

## International Development Committee Inquiry – Written Evidence

### **CONFLICT AND DEVELOPMENT: *Peacebuilding and Post-Conflict Reconstruction***

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### **Aiding, Trading or Abetting? *The future of Trade, Aid and Security***

#### **Introduction**

1. Security is an essential precondition for sustainable development. Under the threat of widespread violence, social institutions cannot function and people cannot plan for the future. While security – by which we mean the prevention of violent conflict – is a goal to which both trade and aid are intended to contribute, the reality is that trade and aid can instead undermine security and lead to violence.
2. Trade, aid and peace are mutually supportive in theory. Growth in economic and social exchange between groups, combined with the adoption of international social and governance standards and balanced by transfer payments from winners to losers, should lead to more harmonious and equitable societies.
3. The reality is too often the converse. The globalisation of weakly-governed markets for natural resources, coupled with the decline and occasional misuse of development assistance, and with the aggressive promotion of unbalanced trade and macroeconomic management rules, can lead to conflict in a number of ways. This volatile mix can drive economic degradation, fuel tensions within and between countries, create a space for sub-state actors to enrich themselves through the perpetuation of conflict, and strain international and national mechanisms for keeping the peace.
4. Trade and aid are two of the principal ways the developed world interacts with the developing world. The direction and priorities of trade and aid policies, largely decided in the North, have profound impacts on the societies, economies and stability of countries in the South. It is increasingly clear that the rising tide of international trade in natural resources does not automatically reinforce stability or security. Nor is aid as currently constructed successfully achieving its aim of poverty alleviation. Our contention here is that a lack of progress on both fronts reflects an inadequate appreciation of the links between these policy spheres.

#### **The Trade, Aid and Security Initiative**

5. To date, there is no comprehensive strategy for tackling interactions between these policy spheres. In order to address what we saw as a significant policy gap, the World Conservation Union (IUCN) and the International Institute for Sustainable Development (IISD) launched a research project in 2000 with funding from the governments of Norway and Italy. This research initiative has attempted: to define the relationships between trade, aid and security; to assess the range of options open to policy makers; and to make recommendations for how trade and aid policy could be formulated in a way that contributes to peacebuilding rather than undermining it.
6. IISD and IUCN gathered a group of international experts in trade issues, aid policy and security issues to help advise and direct the research programme. Led by Dr. Lloyd Axworthy, President of the

University of Winnipeg and former Canadian Minister of Foreign Affairs, the advisory committee contains three Nobel Prize nominees or their representatives: Dr Axworthy, Partnership Africa Canada, and Global Witness.

7. Over a dozen detailed papers have been commissioned from leading experts, and those papers have been peer reviewed and their findings put out for consultation. The initiative is now reaching its conclusion. The following written evidence is an attempt to summarise its key findings and recommendations. This evidence will first summarise some of the links between trade, aid and security before outlining the six policy objectives we think policymakers should be striving towards.
8. Trade and aid policies are rarely, if ever, the sole source of conflict: identity, ideology and history are all important factors. Similarly, peacebuilding is not just about soldiers in blue helmets – it's also about setting in place the conditions that help to tackle the underlying causes of conflict. The extent to which the UK is supporting a larger peacebuilding effort and the avoidance of armed conflict is crucially dependant on the structural conditions established by its (and the EU's) trade and aid policies. If the UK is serious about promoting peacebuilding and avoiding conflict around the world, it must first, and at the very least, ensure that its own policies 'do no harm'.

### **Some linkages between trade in natural resources, aid and security**

9. Trade and security
  - Trade can establish incentives for peace by building a sense of interdependence and community. Countries that trade tend not to fight.
  - Trade rules and institutions can provide non-military ways to resolve disputes.
  - Trade sanctions can be used as a non-military signal of opposition to foreign activity.
  - Trade rules can lead to improved governance and stronger institutions through the adoption of international norms.
10. Trade in natural resources and insecurity
  - Resource scarcity and environmental degradation can contribute to the outbreak or aggravation of conflict.
  - Natural resources can be used to fund government oppression, finance armed opposition or motivate secessionist states.
  - Reliance on the export of natural resources tends to lead to weak institutions, economic and political instability, as well as causing 'Dutch disease' effects – the so-called 'resource curse'.
  - Control of valuable resources can be a motive for corruption, a prize of power, or can encourage third party involvement in conflict.
  - Abrupt opening to international markets can increase economic inequality, dislocation and migration with particularly hard adjustment costs born by previously protected sectors.
  - Trade liberalisation can increase vulnerability to global commodity price swings.
  - Trade rules can diminish government revenues and place constraints on domestic policy, weakening state legitimacy.
11. Aid and security
  - Aid can help to remove the underlying causes of conflict by reducing inequalities and promoting sustainable livelihoods.
  - Aid can help to improve governance and build a state's capacity to benefit from trade and cushion the effects of future deregulatory shocks.
  - Aid can promote economic diversification, and fund post-conflict recovery.
12. Aid and insecurity
  - Aid can be misused by donors: for trade and geo-strategic goals.
  - Aid can be misused by recipients: appropriated by armed groups, diverted in corruption, used to perpetuate repressive regimes.
  - Aid projects can create winner and losers, increasing inequality and spurring competition.
  - Political and economic conditionality on aid can undermine government capacity and legitimacy.

- Aid can be a substitute for concerted political (or military) intervention to promote peace and peacebuilding.
- Uneven aid flows can increase macro-economic volatility.
- Aid, allocated according to priorities defined by donor agencies without consultation with local authorities and communities, can deepen inequities.

### **The policy objective approach**

13. The focus of our most recent phase of research has been to assess carefully the range of options open to policy makers. Rather than look at individual policy measures in isolation, such as certification or sanctions, we decided to group the policy options in line with their ultimate objective – concentrating on the ends as well as the means. Conceptually, we feel that this helps to analyse where different mechanisms are mutually supportive, whether they are to be implemented at a national or an international level.
14. Consequently, we believe that policy makers should focus their attention on 6 key overall objectives if trade and aid policy is to support peacebuilding rather than increase the likelihood and longevity of violent conflict. Those 6 key objectives are: designing conflict-sensitive trade policy; developing conflict-sensitive aid policy; restricting the trade in conflict resources; promoting conflict-sensitive business policy; improving the quality of domestic governance; and improving the management of revenues from natural resources and aid.
15. Our research analyses the policy options open to decision makers and presents new ideas for how the international community could achieve these objectives. These policy briefs are available on-line (<http://www.iisd.org/security/tas>) and hard copies have also been submitted to the inquiry as background evidence. However, truncated versions of their key points and recommendations are included below.

### **Policy Objective 1: Designing conflict-sensitive trade policy**

16. In theory, trade can be a powerful driver of economic growth and stability: reducing poverty, providing non-military means to resolve disputes and creating strong economic incentives for peace. However, in practice, the current system of rules that governs international trade is fundamentally inequitable; biased towards rich countries and their corporations.
17. Limited market access, complex regulations and perverse domestic subsidies in the developed world inhibit the efforts of developing countries to diversify their economies. At the same time, developing countries are being pushed to adopt uncompromising market liberalization, which can reduce government revenues and undermine livelihoods, serving to increase the prospects for political instability and competition over scarce resources. This is especially the case in the absence of effective domestic institutions capable of mitigating economic shocks and satisfying competing demands for resources.
18. In effect these policies are locking developing countries into reliance on the export of primary commodities subject to volatile and declining prices over which they have little or no control. Economic shocks, stagnation or decline in fragile states have caused civil conflict by amplifying social inequalities, undermining governments, producing corrupt elites and placing the heaviest burden of trade liberalization on the poorest and most vulnerable.
19. Policy makers in the UK should work to: reduce the market access barriers that block poor country exports to developed country markets; increase support for developing country efforts to diversify their economies by removing trade distorting subsidies as well as clarifying health and safety requirements for imports from the developing world and helping exporters meet those requirements; improve and cohere approaches to failed and fragile states; engage in better research to design appropriate trade policies and ensure this is incorporated into the design of overall development cooperation packages; provide more capacity building support to fragile states to enable them to reinvigorate their trading opportunities; refrain from negotiating overly complex trading agreements or ones that seek to deepen

trade liberalization commitments on the part of developing countries going beyond those agreed multilaterally.

### **Policy Objective 2: Developing conflict-sensitive aid**

20. 'Aid' has not met the ambitions that were set for it when the project was first articulated in the 1950s and 1960s. That is not to say 'aid does not work'. Revolutionary achievements in education, health, agriculture and poverty reduction – patchy and isolated as some have been – demonstrate that aid can be hugely effective. The problem is that aid has been used by donors and recipients for purposes that were either not intended, or not explained to their citizens.
21. Critics of development assistance have long argued that aid can make things worse, that it can ignore signs of trouble, and that in supporting bad governments, it can skew resource allocation and help set the stage for conflict. Economic agendas are not a new factor in conflict. Managing revenues from natural resources and reducing the trade in 'conflict resources' are the subjects of other policy briefs in this series. From an aid perspective however, there are important lessons to be learned from the 'resource wars' of the past 15 years.
22. Some of these lessons may seem at first glance to lie beyond the normal remit of 'aid' policy, but for aid to be effective, other trade policies must be a part of the equation. The promotion of good governance; reducing the exposure of poor countries to price shocks; increasing the transparency of natural resource revenues; and attracting reputable resource extraction companies to fragile and recovering economies are essential parts of the mix.
23. If aid policy is to support peace and security in fragile states then both donors and recipients need to deal much more urgently with problems of inequality, racism, structural violence and exclusion. In particular donors need to; recognise the links between aid and conflict, mainstreaming conflict prevention into development aid; pay closer attention to the 'resource curse', and work to improve governance and protect countries from price shocks; build the capacity for conflict-prone countries to benefit from greater trade openness; develop funding and programming mechanisms to secure stable and predictable funding for the most needy countries; and break the link between the strategic interests of donor countries and their aid programmes. An important step would be to devolve aid ministries from the control of the ministries of trade or foreign affairs (as in the case of DFID). Northern security concerns should not diminish efforts to promote security and poverty reduction in the South. For their part, recipient countries have a responsibility to put in place checks and balances to ensure that aid is well spent. In particular, recipient countries could publicise the quantity and origin of the aid they receive as well as creating mechanisms for the independent monitoring of aid projects.

### **Policy Objective 3: Promoting 'Good' Governance – Aid and trade policies to spread 'good' governance**

24. Autocratic and unaccountable regimes, corruption, environmental degradation, poor provision of basic services, and lax enforcement of regulations have contributed to a downward spiral leading to violence in fragile developing states across the world. These elements of political and economic (mis)management have been grouped under the catch-all title of 'good governance'. The concept is contested but it is essentially about building effective institutions and rules imbued with predictability, accountability, and transparency.
25. Trade and aid are two of the main ways in which countries interact. They may present tremendous potential to increase transparency and accountability, promote the rule of law and build domestic governing capacity. In recent years, good governance has become both an objective and a condition for many aid and trade policies.
26. Trade and aid policies can offer either 'carrots' – inducements for positive behaviour such as preferential trade access or aid packages, or 'sticks' – reactive punishments for poor performance such as trade sanctions or the suspension of aid. In addition, capacity-building and technical assistance attempt to transfer supposedly more advanced skills, policies and institutions from the developed to the developing world.

27. However, trade and aid policies can equally reduce stability if they are misdirected or perceived as heavy-handed. In the past, aggressively promoted 'Western' concepts of good governance, market liberalization, and democratic reform have proved highly controversial and often dangerously destabilising. Meanwhile, revenues from aid and natural resources have often proved inherently problematic for governance. By reducing a government's reliance on revenues from collected taxes, aid and natural resource revenues tend to weaken the relationship between government and the governed.
28. Good governance is elusive. The core challenge for developed countries is to generate constructive influence in countries that are at risk of instability or conflict. Unfortunately, in the past, many of the mechanisms used by the international community have proven neither constructive nor influential. Too often, policy-makers in developed countries attempt to use trade and aid policies to pursue subjective, changing concepts of good governance without a realistic appreciation of the local context.
29. If trade and aid policies are to support 'good' governance then policy makers need to: carefully assess the likely political, economic and social impacts of governance interventions before implementation - not in preparation to 'sell' a predetermined governance agenda more convincingly but to understand what that governance agenda should be; learn from past successes and failures; build on existing reforms and align external interventions with domestic priorities; be patient, consistent and realistic; harmonise, coordinate and target aid at 'islands of change' within state structures; and design trade agreements so that they provide appropriate and substantial incentives for good governance.

**Policy Objective 4: Restricting trade in 'conflict resources' and creating markets for conflict-free goods**

30. Natural resource exploitation has played an increasingly prominent role in bankrolling conflict around the world since the end of the Cold War. The presence of some commodities, particularly oil, may make the initiation of conflict more likely; the presence of others, for example gemstones and narcotics, may lengthen the duration of conflicts. Revenues and riches may alter the mindset of combatants, turning war and insurgency from a purely political activity to an economic one; conflicts become less about grievance and more about greed.
31. In all cases, however, the link between natural resources and conflict depends critically on the ability of their exploiters to access external markets. Take away the ability to earn returns from resource extraction and their value to the promoters of conflict falls away. The term 'conflict resources' is easy to grasp, but harder to define. We would argue that a conflict resource – one that deserves the attention of the international community – is one that is bankrolling a war that is illegitimate, or where the laws of war are broken.
32. One obvious, though problematic, way to exclude natural resources associated with conflict from international markets is through sanctions. However, blanket restrictions on trade, such as UN sanctions on conflict resources, are clearly inappropriate where conflict resources may be smuggled into neighbouring countries, or where economic and social development may well depend on the legitimate exploitation of the resources in question. A more targeted solution is to develop systems to identify and license resources produced legally or free of conflict. The counterpart of excluding illegal products from consumer markets is building markets for verified legal products. This can be achieved through public procurement policy and private sector supply chain management.
33. Policy makers need to exclude conflict resources from international trade but also generate demand and build markets for goods produced in a 'conflict-free' way. In particular: develop and strengthen licensing systems that build on current initiatives like those for diamonds and timber; seek collaboration between WTO rules, UNEP and key multilateral environmental agreements; establish a permanent professional capacity in the Security Council with demonstrable independence and transparent procedures to advise on sanctions related to conflict resources; work towards a clear and unambiguous definition of conflict resources at the Security Council; ensure that improving natural resource governance is a central task of UN Peacekeeping missions where natural resources have



contributed to conflict; ensure that public procurement policies exclude illegal and conflict resources; and install time-limited bans on access to government procurement for companies that trade in illegal or conflict resources.

**Policy objective 5: Fostering responsible business practice in fragile states**

34. At its best increased business investment in fragile states has been positively correlated with reduced conflict risk, raising economic growth and living standards. However, investment has not always delivered on its promises.
35. Companies have helped violent factions raise money through the sale of conflict resources, have helped to reinforce the power of predatory states and have disproportionately benefited narrow social or political groups. Poor corporate conduct in countries with weak regulation and limited enforcement has generated grievances over environmental damage or perceptions of foreign domination whilst financial institutions have facilitated the flows of illegal revenues from corrupt officials and conflict economies.
36. There can be little doubt that market actors investing in fragile states routinely engage in self-regarding, even predatory economic activities. But to focus only on the behaviour of market actors is to mistake the symptom for the disease. Market actors do not exist in a vacuum but in a web of incentives and risks that define the market context.
37. The current regulatory landscape is a diverse and uneven patchwork of issue-driven initiatives. Given the competitive nature of the global market place, it cannot be expected that improved conduct will naturally trickle down from progressive companies to poor performers. There is a need for new or improved global frameworks that offer real sanctions or rewards, which create level playing fields and overcome collective action problems.
38. In particular: work through the United Nations and other international fora to develop international agreements that establish clear and authoritative norms on the rights, responsibilities and liabilities of companies in fragile states; develop robust criminal and civil mechanisms to hold companies within home jurisdictions accountable when found complicit in violations of international humanitarian law and other conventions; increase the resources available for the investigation of corruption under UN and OECD conventions on corruption and bribery; implement complementary public policies that increase the market rewards for companies that voluntarily adopt conflict-sensitive business practices; and strengthen the Specific Instances Process of the OECD's Guidelines for Multinational Enterprises by increasing the technical and fiscal resources of national contact points and by improving the examination and resolution of disputes.

**Policy Objective 6: Managing revenues from natural resources and aid**

39. Natural resources and foreign aid can play a crucial role in improving the security of populations in poor countries. However, somewhat paradoxically, many of the world's most conflict-prone countries possess valuable mineral and agricultural resources. These countries, often also highly dependent on foreign aid, tend to rank lower on the UNDP's Human Development Index, suffer higher levels of corruption and worse governance than countries with more diverse sources of wealth. This pattern, commonly referred to as the 'resource curse', links natural resource wealth to stagnation and conflict rather than economic growth and development.
40. States that are highly dependent on natural resources tend to be unaccountable to citizens' demands owing to their reliance on resource rents over tax revenues. These rents also prove attractive to outside groups, spurring and funding conflict. Aid (another 'unearned rent') can also undermine accountability if governments become more responsive to the requirements of donors than those of their citizens. Likewise, aid projects create winners and losers and so can widen inequalities and create grievances. Those countries that have trouble managing natural resource revenues also tend to experience difficulties making the most effective use of aid.

41. One way to improve revenue management is through the creation of formalised, legally-codified revenue management procedures which can help stabilise the income a country receives from its commodity exports and embed the structures necessary for long-term, prudent management of revenues. Aid trust funds can serve a similar purpose. A key element of improving the management of natural resource and aid revenues is to make them more stable and predictable. Another vital feature is transparency and accountability. A lack of transparency not only increases the risks of corruption but also of inequity, distrust and false expectations. By contrast, transparency can consolidate democratic debate by providing accurate figures upon which stakeholders can negotiate, plan and ensure accountability.
42. In essence, for revenues to be handled effectively and invested carefully, whether from natural resources or aid, policymakers need to develop institutional mechanisms that increase the transparency and accountability of natural resource and aid revenues, that ensure they are prudently managed and do not become a 'prize of power'.
43. In particular, policymakers should: strengthen the Extractive Industries Transparency Initiative and the IMF Guide on Resource Revenue Transparency, and develop them into an International Extractive Sector Transparency Agreement; build effective revenue management mechanisms that increase the accountability and transparency of natural resource and aid revenues; increase the focus on capacity building in extractive sector transparency agreements; and reinvigorate the debate on measures for commodity price stabilisation.

### **Postscript**

The Trade, Aid and Security initiative is a research project jointly coordinated by the International Institute for Sustainable Development and IUCN – The World Conservation Union, with funding from the governments of Norway and Italy.

Since 2000, the initiative has focused on the ways in which trade in natural resources can contribute to violent conflict at the sub-state and international level, and on the role of foreign aid and trade liberalization – in tandem or in isolation – in accelerating or alleviating this downward spiral. On the basis of this understanding, current research focuses on the options available to domestic and international policy makers.

For more information and full versions of all the Initiative's research and policy briefs please visit [www.iisd.org/security/tas/](http://www.iisd.org/security/tas/)

### **IUCN – The World Conservation Union**

The World Conservation Union (IUCN) is the world's largest conservation networks, bringing together states, government agencies, NGOs and more than 10,000 scientists. The Union mobilizes people and organisations to produce and use conservation knowledge for the benefit of people and nature.

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Oli Brown is co-ordinator of the Trade, Aid and Security initiative – a joint IISD/IUCN project that focuses on the way in which the trade in natural resources can contribute to violent conflict, and on the role of development assistance and trade liberalisation - in tandem or in isolation - in fuelling or alleviating this downward spiral.

With a first degree in Social Anthropology and a Masters in International Relations, Oli spent two years in Nepal managing education and conservation projects and a year and a half as a trade policy researcher/ advisor for Oxfam GB. He has completed consultancies for the UNDP, NZAID and International Alert and has worked on a wide range of trade, environment and sustainable development issues.