CHAPTER 5

Making Natural Wealth Work for the Poor

This chapter examines the linkages between natural resource wealth and poverty in Africa. The linkages are complex and a number of strategies aimed at using resources directly or indirectly for poverty reduction have been implemented most recently with the overall goal of achieving the Millennium Development Goals (MDGs). This Chapter analyses the strategies, core issues, and results achieved in selected cases. In particular, it provides a platform for pursuing the best opportunities to fully harness natural resource wealth in the future.

Nature-Wealth-Power Framework

The United Nations Millennium Declaration, which led to the formulation of the MDGs, is a worldwide pledge to eradicate extreme poverty and inequality in the world. Nowhere is this more needed than in Africa. Achieving the two goals of eradicating extreme poverty and hunger (MDG 1) and ensuring environmental sustainability (MDG 7) depends on making natural capital, along with other productive capital, work for the poor. Achieving the MDGs and development in Africa is, to a large extent, about making sure that poor rural people benefit more from local natural resources. Today, more than 400 million Africans live in poverty. Twenty-two of the world's 25 poorest countries (and 33 of the poorest 50), based on gross national income, are in Africa[1], as are 29 of the 31 least developed countries as measured by the United Nation's Human Development Index.[2] In addition, Africa now matches Latin America in inequity along many social and economic dimensions: South Africa and Namibia, for instance, are among the world's most inequitable nations.[3]

The urbanization growth rate is considerable in many African countries, but overall, the population in Africa will remain predominantly rural-based for many decades. In 2005, a total of 460 million people lived in rural areas. By 2025, the number is expected to climb to almost 560 million. Moreover, in most countries, the rural sector accounts for more than 50 percent of national employment and income (in some countries, more than 85 percent). Small-scale agriculture is the largest single source of income for most rural families, and many rural households are also engaged in logging, charcoal production, mining, fishing, hunting, gathering, and other nature-based economic activities. It is thus important to recognize that, while all Africans depend on natural resources, rural households are generally more dependent on the natural environment and on natural resources than urban-based families. This relationship also extends to the poorest segment of the population that tends to be the most dependent of all.[4]

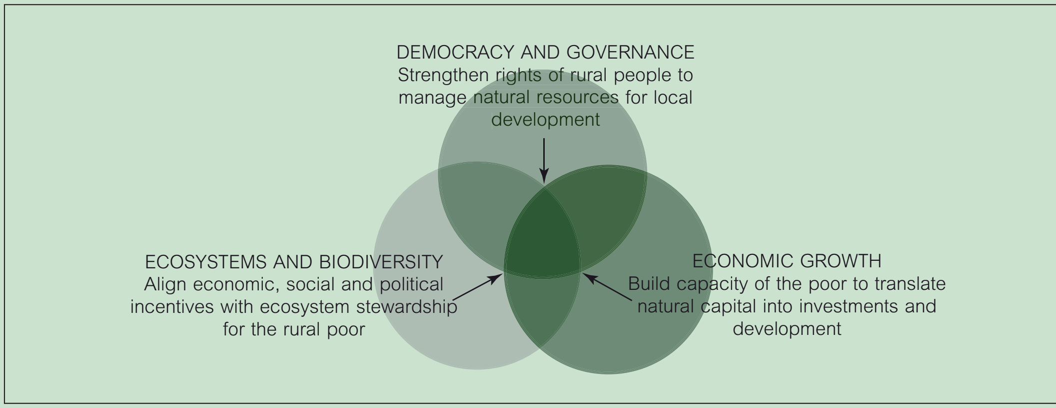
[1] World Bank (2006b)

[2] UNDP (2006)

[3] World Bank (2006a); UNDP (2005)

[4] World Bank (2006a); World Bank (2003); WRI et al. (2005); Bass et al. (2005); Pearce (2005); UNEP and IISD (2004); Shackleton and Shackleton (2004); DFID et al. (2002); Bebbington (1999)

Figure 5.1: Linkages Between Natural Resources, Economic Growth and Governance



Source: Adapted from WRI et al. (2005); USAID et al. (2002)

As outlined in previous chapters, Africa is generously endowed with productive land and valuable natural resources, including renewable resources (such as timber, water, and land resources) and nonrenewable resources (minerals, gas, oil). While pockets of overexploitation and environmental degradation must be brought under management for sustainable use, much of Africa's resource base is robust, resilient, unused or underutilized, and holds great promise for development.

Making rational choices about nature is central to making natural wealth work for the poor and to maximizing the contribution that a nation's resource endowment can make to social and economic development. In Africa, the environment, economic growth, and governance are inextricably linked and are the essential elements of rural development and poverty reduction. These elements — nature, wealth, and power — and their relations provide a useful framework for understanding development and charting a path forward (see Figure 5.1). Experience in Africa and elsewhere demonstrates that investments that recognize and integrate these three elements yield positive development outcomes. As a result, a nature-wealth-power framework is defining investments in the rural development of a growing number of governments and development assistance agencies.[5]

Mobilizing all people by applying a poverty-oriented, pro-democratic and environmentally sound approach to unleash the true potential of the natural environment holds the key for the future development of Africa. This will be explored further in this chapter.

[5] USAID at al. (2002)

Box 5.1: Nature, Wealth and Power Principles to Guide Investments in Africa

Nature	Wealth	Power
• Improve information and knowledge management systems • Promote local land use planning and appropriate resource tenure systems • Foster innovation, social learning, and adaptive management • Build capacity and invest in human resources • Promote cost-effective technical advisory and intermediary services	• Be strategic about the economies of natural resource management • Strengthen markets and NRM market incentives • Invest in rural organizations • Create a framework for better NRM choices • Ensure that local resource managers have secure access to NRM means and benefits	• Strengthen environmental procedural rights for rural people • Improve rural input into public decisions and policy • Redistribute natural resource authority and functions • Transfer power, rights, and responsibilities to representatives and accountable authorities • Explore a minimum environmental standards approach • Promote platforms that allow for continuous and inclusive consultations

Source: Adapted from USAID et al. (2002)

Strategies for Managing Natural Resources for Sustainable Development

Implementing a nature-wealth-power framework for development in Africa requires new strategies and instruments. Africa's future economic growth and development cannot be separated from the management of its natural resources, and sound environmental management cannot be separated from the broader context of politics, political systems, and governance. Governments, civil society, and the development assistance community should recognize and capitalize on these linkages to achieve positive environment and development outcomes. There are multiple dimensions to the nature-wealth-power linkages (see Box 5.1) that collectively constitute the principles that can guide investment for development purposes in Africa.

These nature, wealth and power principles are consistent with the features, components, and instruments of other recently developed analytical frameworks for utilizing natural endowments to foster sustainable development. These include frameworks developed from the analysis of minerals and mining by the World Bank, the United Nations Conference on Trade and Development, and the International Council on Mining and Metals[6] and by the Mining, Minerals and Sustainable Development project.[7] They are also similar to the features of new poverty reduction frameworks

[6] World Bank, UNCTD and ICMM (2006)
[7] MMSD (2002)

developed by the United Kingdom's Department for International Development[8] and the Poverty and Environment Partnership[9].

A common feature of the frameworks is the focus on integrating or mainstreaming natural resources into development and the important role of good governance in achieving positive development and environment outcomes. All frameworks acknowledge that sound natural resource management requires attention not only to environmental and natural resource laws and institutions, but also to the broad range of legislation, organizations, decisions, procedures and actions that influence and otherwise affect the environment. They also recognize the need to move beyond traditional approaches to natural resource management (such as command and control mechanisms) to more innovative approaches (such as economic instruments and self-audits).

Finally it is important to note that development strategies, including those that emphasize rural development and focus on making natural wealth work for the poor, are not static or final. Strategies and instruments must adjust to changing local circumstances — including changing local perceptions, interests, and priorities. Even nature-based growth and development must be seen as a stepping stone in the economic development and empowerment of the rural poor. With few opportunities for Africa in manufacturing and services, but often abundant natural resources, nature-based development is arguably the best strategy for achieving poverty reduction at present. However, in the future, Africa's environment-driven household economies may need to give way to labor-based livelihoods. Appropriate transition and exit strategies will need to be developed to sunset nature-based economic activities, in particular, to focus more on job creation and growth in sectors and regions where poor people live and work. This will include jobs in agriculture, but will increasingly emphasize non-farm activities and require new investments, such as a renewed focus on education, and labor market policies.[10]

Environmental Instruments and Policies for Natural Resources Management

Environmental policy is the body of interlocking statutes, common laws, treaties, conventions, regulations, and policies designed to protect the natural environment from activities that threaten or damage the health and welfare of people.[11] In Africa, it is even more important than elsewhere that policy makers recognize that productive ecosystems are the basis of a sustainable income stream from nature. The policies must emphasize the suite of environmental, economic, and governance policies that affect sustainable natural resource use (as opposed to protection or conservation) and, in turn, development and poverty reduction.

In most African nations, natural resource legislation has been in place since the

[8] DFID (2006a); (2006b); (2002)

[9] UNDP and UNEP (2007); Pearce (2005); UNEP and IISD (2004)

[10] Veit (2007)

[11] Richardson and Wood (2006)

colonial era, but many of the laws focused either on conservation, at the expense of human welfare, or on resource exploitation for export, at the expense of the environment. Laws in Africa have not, in general, promoted sustainable use or development, and environmental policies did not, in a real manner, crystallize until the late 1980s — during the general debate on sustainable development and the lead up to the 1992 United Nations Conference on Environment and Development in Rio de Janeiro, Brazil.[12]

Africa's new national environmental protection agencies were thus established quite recently — at the time governments were also downsizing, democratizing, and engaging in free market economies — and were tasked with regulation and enforcement mandates. Typically, the new environmental and natural resource laws and regulations were informed by concepts such as the precautionary and polluter pays principles, environmental impact assessments, minimum environmental standards, transparency and access to information, public participation, and environmental justice.

In much of Africa, the environmental policies enacted and the implementing institutions are inadequate and weak and, as a result, pressing environmental problems persist. Many apex environmental protection agencies lack the legal mandate and authority to coordinate, regulate, and oversee resource use by line ministries, or to address crosscutting and cross-border environmental issues. Many also remain chronically under-staffed and under-resourced. While several environmental policy issues demand urgent attention, the two most critical issues for sustainable development are[13]

- Strengthening environmental policy and law; and
- Regulating the private sector

Strengthening environmental policy: The suite of laws and regulations that constitute environmental policy is, in general, incomplete, outdated, and poorly or selectively enforced in Africa. In some cases, new national framework environmental management acts anticipate the enactment of subsidiary legislation such as environmental impact assessment regulations and minimum environmental standards (for example, air and water quality, noise levels). Nevertheless, in many countries, this enabling legislation has yet to be developed and effectively implemented. Many natural resource laws are old, cumbersome, and irrelevant to the circumstances and concerns of today. Outdated regulations that contradict or are inconsistent with national environmental protection acts must be reformed. The legal supremacy of a national environmental act over sectoral laws, including legislation governing high-value natural resources must be recognized and systematically enforced. Apex environmental protection agencies must also have adequate authority over line ministries and natural resource departments on matters that affect the environment.[14]

[12] Larson and Ribot (2007); Veit (2006); Gibson (1999); Ribot (1998)

[13] Veit (2007)

[14] Ibid.

Responsibility for implementing policy and enforcing environmental laws is divided among a number of ministries, government departments, and agencies (see Box 5.2 for the case of the AfDB). For these institutions to perform their roles and functions effectively, responsibility areas must be clear and relevant government institutions strengthened with broader mandates, new authorities, and expanded capacities (human resources, funding and equipment).

Regulating the private sector: As outlined in previous chapters, recent years have seen a significant increase in the role of the private sector (forest and mining sectors, for example) in Africa with respect to the use and management of natural resources. In many cases, natural resources are being mined with little or no regard for long-term sustainability and viability issues. While all resource users have environmental management responsibilities, the commercial sector is securing rights over an increasingly larger share of productive resources and deserves special attention from regulatory agencies. Despite considerable government and donor investments in natural protection and environmental matters, many domestic and foreign corporations are not in compliance with national environmental legislation, or, for that matter, general sound extraction principles and practices. Governments must step up their efforts to conduct environmental audits, monitor the environmental effects of corporate actions, and apply sanctions on industry for non-compliance, poor performance and resource degradation.[15]

[15] Ibid.

Transnational corporations and international stakeholders are responding to increasing competition and the powerful threat of global activism with new strategies. Over the past decade, a growing number of companies have more or less voluntarily adopted industry self-regulation policies, such as corporate codes of conduct, social and environmental standards, sectoral guidelines and covenants, customer or supplier requirements (value-chain demands), environmental management systems, third-party certification, and environmental auditing and monitoring systems. Such self-regulation can certainly improve environmental performance, preserve natural resources and, at times, also the bottom line for participating companies. However, relatively few industries operating in Africa have adopted such policies[16]. In other words, self-regulation must not be viewed as a substitute for government regulation. Traditional command and control regulations are still the foundation of environmental policies and play an important role in structuring and achieving positive outcomes. However, international funding mechanisms are important for sustainable livlihoods (see Box 5.3).

Natural Wealth, Economic Growth, and Poverty Reduction

Investment and Wealth Distribution Policies

Economic growth is essential for poverty reduction and, as such, is central to promoting development and improving

[16] Ibid.

Box 5.2: AfDB Environmental Policies, Strategies, and Initiatives

The African Development Bank (AfDB) adopted an environmental policy in 1990, followed, in 1992, by environmental assessment guidelines aimed at guiding environmental concerns and practices in AfDB operations. The guidelines have been updated several times to accommodate growing concerns about the management of Africa's natural resources. In 1997, the Bank published its *Sectoral Environmental and Social Impact Guidelines*. In 2003, a revised environmental policy was discussed in an informal Board seminar and a revised version was finally adopted in 2004. The *2002–2004 Environment Policy* revised the sectoral approach of earlier policies and adopted a cross-sectoral approach based on the concept of sustainable development. Key to the implementation of this policy are operational strategies to mainstream environmental issues at all levels of the Bank's activities and enforce the *Environmental and Social Assessment Procedures* agreed in 2001.

In 2005, the AfDB developed an *Environmental Action Plan*, followed by the development of an Implementation Plan for 2005–2007. The plan was anchored on mainstreaming environmental issues into all Bank operations, strengthening existing environmental and social assessment procedures, and developing new environmental management tools. It was also aimed at demarcating internal responsibility for various units of the Bank, supporting institutional strengthening and capacity building for AfDB staff and regional member countries (RMCs), promoting public consultation and information disclosure, and building partnerships. This implementation plan entails a revision of the format and content of AfDB environmental guidelines to make environmental categorization an imperative for all Bank Group operations.

Furthermore, in 2005, the AfDB developed its *Strategic Environmental Assessment (SEA) Guidelines* to upstream environmental assessments from the project level to the policy, program, and plan levels. Since then, the tool has been used to screen the Bank's policy-based lending, structural adjustment lending, and sectoral adjustment lending, as well as regional projects. The main benefit of the tool is that it allows far-ranging and cumulative environmental impact assessments, compared with traditional project-specific environmental impact assessment studies. Furthermore, the SEA can help facilitate consultations with the public by identifying issues, initiating baseline data collection, and developing action programs. Environmental and social categorization is compulsory for all Bank Group operations and is based on the following categorization system:

- Category I Projects are operations that are likely to induce irreversible adverse environmental and social impacts or significantly affect environmental and social components considered sensitive by the Bank or the borrowing country;
- Category II Projects are operations that are likely to have detrimental or side-specific environmental and social impacts that are less adverse than Category I projects, and can be minimized by the application of mitigating measures or the incorporation of internationally recognized design criteria and standards;
- Category III Projects are operations that are not likely to have any direct and/or indirect adverse environmental and social impacts;
- Category IV Projects are operations related to financial intermediaries, especially Lines of Credit (LOC).

Other corporate activities implemented to improve the Bank's environmental performance include training of staff on environmental and social assessment procedures and on strategic environmental assessments.

Source: African Development Bank Annual Report (2005; 2006)

Box 5.3: The Global Environment Facility and the AfDB: A Promising Partnership to Support the African Environment and Sustainable Livelihoods

The Global Environment Facility (GEF) provides grants to developing countries for projects that benefit the global environment and promote sustainable livelihoods in local communities. GEF projects and programs address six complex global environmental issues, corresponding to the GEF focal areas: (i) biodiversity; (ii) climate change; (iii) international waters; (iv) land degradation; (v) ozone layer; and (vi) persistent organic pollutants. The GEF operates through three implementing agencies (United Nations Development Programme, United Nations Environment Programme, and World Bank) and seven executing agencies including the African Development Bank (AfDB).

The AfDB became a GEF executing agency with direct access to GEF full project resources in 2004. Direct access to GEF project resources allows the Bank to (i) identify, prepare, appraise, and implement GEF projects on behalf of GEF; (ii) submit full project proposals for GEF financing directly to GEF without going through an implementing agency; and (iii) receive project grants directly from GEF, being directly accountable for their use. The unique partnership is anchored on the recognition that the drive for global sustainability should be rooted in strong links between the environment and development — as a clean environment is essential for both sustainable development and poverty reduction.

GEF funding is intended mainly to help developing countries meet the objectives of various international environmental conventions. GEF serves as the “financial mechanism” for four conventions: the United Nations Convention on Biological Diversity, the United Nations Framework Convention on Climate Change, the United Nations Convention to Combat Desertification, and the Stockholm Convention on Persistent Organic Pollutants. Since 1991, GEF has provided funds amounting to USD 4.5 billion to more than 1,300 projects in 140 countries and generated USD 14.5 billion in co-financing from other partners for projects in developing countries and countries with economies in transition.

The partnership between GEF and AfDB provides substantial opportunities to blend Bank lending and grant resources (baseline financing) for sustainable development with GEF resources for the protection of the global environment. In 2006–07, the Bank group developed a pipeline of projects for GEF co-financing in relevant fields such as climate adaptation and sustainable land management. A number of proposals have already been approved by GEF for project preparation (grant) financing and are currently undergoing implementation preparation.

Source: Sustainable Development Division, AfDB (July 2007)

wellbeing. Across Africa, governments have implemented various economic reforms — removal of price controls, public expenditure reforms, improvement of private and cooperative banking and financial services, and marketing and input supply reforms. Economic liberalization and adoption of market systems have increased private capital investments, improved growth, and generated new public revenues and considerable wealth, especially for individuals and groups well-positioned with high initial assets to capitalize on the new opportunities. More natural resources are being exploited, generating more natural-based incomes. As outlined earlier in the report, this generated wealth has also yielded development outcomes and reduced poverty — albeit only on a larger scale in a limited number of countries, such as

Box 5.4: Gold Mining in Tanzania

Mining, especially gold mining, is a growing sector in Tanzania. The mining policy identifies three objectives: improve the national economy (GDP and foreign exchange earnings); alleviate poverty (in this case, secure employment and alternative sources of income for rural people); and ensure environmental protection and management. In 2005, Tanzania extracted more than 50 tons of gold — up from 3 tons in 1995 — and is now Africa's third largest producer, behind South Africa and Ghana. Mineral exports are the second largest contributor to foreign exchange earnings, and gold, specifically, is Tanzania's leading export. In 2003, gold accounted for 44 percent of goods sent abroad.[17]

With the economic liberalization of the late-1990s, the role of the government shifted from owning and operating mines, and favoring artisanal and small-scale mining, to providing policy guidelines, stimulating private investment, and supporting large-scale foreign investments. Large-scale mining replaced many artisanal and small-scale mining operations. This represents a very significant change in policies, with significant consequences; many people were displaced, and many have yet to be compensated for their investments and loss of livelihood opportunities. A number of activists have also claimed that significant human rights abuses occurred during the removal process.[18] In 1995, a total of 550,000 people were engaged in artisanal and small-scale gold mining, which indirectly generated up to 1.5 million jobs. Tthe average income in these mining areas was six times higher than income in the predominantly agricultural regions.[19] By some accounts, artisanal mining had contributed more to income growth for the rural poor than all development activities of the previous 30 years combined. Today, small-scale and artisanal mining employs only 20,000 people and large-scale mining employs another 8,400.[20]

Unlike in South Africa, gold can be mined at relatively shallow depths in Tanzania. The "open pit" mining technology used by large-scale mining companies has caused significant environmental damage and it is unclear whether the companies will rehabilitate the land after all the gold has been extracted. For the most part, the companies comply with national environmental laws and regulations, but they have been reluctant to go beyond minimum standards. In addition, Tanzania's environmental policy is weak and has significant gaps; and the National Environment Management Council, the institution responsible for managing EIAs, is purely advisory.[21]

Little of the government revenues from mining have trickled down to the gold mining areas or other rural regions in the country. In Tanzania, there are no specific benefit-sharing arrangements with rural communities or local governments. Moreover, local governments do not have the authority to tax the large mining companies. However, the government wants its share of mining revenue to rise to 10 percent of GDP by 2025, up from 3 percent in 2005.[22]

Botswana. Thus, history has shown that poverty remains high in many resource-rich countries, where income inequity has increased and a number of the countries may, in fact, have been better off not exploiting the resources (reference to the resource curse, etc.). One additional example of this dilemma, gold mining in Tanzania, is provided in Box 5.4.

In recent years, widespread government and donor attention has focused on promoting "pro-poor economic growth."

[17] Douglas Lake Minerals (DLM) (2007)
[18] Lissu (2001)
[19] Muganda (2004); Mwaipopo et al. (2004)
[20] Associated Press (2006)
[21] Lawcastles (2006)
[22] Oluoch (2007); Jomo (2007a); (2007b)

Pro-poor growth means creating opportunities that enable the poor to work their way out of poverty. It focuses on opportunities that target the assets of the poor, specifically: labor, land and local natural resources. Pro-poor growth calls for investments that improve the prospects for poor people to share in the opportunities created by economic growth — including building local capacities and providing the infrastructure that the poor need to capitalize on new opportunities.

Even with strong economic growth, poverty reduction — especially for the poorest — can be greatly enhanced by investing goods and services targeted at poor people and regions. In high-inequity, high-poverty countries, redistribution can be more effective than economic growth in reducing poverty. Even small changes in distribution can have a large effect on building the assets of the poor, enabling them to capitalize on economic opportunities and effectively compete.[23] Distribution should not be considered charity, but rather, part of a comprehensive poverty reduction strategy to speed up the participation of the poor in economic opportunities. In apartheid South Africa, when skilled labor shortages limited economic growth, the government targeted the poor with public investments in health, education, and other social services to strengthen the labor pool — with positive development outcomes.[24]

The distribution of goods and services is largely determined by government policies and practices. These distribution policies constitute powerful instruments that governments can use to provide economic, political, and other incentives in support of environmental management, poverty reduction, and other national objectives. In African countries, where the distribution of natural capital determines the overall distribution of wealth, natural resources or environmental distribution policies can be particularly effective tools for poverty reduction and development.[25] Moreover, productive land and high-value resources are not evenly distributed geographically or accessible to all citizens. In the absence of policies that facilitate fair distributions of natural and environmental benefits, resource-rich regions and people with access to productive lands may prosper, while those without valuable resources or with access to only low-value resources remain poor. Increasing benefits to the poor will also raise the value of natural resources for them, and create local incentives for sound environmental management.

Across Africa, it is common that policies promote and facilitate the concentration of many environmental goods in the hands of a privileged few, contradicting national poverty reduction and social equity objectives. History and experience show that as natural resources gain value, often through commercialization, the political and economic elite find ways to capture the benefits — by controlling the assets or markets, or by other means — while passing the associated social and environmental costs (externalities) on to

[23] Easterly (2002); Naschold (2002); Killick (2002)
[24] Fedderker and Mariotti (2002)
[25] Larson and Ribot (2007); Veit (2006); Ribot (1998)

the poor and disenfranchised. To counter this, poverty reduction proponents in Africa must focus their efforts on promoting pro-poor allocations of environmental goods.[26]

Two types of environmental benefits are particularly important for poverty reduction and environmental management: (1) market shares and profit margins of commercially exploited natural resource commodities; and (2) public revenues from the use of ecosystems and extraction of natural resources.

Profit Margins: In Africa, the rural poor rarely benefit in any significant manner from the commercial exploitation of natural resources. Benefits, in the form of profits, taxes, fees, or unofficial patronage of gifts, are usually concentrated in the hands of a few intermediaries such as money lenders, truckers, wholesalers, or state agents. Despite decentralization and other poverty reduction investments, there has thus been little increase in income and profit from natural commodities for rural communities.[27]

Government and donor investments are needed to promote fair distribution of benefits along natural product value chains. Monopolies and cartels that protect middlemen must be dismantled, and cooperatives of smallholder producers that can compete with established buyers and transporters strengthened. Profitable activities can be opened up to rural populations by increasing access to labor employment, processing, and trade opportunities both in the local arena and at higher levels in the marketing chain. Such openings can have a dual effect on communities by increasing local benefits and revenues from the harvesting and sale of natural resources, and increasing local government revenues from an expanded nature-based tax base.[28]

Public Revenues: Natural resources and environmental rents constitute a significant percentage of the budgetary income of many African countries. Public revenues are generated from royalties, taxes, fees, fines, and other means associated with the public and private use of natural resources and ecosystems. In the absence of any meaningful fiscal decentralization, most environmental rents are captured by central or federal governments. In some cases, environmental income is managed separately from other revenues, but more often nature-based revenues are placed in central coffers.

When valuable resources are not evenly distributed geographically, governments should promote poverty reduction and inter-jurisdictional equity by favoring poor people and poor regions in their budgeting and distribution of nature-based public revenues. Central governments can invest in social services and safety nets, issue dividend checks directly to poor people, or provide inter-governmental transfers and equalization grants to local authorities. Governments can also use environmental income to capitalize permanent savings and trust funds for the future or investment and sinking funds for more immediate needs.

In Botswana, the government relies heavily on diamond rents and has made significant investments in education and

[26] Veit (2007)

[27] Ibid.

[28] Larson and Ribot (2007); Ribot (1998)

health, with impressive results (see boxes in earlier chapters). In Cameroon, provincial governments receive 40 percent of the annual area tax collected on forest concessions in their jurisdiction and another 10 percent is passed on to the communities that live adjacent to the concessions. However, local authorities in Cameroon have so far not invested their shares to significantly reduce poverty or support sound environmental management[29]. In Nigeria, the federal government passes 13 percent of oil revenues to the nine oil-producing states, primarily to reduce conflict and promote local development. While this may not satisfy the local stakeholders in the Niger Delta, it is a step in the right direction and shows some will to solve the very problematic oil-related conflict in Nigeria (se full case description in Box 5.5).

The selection of the most appropriate instrument for public revenue collection and usage will vary with the circumstances. For services that local governments, rather than central governments, are better placed to provide, resource revenues can be passed to local governments or paid directly to them through fiscal decentralization.

In summary, with support from donors, governments can support rural development, poverty reduction, social equity, and natural resource management by promoting pro-poor economic growth and pro-poor distributions of environmental benefits. Creating economic opportunities that target the assets of rural people will help ensure that growth favors the poor. More attention must be paid to promoting fiscal decentralization and pro-poor budgeting. Governments must abandon practices and repeal distribution policies that inappropriately favor the privileged and contradict national poverty reduction objectives. New laws should be enacted to provide all citizens with equal access and opportunities, and, when possible, favor poor people and regions; that is, affirmative actions for the poor — who are the majority.

Economic Instruments

In many African nations, natural resource management is governed by rules, regulations, and other command and control mechanisms that stipulate in detail what people must do and what they cannot do. Regulations place conditions and requirements on the use of local resources and other development assets, and establish sanctions — fines, fees, and other charges — for non-compliance. Regulations play an important role in rural development, but they also have limitations. They can be costly to implement and enforce, and often do not provide people and local stakeholders with the discretion they need to pursue a development path that meets local circumstances and reacts to changing conditions.

Incentive-based approaches to natural resource management and development, including the use of economic instruments, can be effective in shaping behavior and achieving desired outcomes. For example, direct payments to communities to manage private land for wildlife and ecosystem services are receiving new attention from government and development assistance agencies. Many economic instruments are

[29] Veit (2006)

Box 5.5: Managing Oil Resource Wealth in Nigeria — The Challenge in the Niger Delta

Oil is a major natural resource and the principal source of income for Nigeria. It accounts for as much as 95 percent of export earnings, 80 percent of government revenue, and almost 25 percent of GDP[30]. With a production level of about 2.5 million barrels per day, Nigeria is Africa's largest oil producer, the 6th largest OPEC producer and the 8th oil producer in the world[31]. The oil sector has been a major source of economic growth, an important target of foreign direct investment, and a key contributor to the build up of the country's foreign reserves. Oil — and the associated gas — is found in the Niger Delta and its adjoining coastal waters. Geographically, the Niger Delta encompasses nine states, but six of them (Akwa Ibom, Bayelsa, Cross River, Delta, Edo, and Rivers) which form the south-south geopolitical zone have traditionally provided political leadership and popular mobilization for increased resource control. Resource control is also the main source of youth agitation, which has developed in support of that cause, but has increasingly turned militant and violent.

The struggle for the control of oil wealth dates back to the 1960s. At stake has been the quintessential property rights issue: who owns the oil resources in the Niger Delta?

Through legislative enactments, most notably, the Land Use Decree of 1978, the federal government has vested ownership of all land in the country to itself, including the minerals, ores, oil and gas resources found in them. The communities where the oil resources are located argue otherwise, leading to the political and popular agitation for resource control. The communities' assertions of ownership rights have been articulated in various declarations adopted since 1990. There are three inter-related dimensions to the Niger Delta crisis: economic (resource control); environmental (the cumulative impact of oil exploitation-related damage occurring through a combination of oil spillage, gas flaring and deforestation of the mangrove forest that has led to pollution of water, air and reduction of fishing and farming activities); and social (health and human rights issues).

In recent years, several factors have intensified the conflict over the control of resources: communities' increased sense of deprivation of access to the resources they regard as theirs, growing ecological damage, lack of physical and social infrastructural facilities and deepening poverty and neglect in the region.

Possible solutions: towards a grand bargain

While resource control has historically occupied centre stage and featured prominently in recent public discourse, any comprehensive solution to the Niger Delta crisis has to address the various components described out above and should encompass new **fiscal** measures, adaptive **policy** responses and creative **programme** initiatives.

Section 162(2) of the 1999 Nigerian Constitution stipulates that not less than thirteen percent of the revenue accruing to the Federation Account should be paid to the states in which the natural resource is produced. Niger Delta leaders have argued that the share of revenue accruing to the region from the Federation Account should, at least, be double the current level. This is an area where political negotiations and decisions are required as part of a grand bargain to resolve the Niger Delta crisis.

Adaptive policy responses should reflect principles of community involvement in development of programs for the region, community empowerment, and restoration of trust between the communities, the oil companies, and the government. In practice, this calls for several initiatives: new or renewed efforts

[30] Financial Times (12 July 2007); Economist Intelligence Unit Country Report (Nigeria) (May 2007)

[31] Economist Intelligence Unit Country Report (Nigeria) (November 2006)

Box 5.5: (continued)

to hire indigenes for operational, managerial, and executive positions in the oil and gas sector, within the government and in the oil companies; awarding maintenance and servicing contracts to indigenes; allocating oil blocs to communities; involving communities in program design and implementation; and empowering the communities by providing them with financial resources for the development of their own businesses and for skills development, to make tem active participants in the execution and sustenance of the various programs being planned for the region.

Furthermore, a proposed new approach focuses on decentralized trusts or funds for specific programs that address the key issues in the Niger Delta. These can include a physical infrastructure fund, a social infrastructure and training trust, an environmental repair trust, and a small-medium enterprise fund. There are several advantages in the proposed new institutional arrangement. It will clearly link key programs to a funding structure. The trusts or funds will be managed by corporate governance structures that include federal (state government) and community representatives. The arrangement will also enhance government–community partnerships, stimulate competition among the various funds to produce results, and generate jobs for restive youths.

Source: Otobo (2007a, b)

consistent with rights-based and governance-first development approaches that grant citizens broad rights and authorities, develop uniform minimum standards, and establish incentives to encourage desired behavior and outcomes (for example, willing seller — willing buyer arrangements and voluntary easements).[32]

Environmental degradation resulting from the production, transport, or consumption of goods and services can cause externalities — costs to the public that are not routinely accounted for in a competitive market. Economic instruments constitute one category of policy instruments that are oriented towards improving the efficient use and allocation of resources by providing incentives for actors to modify their behavior and internalize the externalities they produce. Commonly classified as financial or market-based incentives, economic instruments are designed to affect production and consumption decisions either through pricing mechanisms or by changing the economic attractiveness of specific actions (that is, making eco-friendly and socially-responsible production profitable).[33] Economic instruments include eco-taxes, levies, user fees, pollution fees, fines and charges, marketable permits (for example, tradable emission allowances), deposit-refund schemes, performance bonds, facility or operator bonuses, subsidies, and credits.

In recent years, there has been considerable interest in finding effective methods of environmental control beyond traditional command and control regulations. Economic instruments have been applied to a variety of environmental issues — air and water pollution, deforestation, over-grazing

[32] Ferraro and Kiss (2002)

[33] UNEP (2007a); Robinson and Ryan (2002)

and loss of biodiversity — and have been shown to be effective policy tools for changing behavior and achieving desired outcomes.[34] These instruments are of increasing interest because they can be an effective way of inducing compliance on the part of producers and consumers, reducing implementation and enforcement costs for government and society, and raising public resources for other urgent environmental matters. Although economic instruments designed to manage environmental externalities are referred to as non-regulatory, it should be noted that they frequently require legislation to establish the incentives, reward achievements, and set and maintain minimum environmental standards.

Three economic instruments and related issues are particularly important for promoting sound natural resource management and sustainable development: (1) securing property rights; (2) creating new markets; and (3) servicing the unmet needs of the poor.

Securing Property Rights: Most land and natural resources in Africa are state-owned or public property held in trust for people by the government. Eminent domain is the only lawful means of extinguishing private land rights in a compulsory manner. The majority of poor rural people do not hold granted rights of occupancy — primarily because they lack the knowledge, capacity, and resources needed to navigate the application process and meet title conditions However, most rural people have security in their land and property — the certainty that they will be able to use and benefit from their resources — through customary rights at the individual, household, or community levels. In some countries, customary rights are recognized in law (customary or deemed rights of occupancy), but they are not always provided the same level of protection as granted rights of occupancy[35] (also refer to Chapter 2 for elaboration of land right issues).

Property arrangements that serve the needs of the poor support local environments and development. When people have secure tenure they make environmental and natural resource management investments that promote sustainable use, economic growth, and poverty reduction. Efforts are needed to protect the property rights of poor households and communities, especially from irregular acquisition by governments, corporations, external elite, and local notables (please also refer to discussion on land reform in Chapter 2). Governments must have the authority to acquire private land (and natural resources) for genuine public purposes, but this power should not be exercised for ordinary government business or pure economic development purposes. Illegal and frivolous acquisitions must be halted[36]. Moreover, open access land, including public land that is not under any effective form of management, is prone to over-exploitation and mismanagement. Thus, for improved management, open access land can be allocated or granted to a capable individual

[34] Ibid.

[35] DFID (2002)

[36] Veit et al. (2007)

or institution for management, such as to a community to manage as common property.

New Markets: Renewed attention to protecting property rights is welcome, but secure tenure is only one of a number of critical enabling conditions for environmental management, development, and poverty reduction. The rural poor also need new markets and market access to turn their natural assets into income and wealth. Private enterprises have a long history of developing and promoting new products, establishing markets, creating demand and bringing goods into the market place. Poor rural people generally lack the knowledge, capital, and connections to achieve such outcomes and need external assistance. Governments can assist the rural poor by creating and supporting new markets and commercial opportunities that capitalize on local environmental goods and services; such as fair-labor, organic or green products, local herbs, and medicinal plants. Similar certification applies to mineral rights. Until the rural poor gain the resources and means to effectively compete and protect their interests, governments will need to grant them special conditions, preferential access in relevant cases and shield them from private sector competitors.[37]

Recent attention has focused on developing new markets for ecosystem services to create value and generate new revenues, including income for the poor. Payment for ecosystem services (PES) is a generic term for a variety of arrangements through which the beneficiaries of ecosystem services pay the providers of those services. PES can be viewed as a complementary measure to — or the opposite of — the polluter pays principle. PES arrangements can vary: They may entail a market that brings together willing buyers and willing sellers. Private or public entities (such as a private utility or a river basin authority) may collect fees and pay ecosystem service providers, state agencies may collect public revenues and pay ecosystem managers, or international bodies may use multinational or regional funds to pay for the provision of global commons.

Rural people are well positioned to benefit from PES, especially from the ecosystem services of their common property forestlands and pastures. However, in many cases they need external assistance to establish markets, negotiate prices, develop arrangements, meet contractual obligations, and pay for the often-high transaction costs. PES arrangements promise new, regular flows of income, portfolio diversification and asset appreciation. They can also be a catalyst for adopting better environmental management practices. When natural resources gain value, people who control them often invest in their management to ensure sustainable production. In Namibia, tourist operators pay communities for wildlife and habitat conservation. In Kenya, the government pays herding communities to protect the wildlife corridors of the Nairobi National Park.[38] Moreover, Africa is generally well positioned to benefit from its intact forests that serve as carbon sinks. As with any market mechanism, for PES to support poverty reduction, arrangements

[37] Veit et al. (2007); Veit (2007)

[38] Ferraro and Kiss (2002)

will have to be carefully constructed to ensure that the poor benefit. If mishandled, poor people could end up paying more for the services they must purchase than they receive from the services they manage.

Servicing the unmet needs of the poor: Environmental management and poverty reduction strategies often focus on the poor as producers of natural and other commodities. Yet, these strategies must also recognize the rural poor as consumers — consumers of goods and services that will help them make better use of local environment goods and work their way out of poverty. Globally, four billion poor people or low-income consumers — the vast majority of the world's population — constitute the "base of the economic pyramid" (BOP). However, BOP markets are poorly served, are dominated by the informal economy and, as a result, are relatively inefficient and uncompetitive.[39]

Because of the inefficiencies of informal economies, poor people receive lower quality goods and pay higher prices for basic services (for example, transportation, loan fees, and transfer fees of remittances) than wealthier consumers. Addressing the unmet needs of those in poverty and lowering the high cost of being poor is essential to making more efficient use of natural resources, raising welfare, and improving productivity and income.[40]

When BOP markets are underserved, poor households and businesses lose. Engaging poor people in the formal economy must be a critical part of any environmental management, wealth-generating and inclusive growth strategy. While individually poor people have limited purchasing power, collectively they constitute a very significant global consumer market — by some estimates, at least USD 5 trillion-a-year.[41] Private enterprises and governments must think more creatively about new products and services that meet the needs of poor people and about opportunities for market-based solutions to achieve them. Because especially poor rural people are marginalized, disenfranchised, and poorly positioned to protect their rights, governments and donors will need to help ensure that businesses that service and meet the environmental and other needs of the poor do not exploit or take unfair advantage of them.

Infrastructural Policies

Infrastructure — the complex of physical structures and networks within which social and economic activities are carried out — is an essential public good and a pre-condition for economic growth and equitable development. Infrastructure can be provided through facilities and construction investments (such as roads and dams) and through policy and institutional reforms (such as demand-side management regulations for energy consumption). Infrastructure provides essential services such as water and sanitation; energy for cooking, heat, and light; employment-generating commercial activities; transportation of people and goods, including natural commodities; and transmission and communication of knowledge and envir-

[39] WRI and IFC (2007)

[40] Ibid.

[41] Ibid.

onmental information. Infrastructure connects people and markets; protects investments made in human, land and physical capital; and maximizes the positive effects of other development and environmental investments.[42]

The intersection of infrastructure, the environment and natural resources is multidimensional. Infrastructure is needed to exploit natural resources and generate environmental income. Infrastructure helps communities market their natural commodities, and transnational corporations need infrastructure to extract resources for export. At the same time, caution is required as construction of infrastructure can seriously affect the environment. For instance dams can inundate productive areas and roads can open up densely forested areas and pristine landscapes and lead to over-exploitation and environmental degradation.

Africa's infrastructure is significantly underdeveloped and inadequate for growth, sound environmental management, and poverty reduction. There are large gaps in services and delivery, and considerable differences in available infrastructure between urban and rural areas, and between wealthy and poor regions. The inadequate infrastructure adversely affects economic growth including natural resource exploitation, as well as environmental management and general development. Infrastructure bottlenecks constrain markets — leading to high input costs, low output prices, and other inefficiencies in the supply and demand chain.

The poor state of Africa's infrastructure reflects neglect of investment and of other factors. Public infrastructure investment in rural areas has in fact fallen in recent years in many African countries owing to fiscal pressures and to a decline in donor support. Moreover, one fifth of Africa's population is landlocked and less than one third lives within 100 kilometers of the sea. By comparison, less than 10 percent of the population in other developing regions is landlocked and over 40 percent live within 100 kilometers of the sea.[43] This further constrains development in the landlocked countries and regions of Africa, which are already seriously disfavored and "underdeveloped" (as analyzed and outlined in Chapter 4).

In general, infrastructure has two fundamental objectives: improve the quality of life and improve economic growth. Meeting these objectives in Africa requires sound environmental management. Infrastructure investments in Africa must focus on the provision of affordable and sustainable infrastructure services that contribute to local resource management and rural transformation. Rural people are the principal environmental managers in much of Africa and their efforts need to be facilitated and serviced. Priority should be given to infrastructure and investments that have the greatest impacts on the improvement of rural household incomes and on local environmental management.

Unbundling infrastructure along different criteria can help identify pro-poor and

[42] Bank Information Center (BIC) (2007); Bapna (2006); Cho (2005)

[43] InterAcademy Council (2004); Fan and Rao (2003)

pro-environment investments. Infrastructure can promote national growth or target enhanced access by the poor. It can be a single large project or a hundred small initiatives. It can entail high risk or low risk. Infrastructure project design and implementation can be centralized or decentralized. Infrastructure can also provide products and services for export or for domestic use. Export infrastructure is usually capital-intensive, commodity export-oriented, and requires large transport systems (for example, rail, marine and air infrastructure; or oil and gas pipelines). It also tends to have significant and adverse environmental effects. The primary development benefits to host countries of export infrastructure, including infrastructure for the exploitation and export of extractive resources, are revenues to the government. The impact of increased revenue generation on growth, poverty reduction, and the environment depends on the willingness and capacity of the government to use revenues effectively for the benefit of its people and environment. However, experience hitherto has shown that export infrastructure commonly generates few permanent jobs, creates limited spillover benefits for local businesses, and rarely succeeds in improving the livelihoods of the poor in a sustained and equitable way.[44]

Alternatively, basic service infrastructure provides primary services to users and tangible benefits to poor households and communities. Such services often provide direct and immediate pathways to poverty reduction. Basic service infrastructure includes integrated watershed development; rural water and sanitation; rural access roads; run-of-the river hydroelectric projects; wind, solar power and other renewable energy; off-grid electrification; traditional water harvesting and irrigations systems; and common property infrastructure.[45] Furthermore, wireless communication and other new technologies can provide alternatives to large-scale, expensive infrastructure.[46]

Both export and basic service infrastructure are needed for economic growth and for environmental management and development. However, in countries with high poverty and high inequity, basic service infrastructure is smart infrastructure. Basic service infrastructure is typically small in size and scale and puts communities, rural organizations, and local governments at the forefront. It uses decentralized approaches and gives users prominent roles in all stages of the project cycle — planning and design, construction, operation, management, maintenance, and monitoring.[47]

An emphasis on basic service infrastructure means a shift from centrally-controlled public sector approaches to more demand-driven, decentralized delivery models. Governments in Africa support basic service infrastructure, but they will need to increase their investments substantially to achieve realistic levels of infrastructure and rural services, and to achieve the Millennium

[44] Bank Information Center (BIC) (2007); Bapna (2006); Cho (2005)

[45] Ibid.

[46] InterAcademy Council (2004)

[47] Bank Information Center (BIC) (2007); Bapna (2006); Cho (2005)

Development Goals.[48] Given African fiscal budgets, donors will also need to ramp up their infrastructure investments and co-finance basic service infrastructure on a relatively larger scale than in other regions of the world.

A common instrument for infrastructure development in Africa is the inclusion of the construction of roads, railways, hospitals, schools, and other infrastructure as part of the contract and fees in concession agreements between governments and extractive industries. However, relying on extractive industries to develop the nation's export and basic service infrastructure can be problematic. The primary interest of extractive industries is extracting natural resources, not in building, maintaining, or managing infrastructure.

For obvious reasons, extractive industries prefer to focus on their main lines of business. When necessary, extractive industries construct the export infrastructure they need to market their resources. Many also construct schools, clinics, and other basic service infrastructures in their areas of operation to demonstrate social responsibility, establish good relations with local people, and reduce conflict. In many cases, however, the quality of this infrastructure is not comparable to the infrastructure developed by professional engineering companies or specialist firms.

It is also important to establish and maintain appropriate boundaries of responsibilities and operations between governments and industries. Industries must help offset the social and environmental costs of extraction borne by local communities, but governments should be careful when using concession agreements as a principal infrastructure development instrument.

Another important aspect to be taken into account is that local governments are often well positioned to take charge of the construction and management of basic service infrastructure, while central governments may be better positioned to manage export infrastructure development.

Power, Governance, and Institutional Framework

Governance Policies

As highlighted in earlier sections, local natural resources and development flourish when the voices of the rural poor majority — who depend on a productive resource base — are heard, and when their environmental concerns are reflected in public policy and government practices. The approach to governance of natural resources can be divided into the following three areas:

- Project-based management and public participation;
- Environmental governance; and
- Good governance.

Project-based management: Many positive environmental and development outcomes are the result of community self-help initiatives, or the products of specific projects, experiments, exceptions, and pilot efforts supported by government and development assistance organizations. Experience shows that well designed and conducted projects can effectively improve the environment

[48] Center for Global Development (CGD) (2006); InterAcademy Council (2004); Lewis (2003)

and the lives of the direct beneficiaries.[49] Projects have certain advantages as development instruments, such as piloting new environmental management ideas — where particular innovations or technologies need to be tested before they are mainstreamed — and enabling fledgling natural commodity enterprises or programs to take root before having to compete in the market.[50]

However, project-based approaches to natural resource management (NRM), environmental management and development are not always sustainable in the long-term or manageable for scaling-up. Many projects are place-based and create artificial enabling conditions that compete with government efforts by establishing new authority systems, thus becoming alternatives to government service delivery and action. They often create their own "project law" arenas, which can conflict with national environmental law and therefore have no legal basis when the project is completed and project protection lifted. Environmental management projects often obscure the true reality and the majority of rural people are unaffected by them. These projects can become showcases of environmental management success and, in some cases, excuses for governments not to undertake needed reforms. In doing so, they can divert attention from reforming the environmental and natural resource policies that actually do affect entire nations and whole territories and populations.[51]

[49] WRI et al. (2005); USAID et al. (2002)
[50] Ribot (2003)
[51] Ibid.

To protect and sustain local investments and scale up project-based natural resource management, governance systems and institutional infrastructures must be established to ensure effective environmental management. Scaling-up is the process of institutionalizing and promoting transformation in environmental management to achieve sustained, long-term results at the national or regional level. To expand and sustain impact, the curve of interest and engagement in environmental management and local development must remain high, and the leadership of activities and interventions must be magnified through national policy and an expanding set of capable organizations.[52]

In Africa, and elsewhere, government and donor investments in the environment often support participatory policy processes, facilitate public participation, and strengthen non-governmental organizations (NGOs) and other civil society groups[53]. Public participation provides direct citizen involvement in government matters, helps promote the will of the people, and can give voice to minorities and the disenfranchised.

However, direct participation in environmental matters also has shortcomings.[54] Participation can be time-consuming and expensive; it is susceptible to rushed, uninformed decision-making; and often favors the most organized and powerful independent groups in society and their positions on

[52] Veit (2007)
[53] Waldman (2005); WRI et al. (2004); Carpini et al. (2004); Theiss-Morse and Hibbing (2004); Petkova et al. (2002); Bruch (2002); Bruch et al. (2001); Petkova and Veit (2000)
[54] Ryfe (2005); Golooba-Mutebi (2005)

the environment. History and experience show that citizens usually promote narrow private environmental interests, NGOs often peddle special environmental concerns (for instance conservation over sustainable use); and populist movements often do *not* result in broad-based inclusive decision making or actions that benefit all citizens. Many political scientists assert that scaling-up popular participation — direct democracy — is inefficient and impractical in relation to NRM and environmental management.[55]

Moreover, investments to promote and strengthen public participation around environmental matters have not led governments in Africa to institutionalize open and transparent decision-making processes or to make decisions and take actions that consistently recognize majority needs and address common societal concerns. Most environmental management projects ignore the institutional infrastructure of public participation — the procedural rights that citizens and their representatives need to realize their own development and local environmental gains, and the institutions that grant, deliver, and enforce these rights and services. When environmental projects come to an end, so do the efforts to promote citizen and NGO participation.

Environmental governance: Project-based interventions to promote citizen engagement in environmental management must not be confused with governance or even with environmental governance. Governance is the process by which individuals, groups of people, or their designated leaders make decisions that direct their collective efforts towards various goals and purposes. Environmental governance, then, is the process of steering societies and organizations — public and private, for-profit and not-for-profit — to achieve positiveenvironmental outcomes. Governments, private corporations, NGOs, community-based groups, and other institutions have important environmental responsibilities and functions, wield considerable power and influence, and are crucial environmental governance organizations. Governance is more than management and administration, more than governments, and more than narrow environmental and natural resource laws and institutions.

While many governments in Africa have adopted more open and transparent policies meaningful power over natural resources and other matters remains centralized in the executive branch. Governments justify centralized political systems by arguing that streamlined decision-making processes are needed to respond to urgent development and natural resource management matters and that only they are willing and capable of acting in the national interest. However, as outlined earlier, public policies rarely reflect the natural resource interests of the rural majority; rather, many support the narrow interests of the powerful political and economic elite.[56]

Good governance: This is a virtuous relationship between active citizens and a strong, legitimate government based on the

[55] Levine et al. (2005); Ryfe (2005); Haskell (2001); Rausch (2001); Mezey (2000)

[56] Veit (2006); Gibson (1999)

Figure 5.2: The Relation between GDP per Capita and Environmental Performance and Between Human Development and Environmental Performance

Source: Adapted from YCELP and CIESIN (2006)

representation of people's needs and aspirations in policy-making and implementation processes. Representation, the heart of a positive cyclical policy process, requires citizen voice and sanctions — the means of accountability — that can guide and discipline strong, capable and responsive governments. Accountability and responsiveness are the building blocks of representation from which good government and good governance follow.[57]

While some centralized regimes have promoted development and sound environmental policies, experience shows that democracies excel along many dimensions, including peace, security, development, and natural resources management (see Figures 5.2 and 5.3).[58]

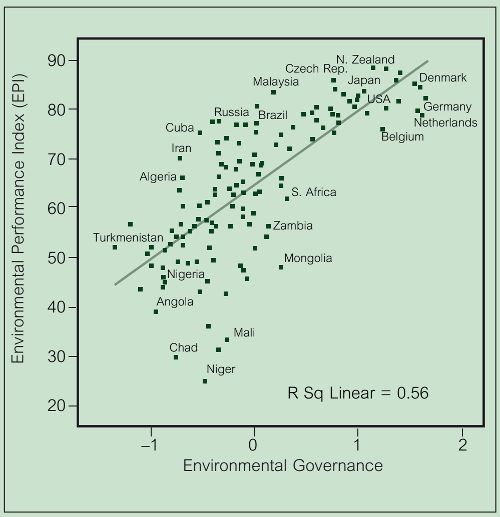
Most governments in Africa are now based on the principle of representation, which is essential for bringing citizen inputs, including environmental concerns, into policy processes in all but the smallest of societies. Representation addresses the intellectual, time-related, and motivational obstacles to direct participation that many citizens experience.[59] When effective, representation can be "the infrastructure" for scaling up public participation and other

[57] Moore and Teskey (2006); Ribot (2006b); Manin et al. (1999)

[58] Ahrens and Rudolph (2006); Siegle et al. (2004)

[59] Ribot (2007); (2006a); Haskell (2001); Rosenthal et al. (2001); Mezey (2000); Przeworski et al. (1999); Rosenthal (1992); Pitkin (1967)

Figure 5.3: The Relation between Environmental Governance and Environmental Performance



Source: Adapted from YCELP and CIESIN (2006)

forms of inclusion. Through representation, policymaking becomes a process in which professional policymakers balance competing and often contradictory interests (that is, nature conservation and sustainable use, natural wealth and development).

Sustaining and scaling up project-based and community-based environmental management requires attention to political systems and broader governance issues, not just to project management and administration. The narrow focus on promoting public participation in environmental projects has come at the expense of investments to strengthen other forms of inclusion and should be reconsidered. Investments must proceed from the firm perspective that governance matters more for natural resources management and development than just for its functional value or instrumental utility in achieving desired outcomes.

A shift from project-based participation to strengthening representation of citizen environmental concerns has important implications for governments and development assistance organizations — especially in countries in which rural people with specific local environmental concerns are an electoral majority. Strengthening accountability (citizen voice and sanction) and responsiveness (government powers and capacities) can institutionalize strong state-society links and ensure that public policies reflect the environmental interests and needs of citizens. Donors and NGOs can help by working closely with governments to empower citizens and to strengthen government capacity to respond to the environmental needs of the poor rural majority (see Box 5.6 for an outline of AfDB's governance policy and initiatives).

Institutional Policies

Sound natural resources management (NRM) — initiating needed policy reforms, capitalizing on opportunities, confronting challenges. It requires the organization and structure of human interaction. Sound NRM requires attention to the range of institutions with roles, responsibilities, and powers over matters that affect natural resources. These include organizations that have specific environmental and NRM responsibilities, such as government environmental protection agencies, line ministries, and natural resource departments. They also include other institutions, such as the parliament,

Box 5.6: Governance Policy of the African Development Bank

The AfDB recognizes good governance as an integral part of the development and sustainable management of natural resources. From a broader perspective, it is clear that good governance — which promotes accountability, transparency, the rule of law and participation — is central to creating and sustaining an enabling environment for development. In this regard, the Bank is committed to playing a key role in enhancing the quality of governance in individual RMCs, while articulating governance issues to the top of the region's development agenda. In response to the emerging governance challenges in RMCs, the AfDB Board of Directors approved the institution's Good Governance Policy in 1999, and Implementation Guidelines in 2001, respectively. The objective of the policy is to mainstream good governance into Bank Group operations in a manner that is consistent with the Bank's development priorities of accelerating economic growth and reducing poverty in its RMCs.

The key elements of this policy are accountability, transparency, combating corruption, stakeholder participation, and enhancement of a functional legal and judicial framework. To foster accountability — defined as the ability to account for the allocation, use, and control of public resources in accordance with legally accepted standards — the AfDB promotes public sector management focused on strengthening expenditure control mechanisms aswell as on exposure of, and sanctions against, misspending and corruption. This also extends to the monitoring and evaluation of public expenditure programs for effectiveness and performance, including public financial management, corporate governance, and civil service reform, among other key issues.

On transparency, the governance policy specifically emphasizes public access to knowledge of government policies and strategies. In particular, the Bank's governance activities are geared towards ensuring that public accounts are verifiable, providing for public participation in government policy-making and implementation, and allowing contestation over decisions that have an impact on the lives of citizens. The governance policy also places great emphasis on combating corruption and the misappropriation of public funds for private gain. The Bank Group's anti-corruption efforts in RMCs cover a wide range of areas, but focus specifically on reducing and minimizing rent-seeking and corrupt practices in the extractive industries; supporting research on the nature, origin, development, and impact of corruption on African societies; enhancing the capacity of civil society to investigate corruption; and providing assistance to the anti-corruption efforts of RMCs.

With respect to stakeholder participation, the governance policy and the supportive strategies emphasize key elements such as consultation of stakeholders over public policy decisions that affect their lives, as well as control of, and access to, natural resources or benefits from natural resource wealth, particularly those from oil and metal extractive industries. Accordingly, Bank Group interventions to enhance participation in RMCs are centered on increased stakeholder participation in policy processes; expanded co-operation with civil society; and discussion of public/private sector interface in policy dialogue with member countries.

In the context of its efforts to strengthen legal and judicial frameworks, the Bank Group regards the creation and sustenance of a predictable legal environment and an independent judiciary as essential components of good governance. The Bank Group's governance strategy therefore stresses the provision of technical assistance to RMCs to help them review existing laws and make the necessary modifications to address deficiencies and shortfalls, especially those that infringe on the rights of women, minorities, and other vulnerable social groups. Furthermore, the Bank supports reforms that affirm gender equality under the law, including property and land rights, and access of families and communities to natural resources (including land, water, forestry, and mineral wealth). Finally, the Bank Group's governance interventions are guided by selectivity, as defined by the focus of the strategy, which is adequately flexible to address the diversity of governance challenges among RMCs. The institution's governance policy is also instrumental in providing strategic guidance for it's engagement in the extractive industries and in transparency issues on the continent.

Source: African Development Bank (Policy and Operation Documents, 2007).

the judiciary, local governments, domestic companies, transnational corporations, NGOs, and community-based associations. Effective institutions have specific and clear roles and functions, and are empowered with the authorities and capacities needed to perform their tasks and meet their responsibilities. Promoting NRM in Africa thus focuses on addressing three fundamental institutional governance-related issues:[60]

- Decentralization and the distribution of power;
- Responsibilities, roles and capacity with power; and
- Accountability and the limits of power.

Decentralization and the distribution of power: Development and NRM require the delivery of various goods and services. Determining which institution to task with delivering these services can be problematic. To promote effective NRM and sustainable development, the placement of environmental roles and decision-making powers among scales of government and private institutions must ensure efficiency and equity in service delivery.[61]

The principle of subsidiarity states that decisions should be taken — and management exercised — at the lowest possible level consistent with allocative efficiency and effectiveness, and without producing negative externalities at higher levels of political, economic, or social organization (for example, the level and organization that internalizes the benefits and costs of decision-making for a particular purpose)[62]. It holds that responsibilities and power should be located at the lowest geographic scale that does not jeopardize higher-scale social and economic objectives. Subsidiarity applies to the vertical and horizontal distribution of roles and powers within a government and within private institutions (for example, corporations, political parties, NGOs, and religious bodies), including the outsourcing of traditional government roles to private groups, which are better positioned to perform those functions.

The subsidiarity principle is also applicable at the regional or international level when the action of a country is insufficient to achieve an objective and can be better accomplished at a higher level (for example, transboundary issues, as outlined in earlier parts of the report).

In much of Africa, the distribution of environmental management roles is not consistent with the principle of subsidiarity. Central governments hold responsibilities and functions over ecosystems and natural resources, and take actions which can be accomplished more effectively by local governments, NGOs, community-based organizations, private enterprises, or other local institutions. Many factors feature in the placement of environmental management roles. For example, the commercial value of a natural resource frequently influences the distribution of associated management roles, with central governments controlling high value resources and only devolving to local actors some responsibility over less valuable resources.[63]

[60] Summary outline provided by Veit (2007)
[61] Veit (2007)
[62] Ibid.
[63] Ibid.

Decentralization reforms are promoted to downsize and ultimately improve the performance of central government, strengthen local government, give substance to political and environmental rights by increasing local participation and democracy, and improve the efficiency and equity of local service delivery. Many central governments in Africa are passing on environmental and other responsibilities to local governments and various actors in the rural arena[64], but more efforts and new investments are needed to ensure that the placement of these roles is consistent with the principle of subsidiarity.

Responsibilities and capacity with power: Institutions must have the power and capacity needed to effectively perform their natural management responsibilities. Across Africa, central governments have downsized, decentralized and tasked a variety of local institutions with new development and NRM responsibilities. In most cases, however, central authorities have not transferred meaningful powers to local institutions or granted them sufficient autonomy and funds to play their required environmental roles. To be effective, local authorities must be granted sufficient funds and a domain of local discretion to respond to changing local circumstances and environmental interests.[65]

When institutions have NRM responsibilities, but no power, their leaders are discouraged from acting and citizens have few reasons to engage them, thus it becomes an issue of *legitimacy*. In contrast, creating or supporting empowered, accessible and responsive institutions with environmental roles can facilitate the emergence of a strong civil society and an engaged citizenry.[66]

Sound NRM requires the engagement of a large number of institutions (also refer to earlier sections and Chapter 4), including:

- Central governments;
- Private rural organizations or community-based organizations to manage local natural resources, rural cooperatives, women and youth associations, agricultural producer and rural workers' associations, rural credit unions, and other local private bodies;
- Public interest policy research, environment law, and advocacy NGOs — which conduct independent research, perform environmental monitoring, and engage in government matters;
- National environmental protection agencies, which have important regulatory and enforcement responsibilities;
- Line ministries and sectoral departments with jurisdiction over specific natural resources and ecosystems;
- Legislatures and parliamentary environmental committees, which have fundamental representation, lawmaking and oversight responsibilities;
- Public and private research organizations, including universities and institutions of higher education,

[64] Ribot (2007); (2004); Ribot and Oyono (2006); Ribot and Larson (2005)

[65] Ibid.

[66] Ribot (2003)

which conduct field work, collect environmental data and generate information for policymakers and practitioners; and
- Regional bodies and international instruments.

In addition to strengthening institutions, including regional bodies and instruments, Africa must learn to participate more effectively in global institutions and environmental policy-making processes. Africa's environmental positions and urgent needs are rarely addressed by global organizations or reflected in international environmental instruments such as the United Nations Convention to Combat Desertification, the Convention on Biological Diversity, and the Framework Convention on Climate Change. When international decisions are based on one member, one vote, it is possible for the smallest member country to have influence, although impact is often proportional to power. In recent years, other developing countries, such as Brazil, India, and China, have become effective in global negotiations. Africa can be a powerful voting block on global environmental matters, but to take advantage of its numbers, governments must be better prepared for global environmental negotiations. With its unique biological diversity and vast forests, Africa is well positioned to negotiate favorable agreements (such as carbon credits for avoided deforestation under the Framework Convention on Climate Change). Donors can help by supporting governments' efforts to find common ground, helping them establish environmental positions, and coordinating their efforts.

Accountability and the limits of power: Citizens and society could benefit considerably from government and donor investments aimed at strengthening existing accountability mechanisms and establishing new procedures to check institutions with powers over matters that affect the environment. For example, compulsory land acquisitions can be made contingent upon approval by parliament or proposed degazettement of protected areas or privatization of public lands can be presented to citizens through a ballot-box initiative. Efforts are needed to strengthen parliaments, judiciaries, advocacy NGOs, and other stakeholders and institutions with fundamental oversight mandates and roles. Staff members of public and private institutions — corporations, NGOs, political parties, traditional institutions, community-based organizations — should be encouraged and supported in their efforts to hold their leaders accountable. Legislation should be enacted to protect whistleblowers from threats and retaliation. Other checks and balances include codes of conduct, conventions of behavior, equitable legal systems, consistent enforcement of laws, citizen advocacy and oversight, and internal and independent financial and environmental performance audits.[67]

Regional and Global Dimensions

Resource Governance Policy Initiatives

The last decade has seen a growing recognition that improved transparency and accountability for the huge revenues generated by oil, gas, and mineral industries

[67] Veit (2007)

is vital to avoiding the "resource curse" and extending the benefits of natural resource abundance to poverty reduction. In response to these dilemmas, and to the observed environmental and socio-economic impacts of extractive industry activities, several international policy initiatives, mechanisms, and standards — aimed at improving governance and reducing negative impacts — have been launched. These include:

Transparency Initiatives:

- The Extractive Industries Transparency Initiative (EITI)
- The international Publish What You Pay (PWYP) campaign

Human Rights, Social and Environmental Standards:

- Voluntary Principles on Security and Human Rights
- International Council on Mining and Metals (ICMM)
- The United Nations Global Compact
- OECD Guidelines for Multinational Enterprises
- The Timber Certification Scheme

Conflict Resources Governance Policies:

- The Kimberley Process Certification Scheme (KPCS)

Financial Sector Governance Policies:

- The Equator Principles (social and environmental standards)
- The Wolfsberg Group (anti-money laundering principles)
- The most important of these initiatives — from an African perspective — are discussed below.

The Extractive Industries Transparency Initiative

This Initiative was launched by the UK government in 2002, against the backdrop of a general failure to transform resource wealth into sustainable development (the 'resource curse' or 'paradox of plenty') and the associated governance problems in the extractive industries sector. The EITI aims to intervene in the middle of the value chain — collection of taxes and royalties stage — but neither upstream nor downstream. It has a four-step implementation process (sign-up, preparation, disclosure, and dissemination) that is currently being pursued through three different models. These are (1) the core EITI (reconciliation of payments and revenues); (2) EITI "plus" (core EITI plus financial audits of companies and government, process audits, and public information campaigns); and (3) the sector governance program (EITI plus and institutional/regulatory reform, sub-national distribution of rents, strengthening of licensing systems, and revenue management). The EITI has grown into a worldwide initiative and more than 20 countries have committed to its principles and criteria, the majority of them in Africa. See Table 5.1 below and the EITI Website for current updates (www.eitransparency.org).

Assessment of African Participation:

A considerable number of African countries have endorsed the EITI and are applying its principles to various extents (Table 5.1). However, an assessment of the status of the initiative shows that it is very much focused on the oil and gas sectors, and that its scope and mandate could be expanded, revenue transparency strengthened, and the initiative

Table 5.1: Assessment of Current Standing of EITI in African Context (July 2007)

Country	Intent to commit	Endorsement	Stakeholder engagement	Reconciler appointed	Report Published
Ghana	June 2003	Feb 2005	Yes	Yes	Yes
Nigeria	June 2003	Nov 2003	Yes	Yes	Yes
Congo, Rep.	June 2004	June 2004	Yes	No	No
Sao Tome and Principe	June 2004	Jan 2005	Yes	No	No
Sierra Leone	June 2004	Sep 2006	Yes	No	No
Gabon	July 2004	March 2005	Yes	Yes	Yes
Equatorial Guinea	Sept 2004	March 2005	Starting	No	No
Cameroon	March 2005	March 2005	Yes	Yes	Yes
Congo, DRC	March 2005	Nov 2005	Yes	No	No
Guinea	Dec 2004	April 2005	Yes	Yes	Yes
Niger	March 2005	March 2005	Starting	No	No
Mauritania	Sept 2005	Jan 2006	Yes	Yes	Yes
Mali	Aug 2006	Starting			
Cote d'Ivoire	Oct 2006	In progress			
Liberia	Oct 2006	Yes	Yes		
Madagascar	Oct 2006	In progress			
Chad	June 2004	No	No	No	No
Botswana	May 2007				

Source: Berg (2007); EITI Website (August 2007); Jourdan (2007)

extended to upstream and downstream issues and to environmental stewardship.[68]

The Nigeria Extractive Industries Transparency Initiative (NEITI), operating the EITI "plus" model, is the most advanced and comprehensive of all the initiatives of participating countries. The NEITI was launched in 2004 and has yielded the first-ever comprehensive financial, physical, and process audits of Nigeria's oil and gas sectors for the 1999–2004 period. Cameroon and Mauritania have appointed stakeholder committees at the highest levels of government, drawn action plans, and offered workshops and training for civil society. These two countries have also issued two reports.[69]

In summary, and looking ahead, the EITI has recorded some significant achievements, although it is voluntary in nature. It is increasingly being recognized as a *partial* solution to the problem of corruption in energy-rich developing countries. However, the EITI faces a number of challenges that need to be addressed[70]:

[68] Jourdan (2006)

[69] Refer to EITI Website for current updates (www.eitransparency.org)

[70] EITI Website (2007) and AfDB Memorandum on EITI (2007a)

a) Not all countries that have adhered to the EITI have started implementing it in its full extent. Several countries thus only show rhetorical commitment and have only implemented the initiative to a limited extent. At present, therefore, EITI stakeholders cannot tell who is truly implementing the EITI in letter and spirit, and who is merely going through the motions. As a result, countries and companies that are genuinely implementing EITI may not get the credit they deserve for improved governance, while free riders may claim participation in EITI as a way of evading international pressure to curb corruption.
b) Transparency at the federal level is an important first step to achieving more accountability. However, in countries where revenues flow back to the local level as part of revenue-sharing arrangements, a vertical implementation of EITI would be needed.
c) Civil society organizations play an important role in the EITI and in its implementation at the national level, where such a multi-stakeholder initiative is often difficult to realize. In Nigeria, as in many other countries, the government appoints civil society representatives for the national multi-stakeholder working group, but most members of the working group are, in fact government representatives. In other countries, records have emerged of civil society representatives being harassed.
d) The EITI does not address the core problems of corruption, mismanagement, and accountability comprehensively. This is a major concern for people in many African countries, especially those with a culture of impunity.

The success of the EITI as a concept is increasingly threatened by the lack of clarity about what it means in practice. These problems and issues must be addressed, and EITI is only a first step in the right direction. Nevertheless, one of the undeniable effects of the EITI process is that it has raised extensive international awareness that transparency in oil, gas, and mining revenues is vital to preventing corruption in countries that depend on resource revenues, and to ensuring that these revenues are used to promote growth and development. The EITI has brought together companies, investors, governments, civil society groups, and international institutions to promote this shared vision.

The International Publish What You Pay Campaign

The Publish What You Pay (PWYP) initiative is a coalition of over 300 global civil society organizations from more than 50 countries. It aims to promote full transparency in the payment, receipt, and management of revenues paid to resource-rich developing country governments by the oil, gas, and mining industries. PWYP campaigns are focused on achieving mandatory disclosure of payments made by oil, mining, and gas companies to governments and other public agencies. This is commonly accepted as a necessary first step towards a more accountable system for the management of

Box 5.7: The African Development Bank and EITI

The African Development Bank (AfDB) endorsed the Extractive Industries Transparency Initiative (EITI) in October 2006. Subsequently, the President of the AfDB, Donald Kaberuka, outlined a two-pronged approach to the institution's engagement in the EITI: (1) advocacy to create the political will among resource-rich RMCs that have not endorsed the Initiative; and (2) technical and financial assistance to RMCs that have demonstrated political will by endorsing the EITI, but lack human, financial, and institutional implementation capacity.

Five RMCs have been selected as initial candidates for EITI implementation support from the AfDB. These are Madagascar, the Central African Republic, Liberia, Botswana, and Chad. The selection process was carried out in close coordination with other supporting actors such as the World Bank and the EITI Secretariat. All the countries are at an early stage of the implementation process (sign up or preparation stage) and are preparing action plans or reforms to improve governance and extractive industry sector management. Botswana has the potential of becoming a role model for EITI implementation in the region. The other countries were selected based on their urgent need for implementation support. The support, which will include technical and financial assistance, could be crucial for the success of the EITI because, although the endorsement of EITI among African countries has been vigorous, but the resources to provided by development partners to them for the Initiative are currently inadequate.

Source: AfDB Memorandum (2007a), Support to Implementation of EITI in Resource Rich Regional Member Countries.

natural resource revenues. Such disclosures will not only allow members of civil society to draw a comparison and thus hold their governments accountable for the management of revenues; it will also strengthen the social standing of companies by demonstrating their positive contribution to society.

Assessment of African Participation:

The response of African counties to the PWYP initiative has been positive, with a considerable number of NGO's pledging their commitment. To date, NGO's from 23 African countries have joined the coalition. Nigeria has been a strong supporter of the initiative and is home to 47 PWYP coalition member NGO's.[71]

The debate on PWYP (a voluntary principle) raises the same issues highlighted above in relation to the EITI initiative.

Equator Bank Principles

Ideally, banks and financial institutions should be made accountable for oil-and mineral-backed loans and disbursements, particularly when they undermine attempts by the international community and international financial institutions to control the flow of money that involves corrupt natural-resource deals. The two most well-known global banking initiatives that target this issue are the "Equator Principles", which set social and environmental standards for project finance deals, and the "Wolfsberg Group", which has developed a set of anti-money laundering principles. However, both of these initiatives are voluntary.

[71] For current updates, see: www.publishwhatyoupay.org

The Equator Principles are essentially a voluntary financial industry benchmark for determining, assessing, and managing social and environmental risks in project financing. Institutions that have adhered to the Principles (known as "Equator Principles Financial Institutions" or "EPFIs") have consequently adopted these values and principles. The initiative is currently supported by some 50 banks from 16 countries. In their current form, the Principles are based on the environmental and social safeguard policies of the International Finance Corporation (IFC). As such, they do not provide any specific guidance for extractive sector projects — a considerable limitation in itself. Nevertheless, the EPFIs have committed to not providing loans to projects where the borrower is unable to address and comply with the general principles and overall stated policies and procedures.[72]

A distinct disadvantage of the Equator Principles is that they are driven by the Western world and do not take into account developmental impacts (in the developing world).[73] It would thus be beneficial for financial institutions to look at the developmental aspects as well. Given the important role that banks play in financing private sector projects around the world, it is critical that signatories to the Equator Principles join in the global push for transparency in extractive sectors. What is further needed, to boost the effect of this and similar initiatives, is mandatory transparency in the financing of resource projects. This implies putting an end to resource-backed loans for governments, investors, and others who refuse to manage resource revenues in a transparent manner. This would also call for an amendment of money laundering regulations, recognizing that resource deals and resource-backed loans constitute a significant "yellow flag" for potential money laundering.[74]

The Kimberley Process and Governance of Conflict Minerals

The Kimberley Process Certification Scheme (KPCS) is the only significant international response to conflict resource issues. KPCS is an international, government-led scheme that was set up to prevent trade in conflict diamonds. It was negotiated by engaging relevant governments, civil-society organizations, and the diamond trade industry. The process was initiated when the nexus between diamonds and financing of conflicts in Sierra Leone, Angola, and the DRC was revealed by several NGOs and journalists. Launched in January 2003, and endorsed by the UN General Assembly and the UN Security Council, the scheme requires governments to certify the origin of shipments of rough diamonds to ensure that they are not from conflict zones. Countries that participate must pass legislation to enforce the Kimberley Process and set up control systems for the import and export of rough diamonds.

The KPCS has been relatively successful, but also has its limitations. The Scheme is currently not funded and is essentially run by those who volunteer time and resources,

[72] For further details see: www.equator-principles.com

[73] Jourdan (2007)

[74] Ibid.

which renders it unsustainable. At present, only two international NGOs (Global Witness and Partnership Africa-Canada) are involved. Other serious shortcomings relate to the definition of conflict diamonds by the Kimberley Process as it only applies to "rough" diamonds traded by rebel groups, though there is strong evidence that governments also use diamond resources to finance war efforts. The definition also excludes any particular focus on the diamond industry, which has the major responsibility for facilitating the entry of conflict diamonds into the legal market.[75]

Nevertheless, these issues should not cloud the fact that since the governments of diamond-producing and trading countries, NGOs, and the industry launched this unprecedented scheme to control the flow of rough diamonds, the scheme has imposed tough controls on all gem exports and imports. It is a rare example of co-operation among governments, civil society, and the private sector on a global scale. Most participants, including all African member states, have received a review visit to assess their compliance and have had to outline in detail the measures they have put in place (in an annual report). Only a few years ago, in Africa in particular, funds from illicit smuggling were being used to fuel civil wars and were a considerable factor in devastating conflicts in countries such as Angola, Cote d'Ivoire, the Democratic Republic of Congo, and Sierra Leone — KPCS has been a key factor in mitigating this illicit smuggling. The Kimberley Process comprises 45 Participants, and accounts for approximately 99.8 percent of the global production of rough diamonds.[76]

Assessment of African Participation

At present, 15 African diamond-producing countries are Kimberley Process participants. In 2004, the chair of the Kimberley Process announced that considerably less than 1 percent of diamonds were conflict diamonds, down from approximately 4 percent before the establishment of the Kimberley Process.

One of the challenges facing the Kimberly Process is the recent conflict in Cote d'Ivoire, where a significant volume of blood diamonds (from Cote d'Ivoire) is likely to have entered legitimate trade through Ghana and Mali. Apart from this, political will may be waning, as governments are blocking efforts to strengthen the Kimberly Process and the diamond industry has failed to police itself. The objective to stop the trade in blood diamonds will not be attained unless these challenges are effectively tackled.[77] An additional aspect is that KPCS only focuses on diamonds, whereas other precious minerals also require public attention (please refer to chapter 4 on relationship between natural resources and conflicts in Africa). It has thus been recommended that the KPCS be extended to other minerals such as gold.[78]

African Peer Review Mechanism (APRM)

The African Union's New Partnership for Africa's Development (NEPAD) identifies good governance as a basic requirement for

[75] KP website: www.kimberleyprocess.com

[76] KP website: www.kimberleyprocess.com

[77] Global Witness (2006); KP website (2007)

[78] Jourdan (2006)

peace, security, and sustainable growth and development. One of its "immediate desired outcomes" is that "Africa adopts and implements principles of democracy and good political, economic and corporate governance, and the protection of human rights becomes entrenched in every African country." For this purpose, NEPAD set up the African Peer Review Mechanism (APRM), an innovative tool aimed at peer review of governance benchmarks and design of action plans for improvement.

Participation in the system is voluntary and a panel appointed by the APRM Secretariat oversees implementation throughout Africa. The process consists of a number of stages, which are briefly outlined below:[79]

- The APRM process starts with a country self-assessment report and an action program submitted to the APRM secretariat.
- A country review team led by the responsible panel member visits the country to consult a wide range of stakeholders on the self-assessment report.
- The review team drafts a report in response to the self-assessment work, taking into account the political, economic, and corporate governance and socio-economic commitments made in the preliminary Program of Action.
- The review team reports and a final program of action is submitted to the APRM secretariat and the panel of Eminent Persons, then submitted to the APRM forum for participating Heads of States.
- The report is considered by the APRM forum and participating Heads of States and, 6 months later, tabled in key regional and sub regional structures.
- The country support mission reviews progress against the Program of Action agreed by country stakeholders.

The ultimate stated goal of the APRM is to encourage African countries to plan a way forward on governance issues and, not least, to implement relevant plans in this direction. The APRM process is designed to help participating countries develop and promote the adoption of laws, policies and practices that lead to political stability, high rates of economic growth, sustainable development, and continental economic integration. Box 5.8 provides an overview of AfDB support to the APRM.

Assessment of African Participation

At present, 27 countries have committed to the APRM and 13 of them have had reviews launched. To date, Ghana, Rwanda, and Kenya have completed the entire process, and South Africa and Algeria are nearing completion. The broad inclusiveness of the process has demonstrated the presence in countries of a strengthened culture of political dialogue and empowerment. However, implementation has posed some challenges, for instance, the establishment of an appropriate national structure, the financing of the process, and the organization of a participatory and all-inclusive self-assessment system.[80]

[79] See APRM website; www.aprm.org.za

[80] ARRM website and AfDB Memorandum on APRM (2007b)

Box 5.8: The African Development Bank and the APRM

The 2004 Inaugural Summit of the APRM Committee of Participating Heads of State and Government (African Peer Review (APR) Forum) designated the following four institutions as strategic partners: relevant organs and units of the African Union Commission, the African Development Bank, the United Nations Development Programme - Regional Bureau for Africa, and the United Nations Economic Commission for Africa. These strategic partners were asked to provide support and technical assistance to APR structures in the form of country profiles and technical assistance to countries, the APR Panel and the APR secretariat. More specifically, the AfDB was designated by the APR Forum as a strategic partner in the field of economic and corporate governance, including banking and financial standards. This conformed with its earlier assigned role under NEPAD.

Since 2004, the AfDB has made significant technical and financial contributions to the APRM process. In its capacity as a strategic partner, as well as a knowledge, development, and financial institution, the Bank Group has not only provided technical assistance and advisory services by participating in country reviews but also made direct financial contributions to the APRM Secretariat. In the early stages, the AfDB led the adoption and implementation of a selected number of internationally accepted standards and codes. It developed a “Framework for the Implementation of Banking and Financial Standards under NEPAD”, which contributed to the design of the APRM process. It also developed instruments for economic and corporate governance assessments, which were field-tested in Senegal, Kenya, Ghana, and Cameroon and later adopted by the NEPAD. Bank Group support to the APRM since 2004 has also focused on providing technical assistance to the APRM Secretariat and Panel of Eminent Persons during country assessments. In this context, Bank staff and consultants have participated in several country missions and reviews. While the Bank is normally assigned a lead role in the area of corporate governance, its experts have also provided advice and technical support in economic governance and management.

Bank Group assistance to the APRM in the coming three years (2007–2010) will focus on the following core areas: (i) Revision of APRM methodology and process; (ii) development of a monitoring, evaluation & reporting system; (iii) continued participation in country reviews; (iv) support for implementation at the national level; and (v) continued support for international partnerships and for the overall APRM process and structures.

Source: AfDB Memorandum (2007b), Implementation Update to Bank Group Support to APRM

Voluntary participation in the APRM assessment has resulted in very high expectations, and it is imperative for RMCs and stakeholders to see the “dividends” from the APRM in terms of enhanced governance and improved living standards. The APRM is a cornerstone of NEPAD, the first African-initiated and -led instrument to take full ownership of the continent’s future by addressing key governance challenges that constitute major constraints to development.

Summarizing and Looking Forward

Nature: Natural resources — such as land, forest products, fossil fuels, minerals, wildlife, and water — dominate many national economies and are central to the livelihoods of the poor rural majority in Africa. Natural resources are also a principal source of public revenues, national wealth, and power for most governments. As such, natural resources are critical to growth, development, and good governance.

The quest for economic development is focused on natural resources, in particular, high-value and commercial resources such as timber, oil, gas, gold and other minerals. However, the environment is more than just resources. A better understanding and broader view of the environment is central to maximizing its contribution to development and to the sustainable management of natural resources. Ecosystems and their full range of goods and services, including natural resources, must be mainstreamed into environment and development discourse.

A narrow natural resource approach to environmental management fails to recognize the underlying ecosystems that sustain resources, and undervalues the many other goods and services these ecosystems provide — services many people depend on for their livelihoods. An ecosystem services approach recognizes the interconnectedness and transboundary nature of environmental issues, and the importance of cooperation and collaboration for achieving positive environmental and development outcomes.

Wealth: Many African governments have dismantled their state-controlled economies, ushered in market-based systems, and engaged in the global economy. In many cases, large-scale private sector operations — commercial farms, timber and mining concessions, and other land-extensive production — are replacing government enterprises and small-scale producers. Nature-based public revenues thus pay for health, education, and other social services and, when exported, provide governments with foreign exchange to purchase essential imports and service rising debt. While a number of African countries have registered growth in per capita GDP and GNP in recent years, these national statistics mask the reality for the majority of Africans. Africa remains the only region in the world with rising poverty rates. In many cases, these gains have come at the expense of the rural poor — of rural development, poverty reduction, and other national objectives.

Africa's environmental endowment and slow growth rates in manufacturing and services means that national and household economies will likely remain resource-dependent for many decades. Improving economic growth, development, and poverty reduction will require the translation into environmental income and wealth of more of Africa's ecosystem goods and services, while maintaining a productive resource base (sustainability). NRM and environmental management are traditionally governed by rules, regulations, and other command and control mechanisms that prescribe how landscapes and resources can and cannot be used by individuals and institutions, and that levy sanctions for non-compliance. Incentive-based approaches to NRM and environmental management, including a large variety of economic instruments, are gaining momentum and are being used to shape behavior and achieve desired outcomes. A number of domestic industries and transnational corporations are also engaging themselves more comprehensively, with variable effectiveness, conducting self-audits and making production changes to improve efficiency, reduce costs, and increase profits.

To promote broad-based development and socioeconomic equity, governments must ensure that all citizens have equal opportunities to access and use natural resources and that all people benefit from Africa's natural resource endowments. Governments can promote pro-poor economic growth by helping to create new opportunities that emphasize the assets of the rural poor — land, natural resources, labor. Furthermore, government can work to secure property rights, new markets, and preferential access to these markets to ensure that poor people can compete and benefit from their land and natural resources. Governments can also support poor people by promoting pro-poor distributions of environmental goods and services. Studies show that in conditions of high poverty and high inequity, (re)distribution of environmental goods can be more effective than economic growth in reducing poverty and promoting equity.

Power and Governance: Unlocking nature's wealth for more rapid development and poverty reduction requires sound NRM and effective governance. Pro-poor governance can be defined as governance that supports multifaceted development and poverty reduction. Governance works for the poor when the poor can make government and other organizations work for them, including addressing the common high-priority environmental concerns of the rural poor. Poor rural people need secure access to productive land and valuable natural resources, information and technologies, markets for their produce, and a range of other elements to generate income and wealth from nature. They need the means to safeguard environmental assets, ensure sustainable use, and protect critical ecosystem services. Rural people also need protection from the social and economic repercussions of environmental damage, and from the (potential) intent of local elites and external actors to alienate them from their land, natural resources, and other valuable property.

In many countries in Africa, poor rural people constitute an electoral majority, but they are not a powerful political force and, consequently, public policies and government actions frequently fail to reflect their priority environmental and other needs. Often with government support, the elite capture a disproportionately large share of environmental benefits and pass on the associated social and other costs to the marginalized and disadvantaged. Such conditions have resulted in increased competition and conflicts over natural resources. Nature-based conflicts, including violent conflict, civil wars and secessionist movements, have far too often been a normal occurrence in Africa (see Chapter 4).

Experience shows that institutional and governance failures are the root causes of underdevelopment and environmental degradation in Africa. The absence of responsive government threatens natural resource management, economic growth, and the well-being of the poor. Without addressing the failures of governance, there is little chance of harnessing the economic potential of ecosystems to reduce poverty and promote social equity.

Governance that provides adequate information to stakeholders and establishes a sound decision-making process is at the heart of sustaining healthy ecosystems and ensuring sound environmental management. Governance structures that enable the enactment, implementation, and enforcement of public policies conducive to economic growth and social development are central to achieving sustainable livelihoods and sound environmental management.[81]

Governance reforms that affect environmental management are sweeping across much of Africa. These reforms have profound implications for empowering individuals and institutions in using and managing natural resources. Fundamental democratic principles, such as accountability, participation, representation, and transparency, are key features of governance structures that foster sustainable development. History shows that democratic governance systems excel along many dimensions, including sound NRM and environmental management.

Finally, development assistance organizations, including donor agencies and international NGOs, must carefully select their partner organizations in Africa. Donor support to specific institutions can have profound effects — enhancing or undermining — on NRM, environmental management, economic growth, development, and democracy.

[81] Ahrens and Rudolph (2006)