiopian government argued — as did various mainstream and African development institutions — that this new agricultural model would ultimately benefit smallholder producers. The purported benefits included the creation of employment opportunities, development and improvement of rural infrastructure, new sources of knowledge transfer, and lucrative sale opportunities for African farmers looking to invest capital in other industries (Vermulen and Cotula, 2010).

Measures that would facilitate inclusive and sustainable growth in Ethiopia include: labour-intensive agricultural crops and labour-intensive investment models; meaningful consultations and renewed value placed on local agricultural knowledge; an inclusive and participatory biofuel and industrial crop production allocation framework; and broader support for developing the growth of domestic companies involved in agriculture. Consultation with central and local governments, as well as individual smallholders, that encourages large-scale farming companies to position projects in ways that have less of an impact on smallholder and pastoral populations or vulnerable ecologies is also necessary. Local farmers and herders typically have an excellent understanding of how livelihoods and food security are derived in their communities, as

well as extensive expertise regarding the soil, climate, and ecological issues in their region. Integrating traditional agricultural knowledge offers a means to mitigate a large-scale project's social and environmental impact, while opening up higher-paid jobs for local experts and increasing production within a specific agricultural context.

Local consultation and FPIC are also essential to the security of investments, as discontent and unrest within communities surrounding new large-scale land acquisitions can jeopardise the sustainability of these types of projects (Baumgartner et al., 2015). Using FPIC as a basis for investment projects is not only essential from a human rights perspective, but is also beneficial in terms of local community support. Peasant forms of resistance, although more covert and disorganised in nature, can severely undermine large-scale agricultural land investments, as demonstrated by land encroachments by surrounding smallholders or intentional crop damage by local agricultural labourers. Since foreign-owned enterprises typically enter local arenas where land relations are dynamic or contested, consultation is crucial to understanding the local context and ensuring there is local support of incoming investments.

**Violence in Oromo**

Violence erupted in 2015 in the Oromo region due to the threat of the government expanding the boundaries of Addis Ababa. One act of protest was to burn the warehouses of a Dutch agricultural company, Solagrow PLC, which had taken over communal grazing lands in the region. Protesters had become increasingly concerned that the government is trying to take away their land (Schemm, 2016).

Large-scale land acquisitions exacerbate food insecurity when smallholders' and pastoralists' access to land is revoked without adequate provision for alternative sources of food and water. Despite this, the Ethiopian government's incentives for foreign investors are extremely liberal, if not counterproductive, with regard to the country's food security. For example, investments are given higher priority through additional tax exemptions for investors if their crops are destined for the export market

(Lavers, 2012b). According to Article 4 of the Council of Ministers Regulation No. 84/2003, which stipulated new investment incentives, investors engaged in manufacturing or agro-industrial activities or the production of agricultural products are exempt from income tax for at least five years if they export more than half their production or provide 75 per cent to exporters. In contrast, those exporting less than 75 per cent of their production are only exempt for a minimum of two years.

In addition to these generous tax incentives, there has been a massive shift of land and water rights from customary to foreign users, a process that often occurs informally as a result of ambiguous land rights and water regulations.[25] In one case study in Oromia, for example, newly arrived foreign investors from the Netherlands, Russia, Israel, Palestine, and China caused changes to the community's previously informal communal rights to canal infrastructure (Bues and Theesfeld, 2012). Smallholder needs were neglected in the face of these more powerful investors, unfettered by the Ethiopian government, as they were able to divert water from this and other traditional communal sources. Communal land in another project, in which Saudi Star was given land and water rights to develop a large-scale project on Annuak land in the Gambella region, was similarly expropriated due to the perception that it was unused (Rahmato, 2011). This land was far from unused, as the Annuak people supplement their smallholder farming incomes with fishing, hunting, and honey production, thereby relying on their surrounding ecosystem for wild food sources in times of hardship. As a result, Saudi Star's deforestation of this previously communal land has worsened the local community's food security (Rahmato, 2011). As well, the rates of pay for Ethiopians working on land that has been privately invested in have also fallen below the level required to replace the value of smallholders' lost farmland. With $0.80 per day as the Ethiopian norm for unskilled agricultural labour in 2008 and one press report quoting a

[25] Although the Ethiopian government enacted the 2005 Water Resources Management Proclamation, which states that "domestic [municipal] use shall have priority over and above any other water uses," the implementation of these laws is very limited (Bossio et al., 2011). Furthermore, large-scale lease agreements permit the development and use of surface and sub-surface water without any preconditions.

female worker earning $0.47 per day (Shepherd, 2013), agricultural wage labour opportunities have offered a poor livelihood alternative given the rising cost of food.

**Saudi Star**

Saudi Star Agricultural Development Plc. is the agricultural arm of MIDROC Africa Ltd., a Saudi company that is investing heavily in Ethiopia (Sheikh Mohammed Hussein Al Amoudi's official website, 2018). Currently managing 140,000 hectares of land in the Gambella region, the company plans to increase its investments to cover 500,000 hectares (Environmental Justice Atlas, 2018) as part of the King Abdullah Food Security Program (KAFSP). Saudi Star owner Mohammed Hussein Al Amoudi intends to invest an additional $5 billion in Ethiopia's land between 2016 and 2021, which will have an increased impact on traditional land systems (farmlandgrab.org, 2018).

Looking at the impact of large-scale land investments from a political perspective, many national laws overlook the need for FPIC or compensation for local populations in these types of transactions. Consequently, there is typically a lack of engagement and support from community stakeholders who have been displaced from their land. Ethiopia is no exception and smallholders and pastoralists alike have exhibited overt resistance through peasant protests in several parts of the country as a result.[26] They have also exhibited covert forms of resistance, such as slow encroachments on land given out to investment projects and the quiet destruction of field crops and machinery (Rahmato, 2011). The people of the Godere woreda in the Gambella region, for example, organised a series of meetings when they heard that an Indian agricultural company called Lucky Exports had acquired a lease of 5,000 hectares of forest to establish a tea plantation near their community (Rahmato, 2011). The Godere woreda people prepared an alternative land use plan that would preserve the forest and provide youth employment, and presented it to the federal government — an example of a successful

[26] Local populations have also taken part in outright conflicts with investors in villages far from main towns so that government forces could not easily intervene (Rahmato, 2011).

lobbying effort that halted the plantation project. However, resistance has become the exception to the rule in the Gambella region (Horne and Bader, 2012).

With regard to the Ethiopian government's provision of compensation for expropriated land, Lavers (2012b, 907) noted that displaced smallholders on the whole "seem to receive the legally required compensation of ten times the average annual income over the previous five years." However, he also noted that it is questionable whether this amount is sufficient. Some farmers do not have the financial capacity to handle a significant amount of money, having never done so before. According to one Ethiopian farmer interviewed in 2011, "the Birr lasted a few months, but the land has been lost for generations" (Shepherd, 2013, 9). In addition, multiple projects have demonstrated the potential divisive effects of compensation when given without adequate consideration of the local context (Shepherd, 2013). For example, one largely Amharic village in the predominantly Oromo region of Bishoftu did not receive the intended compensation from an investor because local Oromo authorities denied the payment (Shepherd, 2013.). In cases like this, large-scale land leases were used by dominant ethnic groups to exert power over other groups through disproportionate allocations of land or imbalanced distributions of compensation payments.

## Future Opportunities

### *Considerations in Developing an Effective Governance Framework*

Although Ethiopia remains heavily reliant on its agriculture for export revenue and GDP growth, the share of manufacturing in the country's GDP has been trending upward over the past decade, with some of this manufacture output attributed to exports. This is a transformation that should not be overlooked. Ethiopia has increasing created manufacturing jobs — moving labour from smallholder agriculture sector to processing and manufacturing (UNDP, 2017). The World Bank and other informed observers identify Ethiopia as the African country with the greatest prospect for attracting the lower

end of global manufacturing that China is ‘exporting’ to low-wage developing economies Should the country explore alternative foreign-owned enterprise investment models for this sector, particularly those that include collaborative governance institutions and components, manufacturing could be the sector that drives sustainable development, peace, and stability.

Although growth in smallholder agriculture and pastoralism can positively affect food security due to the linkage between production, household consumption and domestic markets, it can be equally detrimental if negatively affected by climate change and other risks such as price shocks, which are becoming more prevalent. Farmers and herders currently have no mechanisms with which to deal with impacts from climate change patterns. Smallholder producers are equally vulnerable to the growing prevalence of economic shocks in the international agricultural sector, as demonstrated by the devastating effects of multiple food price spikes over the past 10 years.

The Government of Ethiopia implemented the Productive Safety Net Programme (PSNP), a social protection scheme, in 2005. One of the largest social safety net programmes in the world, the PSNP aims to improve Ethiopia’s food security by providing direct support to the country’s most vulnerable populations and through income diversification via small public work projects for other citizens. The PSNP is complemented by the country’s larger Food Security Programme, which seeks to raise household incomes through resettlement grants, household income generating packages, and water harvesting.

Although social safety net programmes offer one avenue to address food insecurity, income diversification through private-sector opportunities offers another path for mitigating agricultural risks. In other countries, this diversification has typically occurred through the creation of non-agricultural income sources (FAO et al., 2015). However, given the lack of secure job opportunities in most industrial and service sectors in Africa, it is worth exploring the agricultural sector for potential alternatives. Given Ethiopia’s existing agricultural expertise, large-scale, commercial agricultural projects should be

explored at greater length as a potential source of creating alternative sources of secured income for smallholder farmers and pastoralists. Various investment models could counteract the impact of large-scale commercial farms — such as diminishing returns on labour, land and water quality, and biodiversity — thus meeting both the immediate needs of smallholder populations as well as the longer-term need of income diversification opportunities and sustainable land use.

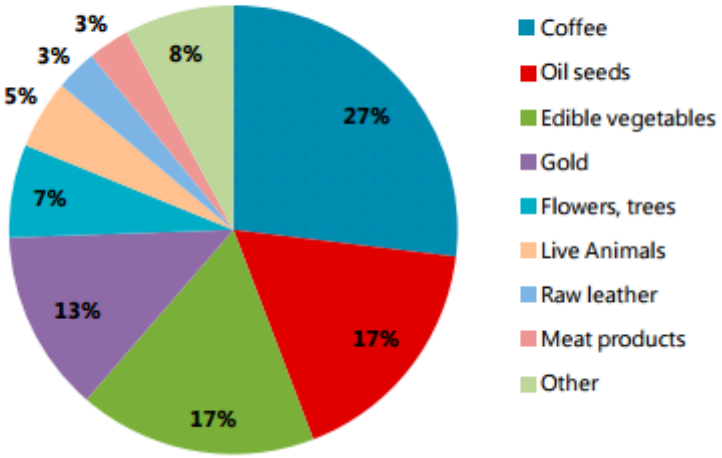
It is also important to consider Ethiopia's macro-economic environment. As of 2015, roughly 90 per cent of Ethiopia's export portfolio consisted of agricultural commodities — typically sold at declining global prices — while manufactured goods constituted 71 per cent of its import portfolio (Terfassa, 2009; World DataBank, 2016a). The same sources show that although crop prices have increased in recent years, Ethiopia's net trade of goods and services has been caught in a downward spiral since 2003, largely due to rising inflation. This has negatively affected the country's foreign exchange currency reserves, which are required for the import of capital goods. At the request of the International Monetary Fund (IMF), the government devalued the Ethiopian Birr by close to 20 per cent in 2010 in an attempt to spur export growth and import substitution development (Lavers, 2012a).

Following this move, the Ethiopian government must now strike a balance between the competing interests of its new export-oriented strategy and the food security needs of its smallholder farmers. This balance is particularly crucial given that Ethiopia's main commodity exports are mostly agricultural in nature. More specifically, coffee, sesame seeds, and edible vegetables (see Figure 3) constitute a large proportion of exports; cereal crops have largely remained within the domestic market despite dominating Ethiopia's crop production (Spielman et al., 2010). The lack of cereal exports is attributable to a 2006 directive that banned exports of cereal crops when food shortages were imminent (Lavers, 2012a).[27] While the government hopes eventually to export

[27] The export ban on teff, the Ethiopian staple grain, was lifted in 2015 due to its potential to become the next big grain in health and upscale markets. The Ethiopian government is closely monitoring its production, though, in order to ensure high international prices do not influence lower domestic prices.

cereals, Ethiopia's major cereal crops, including teff, wheat, maize, sorghum, and barley, currently afford few surpluses as they continue to constitute the core of Ethiopia's food economy — accounting for 64 per cent of the population's calorie consumption.

**Figure 3. Composition of merchandise exports for 2014–2015**




Source: IMF (2015).

In light of the difficulties in exporting food crops, the Ethiopian government has instead demonstrated increased interest in agricultural investments destined for biofuel crop production. In 2007, the government created a Biofuel Development and Utilization Strategy (BDUS), followed by a Biofuel Unit within the Ministry of Water and Energy when it was established in 2010. The BDUS states that as of 2007, 23.3 million hectares of suitable land were available in Ethiopia for biofuel production. Today, one-third of poor farmers allocate around 15 per cent of their land to productions under contract with biofuel companies (Negash and Swinnen, 2013). According to the manager of the Unit, the government is aiming to have the country's biodiesel production reach 450 million litres per year by 2020, despite a lack of any substantial evidence of production to date (Ratcliffe, 2015).

Despite the possible economic benefits, the rise of biofuel crops has put pressure on land, as well as food and water security, with farmland being increasingly converted from the production of food crops to that of biofuel crops. According to a 2010 World Bank inventory of large-scale land acquisitions, 35 per cent of projects in Ethiopia were intended to produce biofuel crops, in comparison to 37 per cent set aside for food (De Schutter, 2010).[28] As of 2012, biofuel crop production represented up to 50 per cent of FDI (Bossio et al., 2012). Although some biofuel crops, such as some oilseeds, offer the flexibility of being equally useful for food consumption — which empowers smallholders in their ability to negotiate between different markets — the increased emphasis on growing biofuel crops can threaten the price of food on a global scale. When biofuel production increases at an exponential rate, as it did just before the Global Food Price Crisis, the impact on food-insecure populations can be detrimental.[29]

The jatropha crop, which can grow in relatively infertile soil and arid climates, offers an important biofuel crop alternative, as it is grown in areas where food crops are less likely to be sustained (Wendimu, 2016). However, in Ethiopia, the livelihoods of many pastoralists and cultivators are derived from similar ecological environments. Although Ethiopia's national biofuel strategy has relegated biofuel production to 'marginal' land,[30] the issue remains problematic. As discussed earlier, the government's determination of what constitutes marginal land has been highly contentious, mainly as a result of the government's ongoing disregard for the livelihoods of lowland nomadic producers.

While it is important to ensure the growth of Ethiopia's export revenue, the country's current trade and exchange rates mean that it is equally crucial to alleviate the cost of imported agricultural inputs (i.e., seeds and fertilizer) through the creation of domestic input markets. Since the late 1990s, a number of donors have encouraged the Ethiopian

[28] With the more recent downward trend of oil and gas prices, however, non-environmentally driven investors have likely stepped back from biofuel projects and therefore slowed the race for biofuel production.

[29] As the demand for biofuel crops increases, so too do the prices for these crops. If they increase beyond the prices paid by the food industry, then food prices for these same crops rise to the point of inaccessibility.

[30] Previous jatropha projects had failed in this environment years earlier.

government to work with the private sector to develop more competitive agricultural input markets (Berhanu, 2012). Thus far, however, the government has only supported private-sector engagement for EPRDF member organisations. The government's control of the pricing and distribution of agricultural inputs, with little meaningful engagement with the private sector, has resulted in "high cost of inputs, insufficient credit services and rationing, and a lack of varieties that are appropriate to farmers' needs" (Berhanu, 2012, 15). Additional studies and informants have highlighted that state-run input markets, coupled with a credit-based supply framework for these inputs, has compelled farmers to be overly dependent on and vulnerable to ruling party pressures. Berhanu (2012) therefore argues that a state monopoly in Ethiopia's agricultural input markets not only inflates costs for producers, but also allows for their political control through the threat of sanctions in the case of credit defaults.

In developing an inclusive, participatory, and food-secure private-sector governance framework and scope of action for the agricultural sector, it is important to consider Ethiopia's need for additional employment opportunities generated by foreign-owned enterprises, sustainable and biodiverse land use, foreign currency earnings, and competitive domestic input markets. There are indeed opportunities to leverage the macro-economic environment in Ethiopia for driving sustainable growth in a conflict-fragile environment vis-à-vis private-sector actors. Improved economic outcomes, including tangential economic growth derived from subsidiary and adjacent sectors, such as manufacturing, will provide a formidable opportunity for Ethiopians to live a sustainable, peaceful, and stable future. Foreign-owned enterprises are key in this regard, especially as the country continues to push further towards the industrialization of subsistence farmers and smallholders. Other needs may equally be addressed through this process: sustainable and biodiverse land use; foreign currency earnings; competitive domestic market inputs; beneficiation and value addition for communities, among others.

*Possible Approaches to an Effective Governance Framework*

As per the Political Economy of Natural Resources Governance framework posited in this dissertatioj, possible private-sector changes that would facilitate inclusive and sustainable growth in Ethiopia include: investment models that focus on labour-intensive agricultural crops; promote meaningful consultations and the use of local agricultural knowledge; an inclusive and participatory biofuel and industrial crop production allocation framework; and broader support for domestic companies producing agricultural inputs. Given that the harvest of certain crops, such as cotton, rice and vegetables, are more labour-intensive than others, focusing production on these crops would help large-scale farms soak up the excess of agricultural labour. Additionally, certain investment models, such as contract farming,[31] enable the labour-intensive smallholder farming model to continue unhindered, while expanding smallholder access to relevant markets. Floriculture, contract farming, and coffee cooperatives offer important lessons in this regard. One of Ethiopia's more successful crops, fresh-cut flowers,[32] is highly labour-intensive, meaning that in most cases this crop creates enough additional demand for labour to overcome the income lost from other types of smallholder production (Lavers, 2012b). Flower projects also take up less land, which in turn displaces fewer smallholder farmers. Although the short lifespan of fresh flowers requires that these large-scale farms be close to the Addis Ababa airport for quick export, and the advanced production technologies and controlled conditions required for flower farming make it difficult to contract out this type of farming to smallholders, this type of farm production does offer a unique advantage in terms of its off-farm employment creation potential for smallholders living close to the country's capital (Mano et al., 2011; Melese and Helmsing, 2010).[33]

With that said, peasant-created cooperatives, and the negotiating power they typically provide, have also allowed for a more successful investment model in Ethiopia's coffee

[31] Contract farming is the sourcing of agricultural production from smallholders.

[32] This sector was introduced to Ethiopia through foreign investments due to growing demand in European markets.

[33] Although concern has been expressed over the environmental impacts of the flower industry due to the widespread use of chemical fertilisers and pesticides (Getu, 2009), Ethiopian regulations, international partnerships, and market certification and labelling programmes have the potential to improve the economic, social, and environmental sustainability of this sector.

sector. According to multiple respondents in Becker and Wittmeyer's study, these new cooperatives allow Ethiopian farmers to "intervene in the markets to increase the price of coffee by approximately 50%" (2013, 770). Given the important role coffee plays in Ethiopia's export market, such bottom-up adaptations underscore another way of promoting smallholder-supportive investments.

In terms of boosting Ethiopia's exports, if biofuel and industrial crop production were to be carefully considered in an inclusive, participatory, and food-secure allocation framework, biofuel crops combined with the technology to convert them to energy could offer greater energy security and accelerate the development of rural areas (Escobar et al., 2009). They could also offer another lucrative non-food export crop, as demonstrated by the increasing demand for airline biofuels or the European Union's goal to draw 10 per cent of the region's transport fuel from renewable sources, such as biodiesel, by 2020 (European Commission, 2016). Some of the most crucial issues in creating this allocation framework nevertheless extend beyond agricultural policies and would require the Ethiopian government to re-evaluate its consideration of traditionally nomadic ethnic groups, as well as its modes of engagement with ethno-regional governments. In the interests of mitigating the detrimental impacts of disadvantaging certain ethnic groups over others, the Ethiopian government should seriously re-evaluate the Council of Ministers Regulation of 2008 that recentralised land administration functions from its regional counterparts, as well as its general approach to pastoral and shifting cultivator groups (Hodbod, 2013).

Similarly, given the overwhelming demand for agricultural inputs from its main constituency and the historical sensitivities to authoritarian approaches, the Ethiopian government needs to reconsider how it engages with and supports its domestic input market. In light of the current monopoly of EPRDF-aligned companies in these sectors, there is a need to actively encourage and incentivise private-sector actors to enter these markets.[34] Increased competition should drive down prices, make smallholder

[34] It is important to consider the potential role of pastoralists in this regard, as organic fertilizer is more environmentally sustainable and also offers a potential value addition for pastoralist outputs.

producers less vulnerable to exploitative relationships with input companies, and offer a better impression with regards to the government's equal support of all ethnic groups. Expansion of these backward linkages to a point where prices elicit stronger smallholder demand not only offers the potential for greater agricultural yields but also the possibility for additional employment opportunities in other sectors. Likewise, forward linkages should be encouraged within the domestic private sector given its potential to spur industrialisation. Adding value to agricultural projects through agro-processing and other businesses would allow Ethiopian smallholders to create and expand export industries that are not beholden to commodity prices and create jobs in the process (Mulatu and Grando, 2011).

A variety of options, as well as innovative combinations of these options, would enable a greater and more positive contribution by foreign-owned enterprises in Ethiopia's natural resource sectors, specifically agriculture. Although some foreign investment would be helpful in providing employment through larger, labour-intensive production models, the Ethiopian government should, wherever possible, provide similar, if not better, incentives for domestic actors through international-domestic partnerships or stand-alone domestic enterprises. This is not to say that the government should curtail large-scale foreign investments altogether, but should instead be framing these partnerships both legally — in terms of oversight — and normatively, so as to produce better economic outcomes that positively impact a broader section of Ethiopia's population. Incentives such as income tax exemptions or duty-free capital goods imports could support this objective.

Given the government's ultimate goal of state legitimacy, these considerations and suggestions should offer some insight into how to build an inclusive, empowering, and sustainable agricultural policy framework that caters to some of Ethiopia's macroeconomic needs.

## Conclusion: Research Findings, Knowledge Implications, Policy Recommendations, and Future Directions for Research

The role and contribution of foreign-owned enterprises operating in natural resource sectors in sub-Saharan Africa as development agents largely depends on the type of governance structure in place at the national level and the approach to governance adopted by the state. For the purpose of this study, three types of state governance structures were identified and analysed: politically stable, post-conflict, and conflict-threatened. A proposed new theoretical approach defined as the Political Economy of Natural Resource Governance was used to investigate how governance structures influence the nature and involvement of foreign-owned companies and investors operating in the extractive and land resource sectors, both in the wider development process and specifically through their contribution to economic growth, peace and political stability, and sustainable development.

Analysis into three sub-Saharan countries exemplified by these three political/economic states indicates that foreign actors impact governance structures in ways that either strengthen or weaken such structures through their activities. The findings form the basis for the policy conclusions concerning the role and ideal involvement of foreign-owned enterprises in the enhancement of natural resource.

As impactful actors, foreign-owned enterprises involved in natural resource extraction in the three country case studies are bound to profoundly impact the governance structures and, in the process, create mutually beneficial frameworks that enhance broad-based development and promote a business-prone environment. In this sense, both the foreign actors and the states are involved in a strategy to transform the socio-economic landscapes in these countries — one that takes into consideration the communities' need for stable and sufficient income sources and access to opportunities, and the investors' need to generate profits. Consequently, the notion of transformation — at the core of the Political Economy of Natural Resources Governance model —

entails a mutually beneficial impact of governance systems on the host state and population and the business actors, particularly foreign-owned.

Conclusions from the case study findings are grouped as follows: relevance to the main research questions ; notion of “collaborative governance” as the ideal approach to governance; good governance and management of natural resources in stable, post-conflict, and conflict-threatened fragile countries; recommendations for an appropriate analytical framework for investigating governance of natural resource governance; way forward and future research considerations; and contribution of this research project to current knowledge.

The ideal role of the private sector in natural resource governance in a stable country such as Ghana, a post-conflict country like Sierra Leone, and a conflict-threatened Ethiopia is to support efforts to establish sustainable long-term economic development and political stability. In the context of each country’s situation, the Political Economy of Natural Resources Governance framework provides evidence-based tools for tackling Africa’s ‘resource curse’ and moving each country forward towards long-term, broad-based economic and social development.

In the case of Ghana, the absence of a regulatory framework coupled with a heavy bureaucratic system impedes value addition and beneficiation processes while promoting corruption at every layer of the system. Both Sierra Leone and Ethiopia are profoundly impacted by a lack or mismanagement of their governance systems in the realm of natural resources. In the case of Ethiopia, the Political Economy of Natural Resources Governance’s framework provides tools to tackle the widespread mismanagement of land resources, where the knowledge of locally based practices is negated by the development of large agribusiness-oriented farms. These limitations to the development of adequate measures promoting stable, sustainable and development-oriented systems of governance of natural resources toward foreign-owned companies are tackled throughout this dissertation.

**Main Research Questions**

In exploring the answers to the research questions posed in Chapters 1 and 2, it has been argued that appropriate systems of governance of natural resources can influence the contribution made by private-sector actors and foreign-owned enterprises to socio-economic and political development of these countries within a politically stable, post-conflict, or conflict-threatened context. For each case study, considerable effort has been spent in identifying how governance systems in each of these contexts can be created, bolstered, supported, and ultimately repaired so as to achieve these ideal involvements.

Each chapter provides details on how conditions can impact foreign-owned, private-sector actors to contribute to positive economic, social, and development outcomes; how a scope of action can be embedded in governance and operationalized through policy and programming; and which entry points and junctures can be used in each case to effect change. In politically stable countries, the role of foreign-owned, private-sector actors are to contribute to economic growth and sustainable development through additional revenues, to reliable corporate social responsibility programmes, and to capacity building. In post-conflict countries, the ideal contribution was deemed to be aiding post-conflict reconstruction, economic transformation, and development while working to enhance natural resource governance frameworks, institutions, and regulations. Finally, in conflict-threatened countries, foreign-owned enterprises should contribute to a conflict-containment strategy through the judicious involvement in equitable and sustainable resource transactions and investment. Each case study determined how governance structures enable or constrain foreign-owned, private-sector actors in assuming these roles.

*Case Study 1: Ghana*

In Ghana, natural resources governance presents an opportunity for truly positive contribution to sustainable economic growth. In order to achieve the ideal contribution, the private sector's success hinges on effective natural resource governance at both the national and local levels. Historically, the role of mining helped catalyse economic growth, while the recent discovery of oil presents an opportunity to accelerate sustainable change and stability. Foreign-owned enterprises have contributed significantly to economic growth, but the benefits of such expanded output have not been shared with local communities in mining and oil-producing areas, owing to weakness in existing governance structures. Moreover, the role of foreign-owned enterprises in contributing to overall stability has been largely supportive, with only a few — if any — initiatives, having led to indirect or tangential impacts via CSR or capacity-building programs.

The private sector's positive record is not surprising in a country where stability has been established, something the Ghanaian government has largely been responsible for maintaining. Activities pursued by mining and oil companies were also investigated in the research; while creating some economic and employment opportunities for local communities in areas where they operate, there is still room for improvement and more needs to be done in terms of mandatory legislation and governance systems requirements for local content, beneficiation, value addition, and CSR. The chapter recommended a collaborative governance approach to increase participation by all stakeholders in natural resource governance and to strengthen linkages between foreign, national, and local actors. This collaboration should be based on communication, consent, and consensus.

The relationship between the government, the private sector, and local communities remains a core concern for many oil and mining communities, which are intent on benefiting directly from economic growth that is directly linked to local resource development. The research found that the considerable effort made by the Ghanaian

government, in concert with civil society, in improving natural resource governance (Debrah and Graham, 2015) has led to much progress, especially in terms of policy-making and scientific research on off-shore drilling (Chalfin, 2015). However, improvement can still be made with regard to redistributing natural resource revenues, tackling corruption, and realising sustainable development. Increasingly, workable partnerships appear to be evolving in the face of increased private investment, with the government, private sector, and oil and mining communities gaining a better knowledge of issues related to natural resource governance.

*Case Study 2: Sierra Leone*

In Sierra Leone, natural resource governance presents an opportunity for significant positive growth in sustainable development, peace, and stability, as well as a means by which to encourage private-sector participation in achieving these goals. The role of foreign-owned enterprises in a post-conflict country such as Sierra Leone is to support peace-building and reconstruction efforts. The argument has also been made that the private sector's success hinges on efficient and resilient governance at both the national and local levels — as was the case in Ghana — including an operationalized scope of action. It is alleged that illicit mining operations helped fuel the country's civil war between 1991 and 2002. Since the end of the war, the private sector — namely, foreign investors and particularly mining companies — has contributed to the resumption of economic growth, but the benefits of such expanded output have not been shared with local communities in mining areas, nor have they necessarily translated into sustainable stability. Moreover, the contribution of foreign-owned enterprises to post-conflict stability has produced mixed results, with the prospect of violence looming in areas where some of these private-sector actors operate, due to growing grievances by local communities about lack of benefits.

This state of affairs is inherently tied to misperceptions surrounding the roles to be played by various government bodies, including Mineral Advisory Boards, the Ministry of Mines and Mineral Resources (MMMR), community groups and the like, along with

weak governance and corruption at the national and local levels. These misperceptions have hindered opportunities created by legislation and progressive policies and arrangements, such as CDAs. The lack of coordination is not confined to the Government of Sierra Leone's relationships with private companies, as the government is also said to suffer from insufficient internal coordination between the National Revenue Authority, the MMMR, other departments and agencies, and local councils (World Bank, 2008; Fanthorpe and Gabelle, 2013). As in the case of Ghana, the research found evidence to suggest that some companies are engaged in practices that pay little heed to the needs and interests of mining communities, fuelling animosity and thus instability. An increase in financial and capacity-building support for natural resource governance is evidently a priority for the government, but a prerequisite to accessing these finances must be better oversight of initiatives such as CDFs and scrutiny of mining companies' activities.

Interviews undertaken during the field work have shed light on the modus operandi that has prevailed since the end of the civil war. These observations largely outline the challenges related to the political conditions that have shaped the environment for the private sector and influenced the governance of the country's natural resources. Sierra Leone appears to have moved beyond the legacies of armed conflict, though socio-political relations between government entities, the private sector, and community representatives remain a core concern for many mining communities (Reno, 2003). Natural resources management by the government, paramount and local chiefs, and councils are characterised by corrupt practices and the misappropriation of mining revenue. Nevertheless, workable partnerships appear to be evolving in the face of increased private investment, with better knowledge of issues related to natural resource governance now evident among the government and private-sector actors, as well as in mining communities.

While interviews revealed conditions and examples that could be interpreted with cynicism, the recommendations for policy options to boost sustainable development through governance reform are innovative. Moreover, they reflect a persistent and

resilient society that believes in the possibility of transformational change despite unending poverty and missed opportunities. Interviewees' suggestions regarding CDAs and the proposal for a comprehensive study on backward linkages in Sierra Leone's mining sector, with the objective of developing a systemic approach framework, could be a new point of departure for all stakeholders in Sierra Leone's future.

*Case Study 3: Ethiopia*

In conflict-threatened Ethiopia, natural resource governance also presents an opportunity to leverage foreign-owned enterprises to drive sustainable economic growth, peace, and stability. Although foreign investments have become a vehicle for ethnic polarisation, an argument is made that these could be leveraged to support efforts to drive inclusive economic growth and reduce the country's fragility by remedying the broken system that facilitates inequitable land transactions and investments. The findings also support the argument that foreign-owned enterprises' success in this role hinges on efficient and resilient governance. Ethiopia's underlying fragility, driven by threat of ethnic conflict, has worsened over the past decade, due to factionalised elites, limited recognition of human rights and the rule of law, and group grievance pressures, among other issues. Indeed, inclusive national discourse has declined in favour of an economy-driven narrative that lacks a broader consideration for democratic performance, human rights, and human development indicators. In addition to aggravating historical sensitivities and grievances among ethnic groups, the government's authoritarian approach has had negative effects on economic governance, as highlighted in the agricultural sector, since there are few avenues for the government to receive input on the impact and effectiveness of regulatory frameworks.

Despite the lack of critical feedback from field investigations undertaken in Ethiopia, the recent growing interest in existing and emerging international and African governance guidelines for land-based foreign investments does provide some indication that greater attention and protections for smallholder producers are needed in the face of growing

transnational demand for agricultural land. For example, sub-Saharan African countries have placed a stronger emphasis on the need for land policies that adequately consider the land pressures created by an increasingly liberalised and globalised land market.

Land pressures include a disregard for smallholder protections in international law and mainstream development directives. While international law has been effective in strengthening the protection of foreign investment, it has offered little protection to smallholders. Donors and development institutions have also increased their pressure on African countries, and particularly on Addis Ababa, to facilitate private investment in large-scale commercial agriculture. Consequently, there has been growing momentum to tackle this issue at the global level through governance frameworks that offer voluntary guidelines to countries where vulnerable landholders are at risk. The issue has also been broached at the continental level through the Land Policy Initiative (LPI) — composed of the AU, UNECA, and the AfDB — which works to strengthen land rights and secure livelihoods for African populations. In 2010, the LPI published the Framework and Guidelines on Land Policy in Africa (AUC-ECA-AfDB Consortium, 2010), which encourages African countries to develop policies and legislation that protect vulnerable groups in the face of both foreign and domestic large-scale agricultural investments. In accordance with its African counterparts, the Ethiopian government would be prudent to reconsider and be open to further debate on how to incentivise and regulate both foreign and domestic private-sector actors — including smallholder producers — in order to leverage the latent opportunities for inclusive and sustainable growth that Ethiopia's agricultural sector has always offered.

**Good Governance and Management of Natural Resources: Diverging Economic and Security Outcomes in Politically Stable, Post-Conflict, and Conflict-Threatened Countries**

Different country categorisations, whether politically stable, post-conflict, or conflict-threatened, continue to impact the roles and contributions of foreign-owned enterprises

in sustainable development, stability, and peace. This is due to the nature of each type of governance system and the associated state institutions.

*Category 1: Politically Stable*

More than most of other African states, Ghana has achieved diverse results and tremendous progress in leveraging foreign-owned enterprises through the passage of legislation and the implementation of governance structures. As an indication of Ghana's recent economic progress, driven primarily by the mining and hydrocarbon sectors, poverty levels have decreased over the last decade and the unemployment rate is notably lower than the average for sub-Saharan Africa.

Despite these successes, there is a pervasive sense that the Ghanaian government could do better. The country has not struck a mutually reinforcing and equitable balance between attracting investment and stimulating economic diversification and sustainable development. More importantly, although the national government in Accra has tried to use mining and energy taxation revenues and royalties to promote development activities, only some of these efforts have produced the expected outcomes, and few have contributed more broadly to general stability. Accordingly, governance of the country's natural resource sector does not function effectively, meaning that Ghana does not benefit as it should from its natural endowment.

Natural resources, especially gold, have been a bedrock of economic progress in Ghana for almost 40 years. However, the mining sector could play a greater role in helping the country achieve sustainable economic growth, peace, and stability by facilitating poverty reduction, social development, economic transformation, and environmental protection. For this to happen, the *40-Year National Development Plan*, published in 2017, must give the sector the attention it deserves, placing it at the core of Ghana's future and putting in place the necessary regulatory systems for its development. These would address corruption and infrastructure issues and facilitate integration with other sectors. The Ghanaian government is increasingly taking mining

issues seriously and should be commended for its progress in terms of implementing certain good governance structures, particularly the local content requirements for the mining sector.

But, despite these positive steps, policies that translate natural resource revenues into poverty alleviation and sustainable development could be introduced. By passing legislation and imposing regulations, the government has already demonstrated that it can align benefits accrued by the natural resource sector with national social priorities. Policy implementation gaps do remain, stemming from the practices and philosophies of private-sector actors, which have realised only a fraction of their responsibility to uplift the Ghanaian society and, more specifically, the communities directly affected by their operations. Together with the government, foreign-owned enterprises could be a key driver of transformational change if governance at the national and local levels were more effective.

*Category 2: Post-Conflict*

In practical terms, Sierra Leone's economic reconstruction efforts would need to be sustained and enforced via the export of natural resources, primarily diamonds and iron ore. While the management of the mining sector remains a daunting task for the current government, other initiatives have begun to bear fruit. In recent years, the Government of Sierra Leone has taken several more steps to attract FDI. This includes introducing legislation such as the Investment Code (2005), the *Business Registration Act* (2007), the *Investment Promotion Agency Act* (2007), the *Companies Act* (2009), and the *Bankruptcy Act* (2009). Furthermore, a national Private Sector Development Plan came into effect in 2009 (United States Embassy in Freetown, 2011). These reforms are aimed at providing greater protection for companies investing in Sierra Leone, streamlining the process of business engagement, and opening up more opportunities for ownership and management of resources.

Despite these achievements, Sierra Leone's post-conflict environment continues to seriously hamper the level of investment in the country and the degree to which it can diversify its economy. Indeed, the country's long-term stability and the consolidation of its democracy requires that it move away from resource extraction as the dominant source of revenue. The after-effects of the conflict include a severe shortage of skilled workers and managers, rampant corruption, a lack of infrastructure (roads and technology), cumbersome customs procedures, a weak judiciary, the absence of an effective land-titling system, and an underdeveloped banking system. Each of these issues continues to deter investors. In addition to these structural challenges, once companies arrive in Sierra Leone, they face both governance roadblocks and community pressures related to corporate social responsibility duties, often seen as a contribution to post-conflict reconstruction (interviewees with Mr. Molla Alemu March, Programme Manager, Youth Employment & Empowerment Program, UNDP Sierra Leone, 28 March 4, 2014).

The concern was raised that large mining corporations had not earned the social licences to operate in mining communities. The perception among interviewees was that these corporations need to do more with regard to addressing social issues — in particular, health, skills development, employment generation, and education — while refraining from using corporate social activities as a promotional mechanism designed to gain support and praise from the government and multilateral institutions. In stark contrast, representatives of mining companies noted that the corporations have done their best to provide for people living in communities affected by their operations.

While CDAs and diamond area community development funds (DACFs) have been earmarked by some as potential remedies to endemic difficulties with leveraging resource wealth in Sierra Leone for long-term economic growth and development, challenges and weaknesses pertaining to their implementation remain. The often chaotic, fragmented, and uncoordinated nature of policies is regarded as the biggest obstacle in doing business in Sierra Leone and an excuse, while implementing CSR initiatives, to avoid complying with recent legislation and policies such as CDAs, CDFs,

and the DACDF (interviews with Mr. Yero Baldeh, Resident Representative, African Development Bank Sierra Leone, 3 March 2014).

Cuts in corporate contributions to the government, which have arisen due to differential investor treatment, uncoordinated government mineral policies, and ineffective implementation of legislation by various agencies and departments, have translated into a reduction in government revenues at both the national and local levels. This fundamentally limits the government's material ability to spearhead post-conflict reconstruction and the enhancement of governance. Weak regulatory mechanisms have resulted in the irregular disbursement of CDFs, which impacts on local development programmes agreed upon with mining communities. Such inefficiencies, coupled with allegations of theft and corruption by local councils and paramount chiefs, have resulted in mining companies opting not to participate in CDAs and instead establishing company-specific CSR programmes.

Because of perceived political instability in the sub-region, and given existing infrastructure deficits and poor governance, Sierra Leone does not have the favourable image needed to attract international investments. While on the one hand low investment levels hinder democratic development and peace-building efforts, problems also arise when corporations that are already operating and investing in Sierra Leone do not meet their potential to contribute to post-conflict reconstruction, sustainable economic growth, peace, and stability. That said, this case study concludes with the argument that foreign-owned enterprises have the transformational potential to play a crucial role in fostering post-conflict recovery and providing economic opportunities through job creation and the provision of social services such as schools and health care, thus consolidating post-conflict reconstruction and peace-building efforts currently underway.

*Category 3: Conflict-Threatened*

When one considers that Ethiopia and the East Africa region are disproportionately affected by hunger and other food security concerns, it is problematic to learn that although foreign investments in Ethiopia's agricultural sector have culminated in improved infrastructure, new roads and irrigation networks are frequently the result of the needs of companies being catered to rather than local populations. Despite minimal government requirements for broad social and economic contributions by mining companies for the regions in which they operate, large-scale land acquisitions exacerbate this issue in instances where the land access rights of smallholder agriculturalists and pastoralists is revoked without reasonable provision for other sources of sustenance, whether that be alternative land or employment opportunities. Over the long term, if current trends continue and Ethiopia experiences increasing temperatures and more sporadic precipitation, the country will be at greater risk of droughts and floods. This may culminate in declines in agricultural productivity, which could have a substantial impact on its food and water security as well as its ecological systems.

Foreign investment incentives offered by the Ethiopian government appear to be relatively liberal; they fail to encourage and leverage private-sector contributions to conflict containment strategies and equitable distribution of revenues and returns from land transactions, especially considering the need that exists to protect the country's food security. Additional tax exemptions are offered to foreign investors if they export the crops they produce. Moreover, there has been a substantive shift in property rights over land and water from smallholder agriculturalists, pastoralists, and other customary users to foreign investors — mainly due to the ambiguity surrounding the property rights regime governing these resources. The problems caused by these developments are exacerbated by the low wages paid to agricultural workers in the face of rising food prices, and many Ethiopian laws do not sufficiently consider the notion of free, prior and informed consent (FPIC) in transactions involving the acquisition of large land holdings for agricultural purposes. Consequently, there is often limited engagement and support

from community stakeholders who have been displaced from their land, which has led to peasant protests in several parts of the country. In many instances, large-scale leases of agricultural land to foreign investors have had a negative impact on Ethiopia's smallholder agriculturalists and pastoralists, including displacement without compensation. The foregoing developments have given rise to tension, strife, and conflict in recent years. Nevertheless, the adoption of alternative governance models, including the referenced collaborative governance approach, may be a workable solution.

A re-evaluation of the legislation that has recentralised land administration functions, as well as a reconsideration of the government's general approach to pastoral and shifting cultivator groups, could also prove to be broadly beneficial to the citizens. Despite the presence of highly factionalised elites, weak recognition of human rights, limited rule of law, and marginalised ethnic groups, Ethiopia's agricultural sector offers development opportunities for well-regulated foreign-owned enterprises and constitutes a complex linkage between foreign investment and the country's inter-ethnic fragility.

## The Way Forward: Policy Issues, Development Implications, and Directions for Future Research

### *The Responsibility of Resource Companies*

Governments have a commitment to their citizens to hold foreign-owned enterprises accountable to good corporate practices. As natural resources do have the ability to promote sustainable development, peace, and stability for a broader segment of the population and lead to political stability if resources are shared in a transparent and sustainable manner, meaningful collaboration in resources governance is key in this regard. The resource curse does not need to be the norm. Rather, as the Ghanian case study shows, resource extraction can lead to economic growth and contribute to achieving a country's economic priorities — there are resource blessings. Of course, Ghana is not a perfect example, as corruption, mismanagement, and poor practices

hinder further positive contributions linked to natural resource exploitation. Whether it is land (in Ethiopia's case), mining (in the cases of Sierra Leone and Ghana), or hydrocarbon (in Ghana's case), natural resource exploitation has the ability to transform economies. When operating under a functional and effective natural resource governance system, foreign-owned enterprises can generate a sense of obligation to promote sustainable economic development and growth, relevant to their specific contexts.

This is insufficient, however, to completely transform economies and pull people out of poverty. This can only happen when there is a critical effort to promote secondary industries that rely on or feed into the mining/hydrocarbon sectors that generate local employment opportunities and revenues for communities and national government. These foreign-owned enterprises have a responsibility to contribute to the national wellbeing of resource-rich countries. Indeed, emergent literature argues that private-sector actors, especially mining companies, are becoming key partners and leaders in promoting and facilitating development, often taking the responsibility from ill-equipped government and traditional donors (Black and O'Bright, 2016; Ite, 2016).

*Promoting Accountable Business Practices Through Stronger Structures*

A number of important steps can be taken to promote sustainable broad-based development, peace, and stability in local communities in the areas of local content, beneficiation, and value addition, some of which have been explored in the three case studies. First, to promote accountable business practices at both the national and local levels and maintain stable relations between community members and the private sector, government must begin to draw up better contracts and hold strong negotiations that ensure social and human security and compliance with progressive environmental laws that protect communities from unforeseen circumstances. It must also demonstrate to communities that the government will stand up for them when either foreign or local corporations break laws, and promote a long-term vision in which extraction is not an end in itself but a tool for broad-based development.

The private sector has the potential to be the engine of growth in stable resource-rich democracies in Africa. However, this can only be made possible by imposing strong, coherent, and strategic national and local governance structures that clearly define the role of foreign-owned enterprises in facilitating sustainable economic growth, peace, and stability. Not surprisingly, an ongoing issue is how to remedy policy implementation gaps: there are many ideas, institutions, laws, and regulations, but implementation of these overlapping frameworks is sometimes very difficult and often incomplete. Much more time should be spent determining whether policies have been implemented, and where they haven't to identify the reasons behind the failures and find solutions. Lack of capacity is likely one reason, but lack of political will is an even greater problem (interview with Dr. Kwesi Aning, Director for Academic Affairs and Research, Kofi Annan International Peacekeeping Centre, 24 February 2014; Interview with Dr. Elias Ayuk, Director, UN University Institute for Natural Resources in Africa, 24 February 2014).

*Local Consultation and Bottom-Up Ideas*

It is critical that effective local consultation occurs, allowing new ideas to travel from the bottom up. Ideas from on-the-ground experts deserve attention, specifically regarding advocacy, community participation in decision-making, and monitoring frameworks (Owusu-Koranteng and Owusu-Koranteng, 2010; Kuyole, 2013; Owusu-Koranteng, 2013). Importantly, Community services organisations (CSOs) lack support, specifically in terms of resources and technical knowledge, to effectively participate in natural resource governance. One promising avenue is that donors identify credible local NGOs and CSOs, design working documents together, discuss their concepts, and then implement them together. Such collaboration could be scaled up as a pilot programme open to extension for additional years (interview with Dr. Allan Lassey, Senior Advisor, Extractive Resource Governance, GIZ, 27 August 2015). Within civil society, top-down and bottom-up strategies could be put forth by community groups and research institutions. CSOs and NGOs should have a larger voice in governance in order for such strategies to receive more attention.

Consultation with central and local governments, as well as individual smallholders, enables large-scale companies to position projects in ways that have less of an impact on smallholder, artisanal, and pastoral populations or vulnerable ecologies. Local farmers, miners, and herders typically have an excellent understanding of how livelihoods and food security are derived in their communities, as well as extensive expertise regarding the soil, climate, and ecological issues in their region. Integrating traditional agricultural and extractives knowledge offers a means to mitigate a large-scale project's social and environmental impact, while opening up higher-paid jobs for local experts and increasing production within a specific agricultural context.[35]

Local consultation and FPIC are also essential to the security of investments, as discontent and unrest within communities surrounding new large-scale land acquisitions can jeopardise the sustainability of these types of projects (Baumgartner et al., 2015). Using FPIC as a basis for investment projects is not only essential from a human rights perspective, but is also beneficial in terms of local community support. Populous-led forms of resistance, although more covert and disorganised in nature, can severely undermine large-scale investments, as demonstrated by land encroachments by surrounding smallholders or intentional crop damage by local agricultural labourers in Ethiopia. Since foreign-owned enterprises typically enter local arenas where land relations are dynamic or contested, consultation is crucial to understanding the local context and ensuring there is local support of incoming investments.

[35] Ways in which local knowledge could reduce negative environmental effects include resource conservation technologies, improved techniques for organic and low-input systems, reducing water pollution, biological substitutes for agrochemicals, and reducing the dependency of the agricultural sector on fossil fuels (Kiers et al., 2008).

*Summary*

In all cases, possible transformation to reach an ideal involvement of private-sector actors in natural resource governance systems that would facilitate inclusive and sustainable growth include: labour-intensive agricultural crops and labour-intensive investment models; meaningful consultations and a renewed value placed on local agricultural knowledge; an inclusive and participatory biofuel and industrial crop production allocation framework; and broader support for the growth of domestic companies producing agricultural inputs.

Beyond labour-intensive approaches, it would be important for the governments in each country to emphasise and take steps to integrate local content, beneficiation, and value addition in business practices and operations. These changes would primarily result in a move away from a reliance on natural resources and the establishment of economies that are more dependent on human resources and technological innovation. These changes would also be more conducive to the markets where they operate. For foreign mining corporations, engaging in efforts to grow local businesses and technological innovation by promoting local content, beneficiation, and value addition will inevitably result in better relationships with local communities and increased revenues, as they will spend less money on security, pay-outs, and court cases arising from disputes. In the long term, increased goodwill between local communities and foreign investors would promote political stability, social cohesion, and peace in resource-rich countries. As such, governments need to strengthen the implementation of laws and regulations, under a broad governance framework, where investors are charged with having to support and contribute to local content, beneficiation, and value addition of minerals, agricultural, and hydrocarbon products.

Development outcomes largely depend on how national and local government actors in resource-rich countries manage their relations with the private sector, especially foreign-owned enterprises. They also depend on how integrated these private-sector actors are

within the governance structures set up by these countries to manage resource revenues and investments and understand local systems of governance.

**Concluding Observations**

An important distinguishing feature of this research from an academic perspective lies in the use of in-depth interviews in three types of African countries in an effort to analyse governance concepts and practices, arrive at theory-guided conclusions that could be applied in various contexts, and develop an improved analytical framework, the Political Economy of Natural Resource Governance (PENRG). Together these contribute to knowledge of (and how to undertake critical analysis of) the role and impact of foreign actors in the management and governance of natural resources in Africa. Evidently, foreign-owned enterprises are affected by existing governance structures and their interactions with governments, which establish roles and responsibilities for these foreign actors and enable outcomes that subsequently influence changes in the governance structures themselves. The mutually enforcing relationship that exists is captured by the dissertation's analytical framework. The merit of this knowledge contribution is contained in the improved ability to construct detailed systemic explanations of the management and governance of natural resources in Africa; perceptions on the role, impact, and responsibility of foreign-owned and private-sector actors in diverse developing contexts; and an in-depth understanding of how their relationships with governments in the region evolve over time.

The extent to which foreign-owned enterprises in resource-rich countries such as Ghana, Sierra Leone, and Ethiopia would continue to be viewed with continued suspicion, hope, praise, or widespread discontent will largely depend on how local and national government actors manage their relations with the private sector. It will also depend on how collaborative, cooperative, consulted, and engaged the foreign private-sector actors are within the governance structures set up by these countries to manage resource rents and investments within the broader framework and commitments they have agreed to as part of the African Mining Vision. The private sector has the potential

to bring about transformation and changes for the better in the economies and social fabrics of conflict and post-conflict countries — to be the engine of growth in stable resource-rich democracies in Africa. However, this can only be made possible with strong, coherent, and strategic national and local governance structures in place that not only clearly define the role and responsibilities of the private sector to all stakeholders, including mining communities.

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