High-value natural resources such as oil and gas, minerals, metals, and timber can contribute to stabilization, job creation, greater revenues for governments, and can be the basis for sustained, long-term growth. Post-conflict countries must work to transform these valuable natural assets into tangible benefits for peacebuilding and economic development, and the period immediately following a conflict presents an important window of opportunity to do so. But this transition brings with it a number of challenges and risks.

Reliance on resource-related exports is common in post-conflict countries when other sectors of the economy have collapsed. But over time, many resource-rich countries underperform in the areas of economic growth and development compared to more resource-poor countries, a phenomenon referred to as the “resource curse” or “paradox of plenty.” In contexts like Liberia, Cambodia, and DR Congo, high-value resources have fueled conflict by providing a source of financing for arms and armies, as well as by magnifying income inequality among groups or regions.

With weak national institutions governing resources and limited checks and balances, corruption and rent-seeking behavior can be rife, undermining the social contract as governments become less accountable and effective. Economies that are overly dependent on high-value natural resource revenues are also vulnerable to fluctuating international commodity prices and currency values. Revenue and currency volatility can affect the delivery of basic services as well as the productivity and competitiveness of other sectors of the economy, hindering diversification and in some cases leading to contractions in the domestic agriculture, manufacturing, and service sectors (a phenomenon often referred to as Dutch disease).

The resource curse is not inevitable, but few post-conflict governments have the capacity or information to attract private sector investment, negotiate fair resource contracts, manage revenues transparently, make sound investment decisions, support economic diversification, or mitigate the negative social and environmental impacts of resource extraction. These challenges have led to a growing consensus that building national capacity to properly manage high-value natural resources and their revenues must be a prerequisite to their exploitation, and is a fundamental element of peacebuilding programs.

The transparent, accountable, inclusive, and equitable exploitation and trade of high-value natural resources can mean stability and development for a post-conflict country. A failure to operate by such guiding principles can result in conflict, fragility, and aid dependency in perpetuity; and poor choices made early on can get locked in for decades. Early action is absolutely central to setting resource exploitation and trade on the right track. There is no one recipe for resource management: high value resources

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Key components of managing high-value resources for peacebuilding

1. Assessing the resource base and local resource economies
2. Strengthening institutional quality and resource governance
3. Managing resource extraction and maximizing revenues and benefits
4. Sharing and investing resource revenues
5. Mitigating the negative social and environmental impacts
Recovery policies also depend on a thorough understanding of the role that high-value resources play in local livelihoods and in all aspects of the national economy, including the formal, informal, aid, and illegal economies. In DRC, for example, 15 percent of the population depends on artisanal mining for their livelihoods. It is critical to assess, as early as possible, the extent and manner that high-value resources contribute to local livelihoods in order to protect them while at the same time maximizing fiscal revenues and pursuing broad development benefits in the medium and long term for the whole country.

Resource base:

- Generate an impartial, open inventory of the country's high-value natural resource base and extraction sites. The international community can help generate this kind of information by providing financial and technical resources or political economy analysis. Capacity deficits may also require engaging the private sector as a key partner in generating this information, provided they can do so in an unbiased, objective, and neutral way.

- Assess the contribution of high-value natural resources revenues and their distribution to the conflict economy.

- Disseminate information on the size and value of the resource base to promote realistic expectations among the population and government officials, to reduce information asymmetries in contract negotiations with the private sector, and to empower civil society to act as a watchdog, monitoring government and private sector activities.

- Identify during the assessment process the best economic and livelihood opportunities for developing specific resource sectors, as well as the greatest social, economic, and environmental risks.

Local resource economies:

- Assess to what extent local livelihoods directly and indirectly depend on high-value natural resources and their respective value chains.

- Understand the relationship between natural resources and livelihoods in each segment of the post-conflict economy, including the formal, informal, international aid, and illegal elements. Care must be taken when attempting to regulate unofficial or illegal resource exploitation, as this may severely disturb livelihoods, causing local populations to view such interference as destructive.

- Support the creation of a diversified high-value resource sector, recognizing the employment and livelihood benefits derived from a mix of artisanal, small, and medium-scale operations in addition to the more high profile, large-scale extractives.

ASSESSING THE RESOURCE BASE AND LOCAL RESOURCE ECONOMIES

High-value natural resources are often central to a post-conflict country's national economy and to local livelihoods. Unfortunately, information on the resource base and its role in livelihoods and the national economy may not be readily available due to a lack of technical capacity, the loss of qualified staff, illegal or undocumented exploitation, and a lapse in resource surveys due to the conflict. To develop judicious and comprehensive recovery policies, inform public opinion and ensure that genuine benefits from peace accrue to a war-torn population requires a reliable estimate of the resource base.

Among stakeholders, knowledge of the resource base can help build a common understanding of the scope and value of the country's resources, managing their expectations and helping all parties to see what is at stake. Importantly, it can also eliminate information asymmetries and power imbalances between the government and the private sector in negotiating contracts. If the resource base is less plentiful than anticipated, countries and communities may be spurred to find alternative ways to secure long-term growth and development. An accurate understanding of the resource base can also impact the dynamics of peace or secession negotiations: it may render a central government more willing to grant autonomy or a larger share of resource revenues to a region whose resources are relatively small or depleted; or may help a region seeking autonomy to realize that resource extraction alone is not a viable basis for the entire regional economy. To this end, in 2004 international experts were brought in to Sudan to develop a common understanding of the extent of its oil reserves during peace negotiations between Sudan and South Sudan.
STRENGTHENING INSTITUTIONAL QUALITY AND RESOURCE GOVERNANCE

The quality of natural resource governance and institutions is decisive when seeking to transform natural riches into a foundation for stability, peace, and economic development. In many post-conflict contexts, high-value natural resources may remain under the illegal control of excombatants or armed groups, and re-establishing government control over these resources while avoiding a relapse into conflict will be a national—and oftentimes peacekeeping—priority. At the end of the Liberian civil war for example, rubber production was restricted by the continued presence of armed groups in many of the country’s key plantations, while provisions placing Sierra Leone’s diamond mines under the de facto control of the Revolutionary United Front rebel group doomed that country’s Lomé Peace Accord. In addition, the ability to establish commodity- and revenue-tracking systems, assess and renegotiate contracts, agree on revenue-sharing formulas, address corruption, and efficiently and effectively invest resource revenues largely depends on the quality and capacity of a country’s resource governance. And because robust local and national institutions are crucial to the management of resources and revenues, institutional reform should be a peacebuilding priority. This includes strengthening the legal system; introducing, reforming, or consolidating resource management legislation; and establishing the necessary administrative and oversight bodies to implement the laws and regulations governing natural resource management. Strong institutions will help a society mitigate the adverse effects that natural resource wealth can have on a post-conflict society’s economic development, such as Dutch disease and the resource curse.

Institutional and governance reform:

- Assess the policy and institutional frameworks for resource governance to identify where gaps exist and reforms are needed. Key governance areas to focus on include: transparency, accountability, and access to information; public participation and inclusive decision making; equity and benefit-sharing; dispute resolution; and rule of law. A useful tool for gauging governance gaps is the Resource Governance Index by the Revenue Watch Institute.

- Before any extraction or capacity building takes place in the resource sectors, a national vision and plan to articulate how the extractive sectors will contribute to equity, peace, poverty reduction, and sustainable development is necessary. This should be achieved through a transparent, inclusive, and participatory process engaging a broad range of stakeholders.

- Support the government in re-asserting its control over high-value natural resources and demilitarizing their management and trade. This can include peacekeeping support for operations aimed at clearing natural resource sites of armed groups (as was mandated for forests in Liberia and mines in Sierra Leone), imposing and monitoring sanctions on conflict resources, monitoring key trade and transport hubs (as in DRC’s Centres de Négoces, supported by MONUSCO), and integrating high-value natural resources into reintegration programs for excombatants.

- Consider centralizing political authority over high-value natural resources at a level above the individual interests of each relevant government ministry. A high level committee chaired by the President and including key Ministers of Finance, Energy, Mines, Forestry, Information, and Environment could be used for strategic level decision making.

- Focus reform efforts on a few select institutions or natural resources rather than attempting to reform all institutions and sectors at once. Priority should be given to those resources with the highest potential to generate immediate revenues and employment, resources linked to the conflict or illegal activities, and those institutions crucial to specific resource management tasks and safeguards.

- Examine options for decentralizing aspects of natural resource governance, particularly where a resource is a principal source of livelihoods in a region but has a more marginal role in the national budget.

- Promote improved institutional transparency, accountability, and inclusivity through external means such as incentives (such as debt relief) for achieving institutional and governance reform benchmarks; programs that grant preferential access to export markets if standards are met; and home-country legislation that requires compliance from domestic companies exploiting or trading in resources from conflict-affected areas.

- Anchor resource management reforms in peace agreements where possible; at a minimum, use the peace agreement to open a national dialogue on rebuilding effective resource governance during the implementation period.

- Improve trust-building among stakeholders by providing an ongoing and neutral forum for stakeholders (including women and marginalized populations) to meet for open, honest, and robust dialogue on resource governance and decision making, where positions and explored and contentious issues can be debated and resolved. Such a platform will only be effective if it operates consistently and inclusively.

Laws and regulations:

- Develop an initial set of good resource governance principles around which regulations for the extractive industry value chain are built. Expand on these principles with more detailed regulations as experience is gained and understanding broadened. It is imperative to strengthen the legal and court systems to enforce any regulations put into place.
Assess, reform, and adopt laws and regulations for the management of high-value resources. Laws should promote transparency, accountability, representation, and equity across resource contracts (from those granting exploration rights to those governing exports) to maximize public benefits from high-value resources, and should provide for regular and comprehensive reporting and the transfer of critical data and analyses to the appropriate level of government.

Rebuild cadastres and land documentation systems. Cadastres should be open to the public, and should include detailed information on private and public lands; concessions for timber, oil, gas, minerals, and other resources; conservation areas and ecologically-sensitive sites; and other rights and restrictions related to land or water.

Establish (or support, if existing) local conflict resolution mechanisms and mediators at the extraction site to promote local dialogue and address tensions over high-value resource extraction before they escalate.

Understand local land tenure dynamics, including the interplay between customary and statutory systems, and how high-value resource contracts will impact community land use and expectations.

MANAGING RESOURCE EXTRACTION AND MAXIMIZING REVENUES AND BENEFITS

Peace often comes with a “resource rush” with foreign investors and local entrepreneurs seeking to exploit newly-accessible resources, domestic authorities and international donors seeking revenue sources to reduce dependence on foreign aid, and war-affected populations seeking reconstruction materials and employment opportunities to rebuild their lives. At the same time, the institutions that are mandated to govern resources are in flux, weak, or non-existent and competent staff are in short supply. After conflict, many regulatory institutions lack the technical capacity to effectively plan for sustainable resource management or to review and manage resource contracts and assess their potential negative consequences. This is often exacerbated by political struggles over the control of resources and resource revenues. Predatory individuals and firms may also try to take advantage of the governance vacuum by capturing as many resources as possible before sound regulations and capacities are in place. With high-value resources, corruption is often a very real challenge, while poorly negotiated contracts can lock a state in to reduced revenues for years and become a serious source of local grievance. Unofficial or illegal production and smuggling—by civilians, government officials, soldiers, excombatants, or organized crime—may further divert revenues away from state coffers. In this context, governments must work to improve the management of high-value resource extraction and maximize the revenues and benefits derived from these resources.

Resource management:

Assess national capacity to manage all dimensions of the resource value chain and identify weaknesses. Focus on strengthening government capacity and establishing a working legal system to effectively manage the high-value natural resources that support the largest revenues or most number of livelihoods.

Recognize the role of women in post-conflict high-value natural resource management and assure that they are included in decision making.

Establish and implement national legal codes to govern resource contracts between the government and private sector. A clear national mining or forestry code can explain the rules of engaging in the sector; increase transparency around contract negotiations, conditions, and payments; protect domestic and foreign investments; and provide a monitoring and accountability framework for civil society.

Strengthen the tax and royalty regimes to improve the capture of government revenues from high-value resources while making the sector more stable, predictable, and attractive for investors. If the tax regime is weak, or if profits can be distorted to reduce taxable income, consider extraction contracts built around royalties rather than taxes. Either tax rates or royalty regimes should have indexed rates or contingency arrangements which reflect changes and fluctuations in global markets.

Avoid the temptation of offering low tax rates to extractive companies as a trade-off for an equity stake in resource development projects.

Approach in-kind arrangements, such as infrastructure-for-resource-rights swaps, with caution: such arrangements are increasingly common but the benefits are usually quite localized, competing bids are rare, and accurate resource valuation can be problematic.

Invite external experts to regularly audit the institutions that manage natural resources to reduce and address corruption and inefficiency.

Resource contracts:

Determine whether it is necessary and appropriate to review, reassess, or renegotiate resource contracts that were signed prior to the conflict, during hostilities, or by an unelected transitional administration. Any contract renegotiations or cancellations must be handled with caution to avoid undermining investor confidence or violating bilateral investment treaties and other legal agreements.

Postpone the signing of new contracts until appropriate regulatory processes and capacities are in place, and build capacities by first negotiating smaller contracts and gradually moving to issuing larger blocks.
Consider introducing the public tender of all concession contracts. Compelling companies to compete openly on the basis of price and contract conditions will increase transparency and fight corruption.

Integrate transparency and accountability into natural resource contracts, payments, and revenue management, tracking payments from the extractive industry to the state, and from state agencies to sub-national entities or community projects. Contracts and revenue flows should be made public. To help do so, countries should implement the recommendations of the Natural Resources Charter and become compliant with the Extractive Industries Transparency Initiative.

Conduct independent contract reviews to ensure compliance with best practice and legal requirements, and to fully understand the direct and indirect implications of all contract conditions. Where national capacity to conduct such reviews is lacking, international legal and technical experts should be involved. International and local NGOs can be an effective way to monitor compliance with resource contracts and due diligence requirements.

Promote where possible local content provisions and “dual use” transportation infrastructure requirements in resource contracts. This can ensure that labor for resource extraction and processing initially comes from domestic sources and that the benefits of transportation infrastructure are shared with local communities and the state.

Structure incentives to favor foreign investors who build links with domestic suppliers, undertake local processing, support skills development, and prioritize a “local content” workforce. Use these linkages to diversify national economies away from dependence on resource extraction, and to avoid the “resource enclave” mentality.

Require resource companies to disclose their subsidiaries and beneficial ownership structures, including offshore and shell companies, to ensure tax authorities can accurately assess profits, fight tax evasion, and enforce compliance.

**SHARING AND INVESTING RESOURCE REVENUES**

Because most high-value resources are nonrenewable, they are exhausted once exploited. The equitable sharing and wise investment of the resulting revenues are therefore of paramount importance, and should further economic diversification and development. In order to exploit high-value natural resources, capital investments will vary: forestry will be easiest to develop, followed by mining, and then oil and gas. Parallel investments will also have to be made in processing, transportation, and energy infrastructure. Once revenues are being generated, their distribution between the central government and subnational entities such as districts and municipalities can be an important peacebuilding tool and confidence-building measure, provided benefits can be distributed in a win-win manner. Conversely, inequitable revenue distribution can be a source of tension, as producing regions that do not receive a fair share of the resource revenues and benefits to compensate for the negative burdens and costs of resource exploitation may lead to conflict or disrupt the peace process. For example, the unequal sharing of revenues from the Panguna copper mine in Bougainville contributed to the conflict between communities on the island and the government of Papua New Guinea. In some cases, revenue sharing can also be a prerequisite to peace agreements and a solution to secessionist conflicts. Ensuring that revenues are invested and distributed in ways that support medium- and long-term development are decisive factors in promoting economic diversification and post-conflict stability.

**Revenue spending and investment:**

- Develop a national vision of short-, medium-, and long-term development needs, and earmark revenues from high-value resources to meet these needs in an equitable manner. This will require striking a balance between consuming resource revenues immediately and saving these revenues for future consumption. Savings rates (as a proportion of revenues) should increase as high-value resources get closer to being exhausted.

- Assess immediate and long-term investment requirements. Resource revenues will need to be initially allocated to health care, water services, sanitation, and nutrition to meet basic needs and provide immediate peace dividends, while longer-term investments in education, infrastructure, economic diversification, and – when suitable – debt repayment will need to be carefully planned for to account for the volatility of natural resource revenues.

- Build up domestic spending and investment gradually, matching outflows to resource revenue inflows. Governments must also understand and plan for the eventual contraction of revenue streams from non-renewable resources, making provisions for these future budgetary shortfalls. A ceiling on the rate of increase of public spending can help guard against the temptation to overspend during periods of high commodity prices.

- Promote the separate management of natural resource revenues, in a distinct budget outside of general state revenues, to improve the traceability of these revenues and all associated spending. Relocate revenue management from the ministry in charge of resource management to the finance ministry. Publish on an annual basis how resource revenues are being spent, saved, and invested, to promote public transparency and accountability.

- Save a portion of revenues from natural resources in Sovereign Development Funds, for domestic

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- Require resource companies to disclose their subsidiaries and beneficial ownership structures, including offshore and shell companies, to ensure tax authorities can accurately assess profits, fight tax evasion, and enforce compliance.
Guard against the emergence of Dutch disease by supporting the non-resource export sectors of the economy (such as agriculture and manufacturing) and by managing the rise in public spending associated with incoming high-value resource revenues. This will require building up national capacities to invest in the economy domestically, particularly in those export sectors adversely affected by increasing exchange rates, as well as maintaining steady increases in public spending to protect against inflation.

Revenue sharing:

- Develop, through inclusive dialogue, a clear and realistic understanding of the types and magnitude of revenues to be shared. High-value resource management and ownership rights must be agreed upon to clarify how decisions regarding those resources will be made and by whom.

- Come to an agreement between the central government and producing regions and communities on equitably sharing high-value resource revenues. Possible arrangements include: revenue collection is centralized, and subnational regions then receive a set percentage of the revenues; producing regions receive indirect transfers from the central government through the national budget; or local governments tax the extractives industry directly. Centralized revenue management permits more equitable distribution of revenues and benefits at the national level (when compared to a handful of privileged resource-rich localities), but must be undertaken with the utmost transparency to ensure that government corruption and inequitable benefit-sharing are avoided.

- Establish mechanisms for deciding when and how to renegotiate revenue-sharing agreements with producing regions (at the government level) and producing communities.

- Consider using resource revenues to establish a national fund for development projects in host communities. Build community capacities to manage and invest the money they receive from the fund.

- Integrate conflict-sensitivity into benefit-sharing agreements to ensure that revenue distribution does not lead to the emergence or exacerbation of tensions.

- Ensure that benefit-sharing schemes recognize the important—though rarely compensated—role of women in the extractives sector.

MITIGATING THE NEGATIVE SOCIAL AND ENVIRONMENTAL IMPACTS

The exploitation and trade of high-value natural resources can significantly harm the environment, local livelihoods and social relationships. Extraction and processing operations can put a great strain on limited local resources like water and energy; pollution from resource extraction and transport can impact human health, soil, and groundwater resources; and production can block traditional community access to land. The loss of access to land and natural resources can lead to the loss of local livelihoods, social fragmentation, and possibly displacement. These impacts are particularly common in those post-conflict settings where governance and oversight are weak, benefits-sharing arrangements are inadequate, and corruption is present. Such negative impacts can lead to the emergence of tensions among local communities, the government, and the private sector. Governments must ensure that those engaged in the exploitation of high-value natural resources are responsible for mitigating the negative impacts of that exploitation, and for providing adequate compensation to those bearing these impacts. Companies engaging in post-conflict extraction of high-value resources have come under increasing pressure to adopt more socially responsible operating practices due to (1) the requirements of financing institutions and home-country legislation; (2) the desire to secure long-term profitability by establishing a reputation as a “responsible” company; and (3) the need to minimize conflict in order to protect capital investments and productivity.

Government, civil society and communities:

- Encourage extractive firms to obtain the free, prior, and informed consent of local communities before undertaking extraction. This includes engaging with indigenous and tribal communities.

- Mandate that companies seeking to exploit the country’s high-value natural resources conduct social and environmental impact assessments and environmental baseline studies prior to commencing operations. Build assessment capacities in a strategic and stepwise manner, and focus efforts on the highest priority extractive sectors.

- Ensure that extractive companies cover the costs of cleaning up any environmental damages from their operations. Consider requiring that companies post a bond before extraction begins, to be held by the government in escrow until the company can demonstrate the satisfactory completion of clean-up and reclamation activities.

- Build the capacity of affected communities to understand the social, economic, environmental, and legal implications of commercial-scale resource investments in large scale infrastructure, and in Sovereign Stability Funds, for smoothing national revenue flows to mitigate the impacts of commodity price volatility. As Sovereign Wealth Funds are normally used to acquire foreign assets, they should initially be avoided until sufficient levels of domestic investment are achieved. All saving funds should be legally separated and protected against being used for other purposes.
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extraction in their area, including: articulating resource rights, outlining grievance mechanisms and processes, and building negotiation capacity. This will also require managing community expectations of the benefits, employment opportunities, and impacts associated with resource extraction.

- Work with communities, civil society, and the private sector to develop a framework, grievance mechanism, and funding process for compensating local and displaced communities for social and environmental damages from resource extraction. Keep compensation separate from revenue sharing in the national budget, and ensure that compensation is paid to affected communities when social and environmental damages occur, rather than when revenues are generated. Complement compensation with training and support for community members requiring alternate livelihoods.

- Improve the capacity of civil society and the media to monitor the management of high-value natural resources and their revenues, and to hold governments, institutions and companies to account for their actions.

- Put measures in place to protect women and children from violence and sexual abuse, to uphold their rights, and to restrict the use of child labor.

**Industry:**

- Seek ongoing approval to operate from local populations, including tribal and indigenous communities, where they have been excluded from formal contract negotiations (the so-called "social license to operate").

- Work with site-specific grievance mechanisms and customary and formal dispute resolution processes to prevent, identify, and resolve social and environmental grievances associated with resource extraction.

- Adopt voluntary standards that take into account the social and environmental context of resource exploitation such as the IFC's Performance Standards on Social and Environmental Sustainability, the Equator Principles, the Voluntary Principles on Security and Human Rights, and the Guiding Principles on Business and Human Rights.

- Perform due diligence on purchases of high value natural resources to ensure that their extraction and trade do not support conflict or human rights abuses. See the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas for more information.

**Further Reading**

For a list of further reading materials, please visit:
http://environmentalpeacebuilding.org/publications/policy-briefs/brief-1

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**Post-Conflict Peacebuilding and Natural Resource Management**

The Environmental Law Institute, the United Nations Environment Programme, the University of Tokyo, and McGill University have coordinated a four-year global research initiative to analyze experiences in post-conflict peacebuilding and natural resource management; identify lessons; and raise awareness of those lessons among practitioners and scholars. This initiative has generated six edited books (published by Earthscan) that include 150 case studies and other analyses from 60 conflict-affected countries and territories, written by 225 scholars, practitioners, and decision makers from around the world. A seventh overarching book (published by Cambridge University Press) synthesizes the findings across resources, peacebuilding activites, and countries. Contact: Carl Bruch, Environmental Law Institute, 202.939.3870, bruch@eli.org

www.environmentalpeacebuilding.org