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The political economy of extractives in the borderlands

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#### Editorial information

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#### Editorial principles

The Horn of Africa Bulletin is a regional policy periodical, monitoring and analysing key peace and security issues in the Horn with a view to inform and provide alternative analysis on on-going debates and generate policy dialogue around matters of conflict transformation and peacebuilding. The material published in HAB represents a variety of sources and does not necessarily express the views of the LPI.

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# About Life & Peace Institute

Since its formation, LPI has carried out programmes for conflict transformation in a variety of countries, conducted research, and produced numerous publications on nonviolent conflict transformation and the role of religion in conflict and peacebuilding. The main focus of our work has been on Africa, with the Horn of Africa Programme being established and well-known in the 1990s, not least our work in Somalia. Other initiatives have been carried out in Congo-Brazzaville, Croatia, Sri Lanka and East Timor. We have strengthened the capacity of our civil society partners to address the conflicts in their own context, in some of the most difficult and war-torn countries.

Currently, we run conflict transformation programmes in the Horn of Africa and Great Lakes regions in partnership with local civil society organisations and universities in Somalia, Sudan, Ethiopia, Kenya and the DRC. There is also a common programme including publications, policy work and methodology design based in Sweden.

#### The political economy of extractives in the borderlands

The extractive sector, mainly consisting of oil, gas and minerals, has great potential to contribute to economic growth. Experiences in countries such as Norway, Canada and Botswana suggest that extractives can indeed be effectively managed to contribute to sustainable economic growth. As such, extractives could be an asset if the necessary regulatory frameworks and policies are in place, coupled with visionary and accountable leadership. The huge potential benefits notwithstanding, extractives are also associated with a host of problems, including environmental degradation, conflicts, poverty, health problems, corruption as well as adverse impact on biodiversity, ecosystems and local communities. The experiences of Nigeria, DR Congo and Central African Republic testify to the potential for conflict in extractives. Informed public policy is essential to ensuring that the potential societal benefits outweigh the negative impacts associated with this sector. Across Africa, case studies abound in which extraction of minerals has left devastated landscapes and disillusioned communities. It is indeed a challenge to ensure that extraction of resources positively contributes to national economies while at the same time also respecting the needs of ecosystems, biodiversity and benefits to local communities.

The Horn of Africa region has not been known for extractives. In recent years, however, the region has shown a mineral boom. With a significant discovery of gold, copper and silver Eritrea is moving towards a mining boom and is on the verge of becoming a new entrant on the international mining map, whereas Kenya and Uganda recently struck oil. Ethiopia on the other hand has operational gold mines and a potential for the discovery of oil and huge natural gas as well as salt and potash. Oil and gas explorations in Somalia and Somaliland have also shown positive results. With the right institutions and policies put in place this mineral bonanza could well be an asset that helps sustain the rapid economic growth the region has registered in recent years. Apart from the usual suspects of governance problems the extractive sector in the HoA faces some unique challenges, though.

One peculiarity of the extractives in the HoA is that nearly all of the new strategic minerals are found in the peripheral, border areas of the region where political marginalization is compounded by multi-layered conflicts and economic deprivation of local communities. National governments have put a high premium on these strategic resources exerting greater control over the territories and the people living in these areas. These are areas, which are the poorest, historically marginalized where literacy rates are among the lowest and poverty rates the highest. This obviously feeds into grievances. In addition, most of these areas are already prone to communal conflicts. As such, extractives may exacerbate local conflicts. Will the HoA avoid the 'resource-curse' path?

In this HAB issue on extractives we have five contributions. Muhumuza Didas provides us with an overview of the extractive sector in general and in the HoA in particular. Among others, he discusses government legitimacy as a critical factor for the success of the extractive industry; the need for communal literacy on the nature of the extractives to manage expectations; engagement deficit (local governments capacity gaps to manage the sector) and the need for a more responsible investment from the revenue accrued from the extractives avoiding the temptation of mega and impressionistic projects. Muhuza also reminds us of the danger of over reliance on the extractive (inherently finite and vulnerable to global market forces) at the expense of other sectors of the economy.

The second contribution by Skovsted and Bamberger takes us to Somalia where oil exploration is exacerbating and complicating already existing conflicts and highlights possible mitigating policy responses. According to them the overarching issue related to oil exploration in Somalia is the question of ownership which is a contentious issue between the Somali Federal Government, the different regional administrations as well as clans and sub-clans in whose lands oil exploration is taking place. A way forward, according to Skovsted and Bamberger, is to temporarily suspend the exploration activities and focus on creating solid political solutions to the territorial, clan-related disputes and find legal solutions concerning ownership and distribution of natural resources. The authors argue that the current decline in oil prices is a blessing in disguise for Somalia, creating potential breathing space that would allow the settlement of legal disagreements and strike a political settlement a priori the discovery of oil. Negotiation and settlement will be harder, if not impossible, once oil is discovered.

The third contribution by Kennedy Mkutu examines the political economy of oil exploration and discovery in the Turkana county of Kenya with a focus on impacts on local communities. Above all, there is a threat of dispossession of land of the Turkana pastoralists. The author also pinpoints a host of issues such as, loss of access to water sources, potentially adverse environmental consequences and the perceived negligible socio-economic benefits accruing to local communities, all of which have led or can lead to conflicts between communities and the oil companies. More ominously oil has already fuelled inter-ethnic conflict between the Turkana and their neighbors. The author strongly recommends the need to put in place the required regulatory framework by the Kenyan government; one that assures fair distribution of benefits while mitigating the adverse impact of the extractive sector for Kenya to realize its national vision of attaining the middle-income country status by 2030.

The fourth contribution deals with the institutional framework and impact of the extractives on local communities in the Ethiopian context. The contribution by Asebe Regassa looks at extractives and the private sector through a case study of the Adola gold mining and how, despite its high profitability, it has adversely impacted on the livelihood of local communities expressed in the form of continioous land dispossession. Coupled with absence of a trickledown effect this has generated local resentment, which has occasionally resulted in protests and their violent suppression.

Dr. Dereje Feyissa is the guest editor of this issue. In early 2016, the Editorial Committee of the Horn of Africa Bulletin made the decision to adopt the guest editor format especially in relation to thematic issues with a view to expanding the author base and readership of the HAB. Dr. Dereje due to his extensive research and publications on the borderlands is particularly well-suited to the role.

Dr. Dereje Feyissa & Demessie Fantaye

Editors

# **Extractives in the Horn of Africa: Regional potential and challenges**

By Muhumuza Didas

The Horn of Africa (HoA) and the greater Eastern Africa region has increasingly become a new frontier for extractives with numerous discoveries and exploitation of mineral resources and hydro-carbons (oil and gas), large scale agricultural projects, large scale quarrying and sand mining among others. However, this article focuses on the mainstream extractive sector involving the mining of precious metal and minerals plus exploitation of hydro-carbons.

The extractive sector is becoming pivotal to numerous African economies and more so the HoA region. For example, since 2000, most foreign direct investment into the continent has been directed to the mining sector[1]. This has also been exacerbated by the great thirst for raw materials in Asian giants (like China and India) hence the drastic rush for the raw materials by companies from these economies. It should be noted that much as the investments in the extractives have shot up, the trickledown effect in terms of benefits for the communities in the areas of operation largely remains wanting.

For example, over the last ten years, Uganda has registered tremendous success in petroleum exploration in the Albertine Graben. To date, over 100 oil and gas exploration wells have been drilled in Uganda with an exploration success of over 80%. The discovery of these petroleum reserves has raised expectations within communities and the population at large. The discoveries present opportunities for economic growth and transformation of the country[2]. The development phase is yet to start so that the necessary infrastructure is in place to enable commercial production of the petroleum resources. Of course, a country like Uganda has great opportunity for learning vital lessons thereby ensuring avoidance of the legendary resource course. This has to take due consideration of proper management of impacts of the sector on the communities as well as guaranteeing appropriate benefit sharing with great sense of protection and consolidation of local communities' livelihoods. None the less, experiences from other African countries like Nigeria, Angola, Cameroon, and Guinea Bissau among others that do exploit natural resources, show that there are considerable challenges to realizing the opportunities presented by the extraction of petroleum and other mineral resources.

There is considerable realization that resource extraction operations tend to be located in backwater settings with very minimal amenities like roads, schools, and hospitals among others. It thus becomes an uphill task to build trustworthy relationships between such communities and the companies and/or businesses operating in such contexts. Moreover, such populations have minimal trust in the government especially when the feelings of marginalization are rife.

On the other hand, trustful relationships based on legitimacy and shared understanding between businesses and communities within and around areas of extractive activities are critical. The relationship between companies and communities, if not guided by some trust and respect, could be mismanaged, and result in conflicts among the parties. Often misconceptions, misunderstandings and unrealistic expectations are the triggers of conflict in many extractive sector settings[3]. It is, therefore, important to understand the dynamics between communities and extractive sector companies in order to avoid, mitigate and/or adequately compensate for negative impacts and to maximize benefits toward equitable but also inclusive development.

## The cost of hosting extractive activities by local communities

Much as governments (in Africa especially) firmly trust in the view that extractives ledgrowth provides a great thrust for transformation owing to the huge amounts of revenues that are normally expected, sometimes distortions come up. This happens because of expenditure bonanzas where by huge infrastructure development projects are undertaken with the anticipation of revenue windfalls from extractives. Uganda is in this situation apparently but following the fall in the oil prices globally, the shocks in the economy are rife. Ghana and Angola are equally impacted in the same way, and all this is at the macro level mostly. At the micro level, host communities of the extractive activities like in the Turkana region of Kenya and the Albertine region of Uganda have for a long time been in the backwater situation and they now face the impacts including job provisions, improvement in social amenities, and some local economic enhancement as the main positive benefits. However, there are equally many and over whelming negative impacts such as displacement and resettlement, livelihoods disruptions, environmental pollution, and health hazards among others[4], which they are already facing and/or are destined to face. The situation is even worsened by widespread incompetence among local authorities where extractive activities are undertaken. This creates a huge gap in the engagement processes and the business companies normally have an upper hand to the extent of determining what information to share and the methods of sharing the information. This leaves out vital elements of ensuring partnership building and empowerment of stakeholders. It is also vital to note that communities living around extractives are mixed in terms of the indigenous and the immigrants as well as the workers employed by the companies working on different projects. This impacts the cohesion and collective engagement efforts by local stakeholders thereby creating an engagement deficit. The companies (and governments) end up not doing proper engagements but rather do it mainly for the benefit of the licensing requirements without any serious commitments hence the lack of community centered and driven engagement plus effective participation.

## Dilemma of natural resource generated wealth

There is a paradox inherent in countries with huge natural resource endowments and more so in Africa. It is not the norm that natural resources have to cause mayhem in the economies where they are found but owing to the governance systems in different African countries, unfortunate outcomes are often the rule.

Countries with large endowments of natural resources, such as oil and gas, often perform *worse* in terms of economic development and good governance than do

countries with fewer resources[5]. But there are also cases of countries that have had good outcomes from natural resources exploitation. Case in point is Botswana, which has greatly benefited from diamonds and Norway has equally benefited from the oil and gas resources, thanks to good governance trends in both cases. But still there are challenges that economies like Botswana face. Seventy percent of the Botswana government's revenues come from diamonds[6]. To-date, it is arguably clear that the precious stones (diamonds) do not hold the same promise for the future, and Botswana needs to make alternative plans and promote diversification. It should be noted that natural resources' exploitation faces two realities and these are the finite nature of the resources and the cyclical aspects with regard to commodity prices. Such realities are never well appreciated by host communities and when the times are not good, disillusionment sets in thereby creating fertile grounds for tensions.

Strangely enough, despite the prospects of wealth and opportunity that accompany the discovery and extraction of oil and other natural resources, such endowments all too often impede rather than enhance balanced and sustainable development[7]. This is because of lack of appropriate development strategies that have proper appreciation and consideration of local development needs coupled with failures in making the right choices in terms of investment of the "windfall revenues". At the end of the day, great value is lost since the revenues generated are not wisely invested in productive sectors that enable economic expansion and creation of opportunities for the populace.

On the one hand, the lack of natural resources has not proven to be a fatal barrier to economic success. The star performers of the developing world such as the Asian Tigers (Hong Kong, Korea, Singapore, and Taiwan), all achieved booming export industries based on manufactured goods and rapid economic growth *without* large natural resource reserves. On the other hand, many natural resource-rich countries have struggled to generate self-sustaining economic take off and growth and

have even succumbed to deep economic crises (Sachs and Warner 1995)[8]. What should also be noted is that the "star performing economies" are the key destinations for the natural resources that are produced by many African countries. The latter eventually become large consumers of the finished products from such economies. The value gained through the sale of these natural resources is far below the value paid to get the processed products of the raw materials into the economies of Africa. This economic misalignment creates awkward consequences and macro-economic imbalances that tend to boomerang over the years. The cycle continues to play out especially when group after group keep fighting each other with the hope of taking charge of the natural resource wealth.

Additionally, in country after country, natural resources have helped to raise living standards while failing to produce self-sustaining growth. Controlling for structural attributes, resource-rich countries grew less rapidly than resource-poor countries during the last quarter of the twentieth century. Alongside these growth failures are strong associations between resource wealth and the likelihood of weak democratic development (Ross 2001), corruption (Sala-i-Martin and Subramanian 2003), and civil

war (Humphreys 2005)[9]. This dilemma is not unique to the HoA region and no wonder it has remained a hot bed of all forms of conflicts and/or tensions that are greatly linked to natural resources like land, water, and minerals among others. The oil and gas aspect is just setting in and hopefully it does not get dogged by the "resource curse" dilemma in the HoA and greater Eastern Africa region.

# Getting it right and avoidance of the resource curse

There are key principles of ensuring proficient management of natural resources exploitation as well as provision of durable benefits to communities. Three core aspects have to be duly considered and they include: proper identification and management of impacts on communities; respectful engagement processes and equitable distribution of benefits[10].

Impacts emanating from resource exploitation do cause lots of discomfort to the communities and if not well managed, it leads to resentment of activities. Secondly, the behaviour of staff from resource companies (and governments) greatly impacts relations with communities and if they are not well trained and advised, unfortunate situations can occur. Lastly, communities do greatly desire to accrue tangible and durable benefits owing to their proximity to extractive activities.

Below are some pointers on what can be done to minimize the existence of the legendary resource curse in the midst of extractive activities in Africa.

- Responsible business promotion should be the norm and tracking of extractive sector products from source to the markets would greatly help in ensuring proper management of extractive activities in the sector. For example, the Kimberly process helped in minimizing the diamonds mining and marketing.
- Licensing is a key mechanism whereby government can reap early revenues and maximize long-term national benefits. Government must ensure that it simplifies both negotiations and tax structures to mitigate knowledge asymmetries with the extractive sector companies[11].
- Government and industry must engage and share information with affected communities to manage local expectations regarding the extractive sector and build trust on long term basis[12].
- Meaningful participation of national organizations in resource development is a
  central objective of many emerging producers. Capacity is needed to enable this,
  and more effort needs to go into where and how best to develop this capacity[13].
  There is great need for collaboration and partnership among stakeholders
  including governments, NGOs/CSOs, and business entities. This can ensure proper
  leverage of efforts and beneficial regulation of the extractive sector.

Overall, exploitation of natural resources has great potential for generating wealth that can create durable benefits to present and future generations. Communities and generally stakeholders in various economies greatly need delivery of efficient services and economic benefits derived from exploitation of natural resources.

Disenfranchisement and exclusion of some quarters of the populace is recipe for

conflicts and this is normally exacerbated by lack of security for persons and property.

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# Oil in Somalia: Renewed interest in Somali oil

By Jakob Grandjean Bamberger, Kristian Skovsted

Promising test wells, seismic and gravimetric surveys, actual oil seeps, and the geological resemblance to oil-rich Yemen strongly indicate the presence of oil in commercial quantities in Somalia\*.[1] However, Somalia is significantly underexplored and the region as a whole is considered by many as one of the last remaining oil frontiers in Africa.

Historically, oil exploration in Somalia dates back to 1948 but due to it's volatile political and security environment Somalia was still underexplored when, in the late 1980s, several major oil companies signed concession agreements with the Siyaad Barre military regime. The outbreak of the civil war and the collapse of the regime led oil companies to declare force majeure and abandon exploration activities overnight.[2]

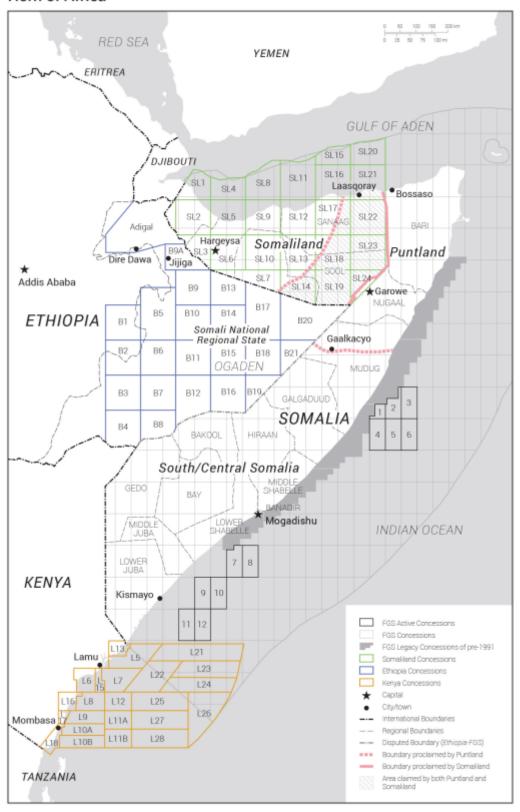
Though most of Somalia is still characterised by clan strife and the al-Shabaab insurgency, the combination of the above-mentioned promising indicators, the establishment of the AU-backed Federal Government of Somalia (FGS) in Mogadishu, and the relatively stable governments in Somaliland and Puntland, have resulted in a renewed interest in Somali oil exploration.[3]

The article will through selected examples illustrate how this oil exploration is exacerbating and complicating already existing conflicts and highlight possible mitigating policy responses.

#### **Legal Disputes and Overlapping Concessions**

The overarching issue related to oil exploration in the territory internationally recognised as Somalia, is the question of rightful ownership of natural resources. With reference to Article 7 in the Petroleum Law (2008) stating that: '(...) all agreements pertaining to petroleum that were signed after 1991 with the entities purporting to be governments of all or any part of Somalia are considered non valid agreements' the FGS claims a legal right to all natural resources in Somalia.[4] This claim is, however, contradicted by Somalia's Provisional Constitution (2012), which provides substantial autonomy for regional governments to enter into commercial agreements with international oil companies.[5] In this way, deals are continuously made with reference to incompatible legal documents, which complicate the possibility of finding long-lasting solutions to the issue of ownership. Furthermore, oil companies become direct parties to the conflict by increasing tensions between both the regional governments of Somaliland and Puntland, but also concurrently between these entities and the FGS

#### Horn of Africa



An illustrative example of the complicated web of overlapping concession agreements is the block 'SL18' covering parts of the Sool and Sanaag regions in the borderlands of Somaliland and Puntland. In SL18 the oil companies DNO and Horn Petroleum have both signed concession agreements with Somaliland and Puntland, respectively. These agreements pose potential significant contributions to the respective budgets of Somaliland and Puntland, which raise the stakes of controlling the disputed area. Following the agreement with Horn Petroleum, political tensions arose, which led Horn

Petroleum to inform the government of Puntland that it would reduce its presence in the area and requested Puntland for a two-year extension of the exploration period in order for the: '(...) political challenges to be resolved'.[6] While this initiative might reduce the potential for current on-site clashes, it certainly puts pressure on Puntland to find a solution – political or not.

Concurrently, the concession right to SL18 is at the forefront of the above-mentioned legal dispute as SL18 is also claimed by Shell and ConocoPhillips, which both have agreements with the FGS currently on hold due to the 1991 force majeure.[7] To further complicate the situation, SL18 is situated in the territory also claimed by the vaguely defined self-declared Dhulbahante based 'Khaatumo State'.[8] While SL18 might be a crude example of the complicated web of overlapping concessions in Somalia, similar conflicts exist in block SL6, SL7, SL9, SL10A, SL10B, SL12, SL13, SL14, and SL19 in the Somaliland-Puntland area, in off- and onshore blocks in Puntland and Galmudug, and in L5, L21, L22, L23, L24, L25 and L26 between Kenya and the FGS off the Somali-Kenyan coast.[9]

In relation to the conflict between Somaliland and Puntland it is, however, important to keep in mind, that the hostility between the two is nowhere only created by the current oil exploration, as historic issues related to e.g. access to grazing land and water as well as border demarcation have existed for decades. However, the presence of oil companies is exacerbating, accelerating, and reigniting already existing conflicts, as the establishment of the two oil protection units exemplifies, which will be described further below.

#### **Violent Clashes**

Oil exploration in Somalia is not only a matter of legal disagreements as several oil-related clashes attest. One example is in Sool region (disputed between Somaliland and Puntland), where a clan militia ambushed a DNO exploration team in 2014. The exploration team fled to Hargeisa without any casualties.[10]

During another incident, in Puntland in 2006, exploration activities of Range Resources resulted in the intensification of a clan dispute between Warsangeli and Puntland authorities (Majerteen) in the town Majihan south of Bosaaso. In this case Puntland's military, which supposedly was ordered to protect the equipment of Range Resources, in an alliance with local Majerteen elders, killed more than 30 people and provoked the creation of a new Warsangeli militia led by Sheikh Mohamed Said Atom. A militia, that a few years later swore allegiance to al-Shabaab and today is defending an al-Shabaab stronghold in the Golis Mountains west of Bosaaso.[11]

In the context of the above-mentioned dispute, the letter dated 10 September 2015 from the Puntland authorities to the oil company Spectrum ASA is alarming.[12] In this missive the director general of the Puntland Petroleum and Minerals Agency, Issa Mohamud Farah, denounces the newly signed deal between Spectrum and the FGS covering parts of Puntland's claimed offshore territory and states that any Spectrum vessels in Puntland territory will be seized. A similar threat was directed at the Chinese

BGP Inc. and its offshore seismic activities.[13] This practice is not unfamiliar to Puntland's Maritime Police, as it has previously detained foreign vessels accused of illegal fishing.[14]

#### Oil Police

As a response to the security issues arising from the interaction with the local communities, specially trained oil security forces have been established – the OPU in Somaliland and the ESU in Puntland[15] According to senior internal security coordinator and head of the Oil Protection Unit at the Interior Ministry of the Republic of Somaliland, Ahmed Kochin\*\* the OPU was established in order to assure the safety of the international oil workers. Notwithstanding the motive of establishing the units, it is self-evident that the forces can be used for other purposes, including as means to strengthen territorial defence against hostile neighbours and militias in the contested borderlands.

Concurrently, chief of staff of the Presidency of Puntland, Deeq Yusuf, refers to Somaliland's OPU as: '(...) part of the continued aggression and clan expansion of Somaliland against the territory and people of Puntland'.[16] The consequence is that the establishment of oil protection units, which supposedly are to create and uphold stability, end up having the opposite effect. These units become a conflict-escalating factor because oil companies are now to be escorted by heavily armed personnel, which can provoke violent clashes, especially in disputed areas. Furthermore, the privatisation of security reduces transparency, prompts questions of affiliation and loyalty of security forces and the units become dangerously powerful parties to the on-going conflicts.

It is worth noting that both the OPU and the ESU allegedly are funded directly by foreign oil companies. In Somaliland Genel Energy is supposedly funding the OPU, and Canmex/Erin Energy is perceived to pay monthly salaries to the ESU in Puntland.[17]

## **Future Prospects and Policy Considerations**

Only limited research has been conducted on emerging oil producers and the unique challenges associated with this initial phase. What is especially interesting in the Somali case –as our research shows – is that prior to any oil exploitation, and even prior to any commercial oil discoveries, several of the negative dynamics associated with the so-called resource curse are at play. More concretely, our research shows that the politics of oil in Somalia have already led to cases of corruption\*\*\* and examples of diversion of funds, forced evictions, diplomatic crises, legal disputes, clan tensions, and border disputes – not to mention the deaths of at least 30 people in Puntland directly related to oil exploration. The mere myth of oil unleashes forces and reactions that, even before exploitation, influence politics in general and conflict dynamics at all political levels across Somalia.

Despite the drop in oil prices since mid-2014 and the volatile security environment, the extent of oil exploration across Somalia remains significant. This indicates that conflict is likely to become increasingly evident in the future development of Somalia, especially if

oil in commercial quantities is discovered. It is therefore relevant to ask how these conflict trajectories can be avoided.

If the extensive exploration continues in Somalia and runs parallel to the creation of political settlements, the state- and peacebuilding processes will constantly be affected by developments from the on-going exploration and it will potentially affect negotiating positions. A way forward is therefore to temporarily suspend the exploration activities and focus on creating solid political solutions to the territorial, clan-related disputes and find legal solutions concerning ownership and distribution of natural resources. While this is of course immensely difficult in Somalia, it is problematic that the actual process is roughly done the other way around. When the exact locations of oil deposits are discovered, the possibility of finding political and non-violent solutions to decade-long disputes will become more difficult as every actor, be they oil companies, political entities, local clans or the FGS, will be willing to take necessary means to secure the vital assets. Ironically, the low oil price may benefit the Somali situation, as oil activities might be postponed until higher prices emerge, providing more time to reach political settlements.

Other key aspects that can work to reduce the possibility of conflict and secure a more sustainable solution are the inclusion of the local communities in the decision-making process and, concurrently, the management of public expectations. Through interviews and general discussions in both Addis Ababa and Hargeisa in April 2015 it became clear that local populations do not necessarily oppose oil exploration as long as oil is used to improve their living conditions. If oil is then found and it does not benefit the people, especially those living in proximity to future exploitation sites, it will create dissatisfaction and likely spur violent conflict due to the harsh living conditions across Somalia. It is therefore crucial that the local communities are included comprehensively into and informed about all stages of the politics of oil.

A final consideration is that some sort of coordination between the political entities of Somaliland, Puntland and Galmudug and their engagement with the international oil companies and the FGS must be obtained. Currently, it is possible for the oil companies to play the entities off against each other, which benefits only the oil companies and not any of the entities let alone the Somali people.

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This article is based on research available in greater detail through the Danish Institute for International Studies (DIIS).

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# Avoiding the local resource curse in Turkana, Kenya

By Kennedy Mkutu Agade

The community is right in what they are demanding! ...It's what God gave them... it's their soil and blessing...People have learned that if they air their grievances they will be heard. When oil comes, they will get their guns, unless the government does something.<sup>[1]</sup>

The recent mineral resource discoveries in East Africa have been found in marginal, often border areas, occupied by pastoralist peoples. Ironically, while these peoples have lived independently from the states in which they are located, subsisting on arid or semi-arid land considered of little value to the majority, their future now seems uncertain amidst both hopes and fears that those better endowed with wealth and opportunity will succeed in 'pulling the rug' from under their feet. This article summarizes recent work on the changes taking place in Turkana, Kenya, following the discovery of viable quantities of oil in 2012. The positive and negative aspects of the changes, and the existing and proposed institutional regulatory frameworks are considered, along with suggestions for the necessary action to ensure inclusivity and sustainability.

#### Socio-economic marginalization in Turkana

Turkana is a remote, semi-arid county occupying Kenya's north-western corner, occupied mainly by around 900,000 pastoralist Turkana peoples. They live a semi-nomadic lifestyle, some members moving seasonally with livestock in search of pasture and water. Cattle are the centerpoint of Turkana life; diet, lifestyle, customs and culture are inextricably linked with cattle and the economy has been until recently, almost exclusively cattle based, aided by Turkana's geographical isolation from the rest of Kenya. But the cash economy is penetrating the county. Cattle raiding conflicts with non-Turkana are now carried out for cash, with cattle sold on the black market. In some cases, these activities are presided over by businessmen furnishing markets in Nairobi and other major urban centres.[2]

Political and socioeconomic marginalization have been Turkana's lot since colonial times, when the policy was, for the most part, to leave the northern frontiers alone. There has however, been a high civil society presence in the county for many years, and droughts and policy failures since colonial times have made the Turkana perennially dependent upon relief food. Devolution of many functions in Kenya to 47 county governments took place in 2013, the result of a new constitution, and is hoped to go some way to redressing the inequality gap and improving investment and citizen participation in Kenya's peripheries.

# Oil activities

British registered company Tullow PLC, in partnership with Canadian based Africa Oil Corporation was the first company to explore and discover oil in Turkana. This partnership's main interest is in south Turkana (blocks 10BB and 13T - known as the

South Lokichar Development Project). It is looking to move into the production phase in in 2017 and there are an estimated 600 million barrels of oil. 50% of shares from South Lokichar have now been sold to the Danish company Maersk Oil.[3] The other main activities are in the north-west (block 11A) where Compañía Española de Petróleos (CEPSA), a Spanish company, entered in 2014 and is currently in the exploratory phase.

# Economic changes, benefits and problems of the extractive industry

In the South Lokichar area people have benefitted from jobs, scholarships, developments, school building projects and road improvements local to the oil installations. Tullow notes that in 2013, it gave out 233 million KShs (around \$2.33 million USD) and doubled this budget in 2014, and is investing in skills development programs and supplier forums to boost local employment. Prices of commodities, land and rent in Lokichar increased markedly at first, rising tenfold. Even a goat increased in price from an estimated 1200 to 4-6,000 Kshs (\$40-60), which boosted the pastoralist economy, while at the same time increasing raiding. Mobile phone banking (MPesa) services also became more widely used and flights into Turkana are now frequent. Some people have voiced fears of urbanization, traffic and 'outsiders' bringing HIV, prostitution and other harmful lifestyle changes. A change in the phase of the industry in 2015 reversed the boom somewhat, and is a warning to those who abandoned more sustainable livelihoods or schooling in the hope of a 'big break'.

Other oil-related infrastructure will also impact Turkana. The Lamu Port South Sudan Ethiopia Transit (LAPSSET) corridor remains Kenya's long-term plan (despite Uganda's announcement in 2016 that it would route it's own oil through Tanzania). [10] The corridor, which is only in the early stages, would traverse several northern counties of Kenya with an oil pipeline, road and rail. The pipeline is projected to be operational in 2021.[11] While the project is hoped to provide much development, it is also raising concerns about displacement, disposession, compensation, environmental impacts, livelihoods, socio-cultural change, insecurity and terrorism. Several protests have occurred, while speculative land acquisition has been common in LAPSSET areas.

#### Land and the environment

The World Bank notes that "Only 10 per cent of rural land in sub-Saharan Africa is registered, the rest is undocumented, informally administered, and thus vulnerable to land grabbing and expropriation without adequate compensation." [12] In many African states, the legal instruments protecting customary land rights are weak. [13] In Kenya, a Community Land Bill (2015), yet to be passed, intends to formalize the ownership of communally owned land through registration of groups of land users, but there are fears that these complex processes might be difficult for illiterate communities to execute and that, less legitimate claims could dominate. Moreover, formal arrangements could interfere with current fluid agreements and mobility vital for pastoralist livelihoods.

Almost all of Turkana's 77,000 square kilometers of land has been allocated for prospecting although in practice drilling is only taking place in a few specified areas. In early 2016 Tullow had 32 viable wells in South Lokichar,[14] each occupying around 13

acres. However, these had already raised some objections from the surrounding communities who were fearful and angry when they found themselves barred without warning from areas of communally owned land. Some disruption to traditional grazing patterns was reported; one clan was eventually compensated directly by the oil company with a reported two and a half million KShs (25,000 USD) and other benefits. However, compensation directly to Turkana pastoral clans may raise legal problems because of the current informal nature of land tenure. In May 2013 Turkana communities demonstrated against an investor, burning and destroying property worth six million KShs, including huge tents and fencing poles, citing displacement and improper acquisition of their land. The investor remains however, and has leased the airstrip on the land to Tullow. The provision of tanks or boreholes has been another strategy by the investor to mitigate tensions with communities, but demands for water by the industry will increase further as extraction begins.

In terms of the environment, the familiar accounts of the Niger Delta demonstrate the potential risk of the extractive industry through oil spills, gas flaring, toxic wastes and effluent. In Turkana, environmental impact assessments (EIAs) may be both inadequate and biased, being funded by the investor.[20] Further, they were available only in the county headquarters and were large and difficult to comprehend. No popular versions have been provided. The National Environmental Management Authority (NEMA) is said to lack capacity to oversee the law in this respect.[23]

The conservancy model has been suggested in 2015 in Turkana. In several counties, the model has served the purpose of conservation, (with armed national police reservists trained to guard against poaching), while also aiming to benefit local communities through their involvement in eco-tourism and through collective planning of herding activities. Private deliberations between various stakeholders including investors in Turkana culminated in the announcement of a plan in 2015 to create six community run conservancies from Turkana and West Pokot.[24] However, a public meeting heard many objections, in particular, that community elders involved had not represented the people. Conservancies raise the similar concerns to those raised by the Community Land Bill (2014) noted above. Further, conservancy management boards in other areas have been criticized as failing to adequately include the pastoralist communities, and creating new parallel structures to rival existing indigenous governance.

## Opportunities and benefits

Oil is a heavily mechanized industry, with a long delay before the oil can flow, and various phases which lead to fluctuations in manpower needs. 'Local content' or benefit to local people in terms of employment and tendering opportunities is a contentious issue[26] and expectations have been high among Turkana people who have declared, 'it is now our turn'. Tullow states that 99% of jobs for unskilled labourers and around 75% of jobs for semi-skilled labourers have gone to Turkana people, but local perceptions may differ markedly. People bitterly expressed feeling devalued and undermined and strongly requested that they be assisted to get training to take up the more skilled jobs. One scheme intended to benefit locals was agreed with Toyota Kenya, and involved the

leasing of 36 vehicles which would be driven by local drivers, for Tullow, and eventually would become the property of those drivers.[29] Unfortunately this too became a source of discontent as local elites influence the distribution. The issue contributed to riots involving around 100-200 people blocking the road. Several other demonstrations have taken place, the most notable being in October 2013 when Tullow had to suspend their operations across in Lokichar for three weeks and evacuate non-Turkana, due to riots by communities who invaded workers camps.[30]

In the northeast, during the first 4 months of 2015, demonstrations related to demand for jobs and tenders included a complete road block lasting for four days, in which arriving supplies were re-distributed among the community. When one sub-contractor failed to pay out 11 million KShs for food supplies and hired vehicles, and records of transactions 'disappeared' this also led to a roadblock. In the northwest, competition for tenders to supply local materials such as gravel, sand and charcoal are another source of tension.

Lack of information and participation undoubtedly worsen the tensions described. Some political scientists refer to political access needs (participation) as one of several other needs (such as human security and acceptance), which when denied may result in grievances, collectively expressed. While various committees and meetings and other strategies have been created to enhance participation in Turkana these have often seemed inadequate, inaccessible and unrepresentative. Following the failures in South Lokichar, communities at other sites have been proactive, negotiating MOUs with the investors (although these are not legally binding), overseeing equitable distribution of jobs and tenders and excluding politicians from deciding on this distribution. There is a lack of policy, however, on civic education and participation leaving the process to communities and investors for the most part.

#### Governance

Stevens *et al* argue that where there is low institutional capacity and where weak legal and governance frameworks fail to protect the rights and interests of affected communities, tensions between investors and communities are more likely to escalate.[34] The updated law relevant to the challenges of the current context had been subject to long delays through parliament, which means that policy is currently lacking on local benefits which creates uncertainty for both the investor and the community. The county notes that it is attempting to 'catch up' with the extractive industry and its challenges, since local government had been excluded from discussions on the production sharing contract between the Ministry of Energy and the investor. In terms of royalties it is expected that the Petroleum Bill (2015) when passed, will give 20% of royalties to the county and 5% to locals. The importance of legal and policy frameworks and institutional capacity to handle this revenue stream cannot be understated, if it is to benefit local people, and to avoid destructive political rivalries, corruption and the erosion of democracy which is so commonly the result of resource wealth.

## **Insecurity in Turkana**

It would be impossible to talk about Turkana without mentioning its fragile security situation. A thriving arms trade across state borders with Turkana means that many Turkana men carry arms, [36] which are used for protection and in lethal cattle raids against certain non-Turkana groups and have, as noted, prompted the rise of 'commercialized' cattle raiding. Turkana's enemies include the Dassenech and Murle from Ethiopia, the Toposa from South Sudan, and the Dodoth from Uganda, though it must be said that all these groups are mobile, and for them, both state borders and national identities are somewhat fluid. The Turkana have also been in intermittent conflict with the Kenya Pokot for most of 2014, into 2015. With all these enemies, armed cattle raids and conflicts for dominance over pasture and water points are common, taking place almost weekly and frequently resulting in deaths and injuries. The Todenyang massacre of 2011 in which at least 40 Turkana were killed by Dassenech is one of the most memorable incidents. Notably, the Dassenech are themselves under severe pressure from the construction of a dam and agricultural projects by foreign investors in Ethiopia.[37] Across the Uganda border, however, there is stability, owing to peace agreements, Uganda's forceful disarmament strategy from 2004-2010 and an Ugandan military presence along the border.

Oil and devolution have both raised the stakes for power in Turkana, and led to political and clan tensions and riots, with people claiming that resources belong to the indigenous. As noted earlier, local elites sometimes often influence the distribution of employment and other benefits. Such tensions are likely to escalate as the 2017 election approaches, but it is hoped that local efforts at equitable distribution described previously may prevail. Devolution has come at the same time and provided a platform for the expression of county identities and in some cases, xenophobia. [39] There has been evidence that access to benefits from oil and gas did become a focus of the Turkana-Pokot aggression, with local politicians involved in inciting the conflict. They have more recently been engaged in preaching peace, following orders from central government. [41] Lastly, the oil block in the north-west has raised tensions between Toposa and Turkana pastoralists who have shared and fought over grazing grounds for centuries in an area where the position of the border has never been formally agreed by the states. The recent demanding of Mount Mogila by the Toposa, is said to have been heightened by oil and gas finds in Turkana and is also politically driven.

Currently, personnel from three sectors, the National Police Reserve (NPR),
Administration Police and regular police are currently deployed to secure oil sites. The
effort to involve local NPRs has benefited them since they receive wages for the work.
However as needs fluctuate, people may be laid off, leading to complaints and
demonstrations.

NPRs are rotated periodically, and revert to their volunteer status,
leading some to resort to banditry. A problem of NPR deployment to oil sites is that
communities may be left vulnerable. This issue led the former Inspector General of
Police to publically order NPRs back to their community security roles.

Deployment
decisions also seem to be rather irregular at times with investors and other stakeholders
involved.

Lastly, the recent proposal for community conservancies brought new
concerns about security governance: in Laikipia, conservancy security teams are better
equipped than the police and may operate largely supervised by conservancy managers

#### rather than the police.[46]

Several features in Turkana suggest a propensity for increased insecurity. Gurr's (1970) definition of relative deprivation, in which he identifies the difference between 'value expectations' and 'value capabilities' is important as a contributory factor in conflict. There is a heightened danger of conflict where there is relative deprivation in the same area as extractible commodities. Resources may be 'looted' or 'obstructed' by groups pitting themselves against the state, or perhaps less organized forms of crime and violence can result, such as banditry and oil bunkering as seen in the Niger Delta. The weak security governance in Turkana could facilitate this; in Nigeria weak security governance allowed for corruption whereby some oil companies either 'made direct payments to armed groups or awarded contracts to them to provide 'security' for installations, resulting in local conflicts.

#### Promoting inclusivity and sustainability

The regulatory frameworks pertaining to 'local content' in the industry (The Petroleum Bill, 2015), and land rights (The Land Act, 2012 and the Community Land Bill, 2015), are the foundations of justice and equity, and need to be passed as soon as possible to allow policy and implementation to follow. To ensure respect for the rule of law, institutional capacity to understand and follow the law is needed among county government, national administrative officers, civil society, local leaders and even the citizens and suggests a role for both government and civil society to make this happen. The need for policy cannot be understated, but a legitimate policy process is a product of public consultation. Further, legitimate institutions must be created for monitoring and implementation, which are subject to probing by the public. The current situation of self-regulation by investors is inadequate to ensure participation and hence sustainability. Similarly, contracts should also be open and accessible and subject to oversight.

The local economy is an important dimension of this work. While the oil industry itself seems to have only a limited capacity to benefit local people, accompanying development provides a great opportunity to involve them. Training opportunities in construction and the service industries and skills likely to be needed in the future (plumbing, electrics, ironmongery etc.) could assist here. Other alternative livelihood strategies such as agriculture through irrigation near the Turkwel river are currently being explored and have potential. This notwithstanding, pastoralism is the main livelihood suited to the climatic variability and should be protected (through protection of pastoral lands and mobility corridors), which is unlikely to be achieved through pursuing the conservancy model. Livestock markets and abattoirs should be developed to facilitate the trade between Turkana and other areas. At the same time, the dangers of 'opening up' Turkana are evident, and every effort should be made by government and civil society to raise awareness on sexual health issues and alcohol, and to regulate where possible to prevent this potential disaster.

Lastly conflict risk and security governance are major themes of this work. While NPRs benefit from the oil industry, it is vital that the state oversees this deployment closely,

and handles payments to NPRs. Most importantly, in order to prevent conflict, security should not only be directed towards resource wealth but should benefit all. Mechanisms for disseminating information and genuine participation of locals in decision-making need to be facilitated by the county and national governments, to avoid conflict between the community and the state and investor.

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# "Development by dispossession?" A reappraisal of the Adola Gold Mine in southern Ethiopia

By Asebe Regassa Debelo

Extractive industries are perceived as pathways to accelerated development particularly in developing countries for their contribution to earning foreign currency. During the colonial period in Africa, these industries remained the bases of colonial economy and at the same time symbols of labor exploitation, displacement, and oppression of native people. While these industries were long established in central and southern Africa, it is an emerging sector in Eastern Africa. The discovery of oil in the Turkana region of Northern Kenya and the prospect of oil/gas in Ethiopia's Lower Omo belt and Ogaden region in addition to the extensive gold mining, renders an analysis of the policy dimension of extractive industries critical. This paper, therefore, assesses some controversial dimensions of extractive industries by taking the case of Adola gold mining in southern Ethiopia. The data for this brief paper was mainly drawn from the personal observations and interviews with local communities and some online resources.[1]

# Adola gold mining and its exclusionist approaches

Adola gold mine that is currently owned by the MIDROC PLC through concession is the largest gold mine in Ethiopia with an average annual production of 4.5 tones of gold.[2] After getting the concession from Ethiopian Mineral Resources Development Corporation (EMRDC) in 1997, the MIDROC Gold PLC has expanded at the expense of artisanal miners and local Guji Oromo through its ever-expanding enclosures. Enclosures often entail exclusion of certain group not only from physical access to resources but also by limiting their ability to use the resources. That means, enclosures disempower groups who previously been using the resources by disconnecting them from their economic, socio-cultural and spiritual ties to the land. Although the private conglomerate company operates the enclosure for the Adola gold mining, there are much in common with the previous regimes as far as exclusion and displacement of local communities is concerned.

According to local informants, the Adola gold mining belt, which consists of several mining sites was first discovered in 1930s but was not fully developed until the Italian invasion (1936-1941). The Italians pursued the exploration of new sites and expanded the existing mining sites during the five years period and laid a strong foundation for the imperial regime which aggressively embarked on gold mining as the main source of revenue after 1941.

Since its inception in the 1930s and continuing under the imperial and military regimes, the gold mine was operated through a harsh approach of labor conscription, displacement of local communities and expropriation of artisanal miners. In reminisces about the harshness of the work environment, elders in Shakiso refer to instances where people convicted of crimes and resistance against the imperial and military regimes were used as laborers in the mine as a form of punishment. Likewise, the indigenous

Guji Oromo were displaced from the area and their lands would be claimed by the state and later the conglomerate company as a mining frontier.

#### **Exclusion and grievances**

As indicated earlier, the Adola gold mine was established in the absence of consultation of local communities and without any compensation for the loss of their livelihoods and their ancestral lands. Local communities complain that despite the change in regimes, Adola gold mine has functioned through coercive and exploitative methods with no significant difference between the Italian invaders and the successive Ethiopian regimes when it comes to exclusion and restriction of the people from their customary lands.

However, popular uprisings and protests were infrequent during the previous regimes perhaps for different reasons. First, the level of political consciousness of the local communities in claiming for their entitlement to the resources had not been strong until 1990s. The political transformation in the country in the post-1991 period coupled with the massive expansion of the gold mine following its transfer to the private company have raised the awareness and grievances of the local Guji Oromo on the basis of claim of entitlement to the natural resource and discontent towards the impacts of the mining industry.

Recently, the activities of the MIDROC Gold mine led to popular protests in Guji zone that became part of the large scale protests that broke out in 2015. Local communities claim that despite being the country's largest gold mine, the contribution of MIDROC Gold in Adola (or commonly called Laga Dambi gold mine) has been insignificant to the economic and social developments of the local people. Rather, they claim that the toxic chemicals from the project pollute their water grounds and also the displacement of local people and artisanal miners is another aspect of local discontent. As a result, protest erupted in 2009 in few secondary schools in Guji zone and soon spread to many schools in the zone.

According to a report from US embassy leaked to Wikileaks, the protest initially erupted when residents of Shakiso district in Guji Zone accused Laga Dembi Mine, of releasing toxic chemical waste into a nearby river, causing illness to people and animals in the area.[3] The local people tried to seek administrative solution to the problem by submitting petition to local government arguing that a second gold mine should not be given to MIDROC before it cleans the toxic waste that it has released from Lega Dembi, and the company compensates the community. Nevertheless, according to local informants and the source from Wikileaks, the local government authorities resorted to mass arrests of protesters and halted the ongoing investigation into the toxic dumping. The incident resulted in the detention of hundreds of students, and members of opposition parties.

The government and the conglomerate company used strategy of appeasement by promising different social services and financial gift to the local people. In January 2010, Sheikh Mohammed Al Amoudi, owner of MIDROC, Alemayehu Tegenu, Minister of Mines and Energy, and Aba Dula Gemeda, President of Oromiya Region visited Shakiso to

appease the community. Sheikh Al Amoudi granted 15 million Birr (USD 1,125,000) for the 15 Weredas (districts) in Guji Zone to be used for community development.[4] According to local residents, the meeting was not open to all residents of the area; rather, handpicked residents attended and thanked the visitors for the attention they gave to their community. Although the protest was put down through a combination of force and the promised remuneration from the owner of MIDROC Gold mine, the underlying grievances never went away and meshed into the protests that broke out in November 2015.

Environmental pollution was not the only source of discontent of the local communities. Since its inception in 1930s, the bulk of the employees of the gold mine are from other regions. While lack of education was used as pretext for exclusion of the Guji Oromo from employment under the previous regimes, the MIDROC gold mine uses "security" to rationalize its preference for non-indigenous labour. In any case however, the exclusion of local communities from different levels of employment is evident.

Moreover, discontent also arose from unfulfilled promises from the government and the MIRDOC Gold Mine owner in terms of provision of social services such as road, schools, hospitals and drinking water for the community. In over 80 years of gold mining in the region, no investments in significant social services have been made to either compensate locals for the loss of their livelihoods or as a trickledown effect of the revenue from mining activities, the figure that is not very clear to many stakeholders. The town of Adola, which the imperial regime re-named as *Kibre-Mengist* for its source of gold, did not have tap water and electricity until a few years ago. Still today, the town and its surrounding community suffer from access to basic social services such as hospitals.

The continued displacement and encroachment on the livelihoods of artisanal miners is also another source of discontent that has fed into recent protests. For example, the MIDROC Gold mine "discovered" new gold deposit in Sakaro area, only 3km from Laga Dambi site in 2009.[5] In the same year, it signed a ten-years concession agreement with the Ministry of Mines and Energy to utilize the deposit and continued further explorations.[6] MIDROC's concessions for further exploration led to the increased enclosure of grazing lands, farmlands and artisanal mining sites leading to displacement and restriction of access rights for local communities. Accordingly, the massive land appropriation by the company, lack of transparency in the revenue, absence of clear corporate social responsibility, continued environmental pollution from the toxic dumping into rivers, and exclusion of local community from employment became rallying points in the protests that broke out here in 2015.

#### Conclusion

Ethiopia has recently embarked on a program of economic diversification to transform itself into a middle-income economy. In this regard, extractive industries such as gold and other minerals, and gas and oil explorations have received growing attention from the government. The privatization of gold mining, particularly the transfer of the Laga

Dambi (Adola) gold mine to the MIDROC Gold Mine could be viewed as a component of the economic liberalization since the 1990s. However, there are concerns on the part of local government authorities, members of opposition and the local community at large that the right to mine gold has been granted to MIDROC without clearly stipulating corporate social responsibility guidelines. In addition, the company's mining activities have led to the dumping of toxic chemicals and the lack of compensation for the local community. Therefore, the existing pattern of resource extraction, exclusion of local communities and absence of positive trickledown effects is potentially conflict prone and bodes ill for the future, unless appropriate policy frameworks are put in place and genuinely implemented.

#### **Policy recommendations**

The following policy recommendations can be used as entry points:

- Institutionalizing corporate social responsibility: Ethiopia lacks clear policy and guidelines for holding investors accountable with regards to what they ought to provide to local communities who might be directly or indirectly affected by their companies. Investors often promise some social services as a form of humanitarian or charity provision rather than as part of their responsibility. Therefore, the government should make it clear that the MIDROC Gold Mine has such social responsibilities and the company should be held accountable. For example, the 15 million birr promised ("given") to the 15 districts was only a symbolic gesture probably intended to appease the people, and was not a fulfillment company's social responsibility.
- Participatory approaches: The Adola gold mine was exclusionist from its inception.
   Nominal participation that involves the cooptation of local elites will not guarantee sustainable peace and harmonious co-existence between the company and local communities. The youth is much more conscious of its rights and not easily coopted. Therefore consultations and participation of the affected communities should be taken seriously.
- Transparency in revenue: The federal government should work towards formulating and implementing clear and transparent guidelines governing how revenue from mining operations are to be shared between different tiers of government. These policies should ensure that a part of the revenue is utilized to provide social services to local communities.
- MIDROC Gold Mine should prioritize employment opportunities of local communities and also empower them through trainings so that they would be competent enough to work in the company.
- Environmental protection protocol: Environmental pollution is emerging as a major issue in the country. The MIDROC Gold Mine is not an exception. There are reports that its toxic chemicals have polluted rivers and claimed the lives of hundreds of cattle and caused health problems to humans.[7] Therefore, the federal government, Oromia regional state and MIDROC should work together to alleviate pollution effects.
- Compensation: The establishment of Adola Gold mining has led to the displacement of local communities, restriction of access to their ancestral lands and changes in their livelihoods. Affected people were not compensated. Therefore, proper compensation mechanism should be put in place for the affected people. These mechanisms should be implemented before providing further concessions to MIDR.

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