EXTRACTING PEACE
The management of natural resources as a platform for promoting peace and stability in Liberia

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ANNEX 1: Conflict risks related to natural resource management of the palm oil and iron ore sectors in Liberia

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Overview

In 2010, the government of Liberia embarked on a vision, 'Liberia RISING 2030',[1] an ambitious, long-term political and socio-economic planning strategy to transform Liberia into a middle-income country by 2030. The aim is to use the country's considerable natural resources to attract foreign investment to generate revenues for rebuilding Liberia's political institutions and social infrastructure, whilst creating inclusive equitable economic growth for the country's population.[2]

The political commitment to pursue an inclusive growth strategy takes place in a context where Liberia has only recently recovered from a devastating conflict. This conflict began in 1989 and ended in 2003, with the misallocation of natural resource revenues deemed as a principal conflict driver. Although widespread violence has ended in Liberia, the risk of conflict still persists. The recent upsurge in violence, particularly around the elections at the end of 2011, has exposed underlying faultlines.

During May and June 2012, International Alert conducted research into Liberia's palm oil and iron ore sectors, since they are attracting the largest foreign investment in Liberia and are already playing a role in the country's conflict dynamics. This study identified a number of key issues with the potential to exacerbate conflict: the lack of transparency and inclusion in awarding concession agreements; the lack of inclusive social development; and tensions arising due to land disputes (see later section on 'Findings of Alert research').

Therefore, if Liberia intends to fulfil its 2030 ambition, it is important that it considers the potential impact of natural resource extraction on exacerbating existing conflict risks as well as understand the contribution it can make to sustainable peace.

Background

In 2009, the Liberian Truth and Reconciliation Commission released a report highlighting the role that the exploitation of natural resources had on the conflict and identifying three major consequences. Firstly, the natural resource dimension of the conflict fuelled inequality and resentment, as the settler population who represented the political and economic elite systematically marginalised and excluded

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[1] Republic of Liberia (2010). *Agenda for transformation: Steps towards Liberia RISING 2030*.
[2] International Monetary Fund (2010). *Liberia: 2010 Article IV consultation and fifth review under the three-year arrangement under the extended credit facility*, IMF Country Report No. 10/373. Washington DC: IMF.

youth and indigenous groups from systems of governance, social services and economic opportunities. Secondly, political actors and armed groups sought to control the country's natural resources during the conflict in order to finance their war efforts, thus denying marginalised groups access to land and economic assets, while exacerbating violence. Finally, private companies were often allowed to act with impunity, obtaining lucrative property and land rights from corrupt officials and leading to forced displacement of civilians. These companies were also accused of large-scale tax evasion, looting, money laundering, arms smuggling and illegal price fixing.[3]

Since the end of the conflict, the prospect of Liberia's transition from violence to stability remains fragile as conflict factors persist. President Ellen Johnson Sirleaf recently noted that: "post-war reconstruction in Liberia is difficult because it involves everything: the economy, security, basic services, governance, national status and national healing. What we faced was almost total destruction, and therefore the need for total reconstruction, of both state and society."[4]

Post-conflict Liberia

Despite the relative peace and stability in Liberia since the end of the conflict in 2003, many Liberians now talk of a potential increase in violence. At present, the local population are reluctant to return to violence – largely due to the presence of the United Nations Mission in Liberia (UNMIL) and a desire for improved stability and development. However, the recent upsurge in violence, particularly around the elections at the end of 2011, has exposed underlying socio-economic and political faultlines.

The legacy of the civil war in Liberia has resulted in a devastated basic infrastructure, particularly in rural areas where public services such as roads, schools, electricity, water and health facilities are lacking. This makes inclusive social development plans more difficult, particularly among marginalised groups such as ex-combatants, who did not benefit from the reintegration programmes; these challenges are also faced by refugees (67,000 Cote d'Ivoire refugees) and internally displaced persons who are reluctant to return home, putting additional pressure on land resources.

Analysis has highlighted two major concerns that are currently exacerbating conflict risks in Liberia. Firstly, there is the continued systematic marginalisation of vulnerable groups from economic and development opportunities. Secondly, there is continued resentment and growing inequality between the political and economic elite and the rural indigenous groups, which is subsequently being intertwined with ethnic tensions caused by disputes over land ownership.

The significant numbers of marginalised youth pose a further security challenge for Liberia that is of particular concern. In December 2011, thousands of youths began rioting on the streets and destroying property in protest against the government's inability to pay workers after a summer work programme. The insecurity resulted in a curfew being imposed in Monrovia and the use of teargas to disperse the rioters.[5] According to the International Crisis Group (ICG), this was as a direct result of young people not receiving job and education dividends in the new democracy.[6]

Since the election of President Sirleaf in 2005, the political division in Liberia has shifted from inter-tribal back to *Congo*-indigenous as tensions rise over growing inequality. The president's cabinet is seen to be dominated by Congos, many of them invited back from the US and perceived to have little

[3] Truth and Reconciliation Commission of Liberia (2009). *Volume 3, Appendices: Title III: Economic crimes and the conflict, exploitation and abuse*.

[4] Chatham House (2011). 'The challenges of post-war reconstruction – The Liberian experience', Transcript of speech by HE Ellen Johnson Sirleaf, President of the Republic of Liberia, 13 June 2011.

[5] A. Toweh (2011). 'Liberia imposes curfew as protests rage in capital', *Reuters Africa*, 23 December 2011. Available at http://af.reuters.com/article/commoditiesNews/idAFL6E7NN1Z420111223

[6] International Crisis Group (2012). *Liberia: Time for much-delayed reconciliation and reform*, Africa Briefing No. 88, Dakar/Brussels, 12 June 2012.

awareness of the traditions and harsh realities of rural life.[7] Economic power is largely outside the control of Liberian indigenous groups. Moreover, the most productive sectors of the economy are dominated either by foreign multinationals (mining, plantations) or Lebanese, Chinese and South Asian expatriates (import-export, wholesale, construction, hospitality). Congos remain influential in the professions (especially law) and the civil service, with many of them having acquired education and wealth abroad.

Political opponents have begun to capitalise on perceptions of this renewed marginalisation of 'indigenous' Liberians by reinforcing antagonisms. These antagonisms exist largely due to land disputes at the local level between Krahn, Mandingo, Gio, Mano and Loma. This is especially prevalent in Lofa, Bong, Nimba and Grand Gedeh counties, where ethnic allegiances facilitated the election to the legislature of numerous warlords or their allies in 2005.

According to the ICG, "although violence has declined, ethnic tensions between the indigenous Mandingo, Mano, Gio and Loma ethnic groups are being intertwined with land disputes".[8] Thus, there is a real concern that as the palm oil and iron ore sectors continue to claim more land, this will increase local ethnic tensions as communities compete for the limited land available. "Despite increasing activity in extractive industries, land remains by far the vital natural resource for most Liberians."[9]

Palm oil, iron ore and conflict dynamics in Liberia

Since 2005, there has been significant growth in investment in the iron ore and palm oil sectors. Liberia has a long history of iron ore mining; according to the International Monetary Fund (IMF), it has the potential to export over 50 million tonnes of iron ore by 2030, making Liberia the eighth largest producer of iron ore in the world.[10] According to Liberia Mining, Energy and Petroleum (LIMEP), six iron ore concessions have been signed totalling nearly US$13 billion (including Arcelor Mittal and BHP Billiton).

In the palm oil sector, according to recent surveys, global demand is set to increase by nearly 30% within the next five years, from 45 million tons to 60 million tons.[11] In Liberia, expected investment value is over US$3 billion, with over 500,000 hectares of land earmarked for palm oil production. The two major concession agreements are a 63-year agreement with Sime Darby to develop a 220,000-hectare plantation in Grand Cape Mount, Gbarpolu, and Bomi County, as well as a 65-year agreement with Golden Veroleum to develop a 250,000-hectare plantation in Sinoe County.

Although these concession agreements have led to an average increase in gross domestic product (GDP) of over 6%,[12] they also came with the expectation of more employment, greater investment in infrastructure and improved peace and stability. However, the subsequent reality has proved different: levels of marginalisation and vulnerability continue to grow; long-term youth unemployment is still an issue and over 60,000 ex-combatants remain unemployed; only 31% of the

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7 President Sirleaf is indigenous and part-German by birth, but was adopted and married into the Americo elite and educated in the US; thus, she is widely viewed as Congo. Charles Taylor of the National Patriotic Party is also a US-educated Americo, but tried hard to cultivate a more indigenous identity.

8 International Crisis Group (2012). Op. cit.

9 Ibid.

10 United States Geological Survey (2011). *Iron ore statistics and information: 2011*.

11 A. Hamin (2011). 'Global demand for palm oil growing rapidly', *The Star* (Malaysia), 10 March 2011.

12 International Monetary Fund (2010). Op. cit.

population have access to education;[13] and the proportion of the population living on less than one dollar a day remains above 63%.[14]

A recent Fund for Peace (FFP) report warns that: "if the government does not better manage expectations and service delivery, the risk of conflict could escalate once again … particularly if the price of commodities continues to rise, and state agencies are perceived to be corrupt, there is the strong possibility that ethnic groups will compete for influence and resources."[15]

Findings of Alert research

The aim of Alert's brief research on the impact of natural resource extraction on conflict dynamics in Liberia has been to identify key issues and possible entry points for a peacebuilding intervention. A key objective of this research is to minimise conflict risk and transform risks to ensure that the sectors contribute to sustainable peace. This is an area of peacebuilding expertise that Alert has developed in a number of conflict contexts both in Africa and elsewhere, as well as at the global level where Alert is an established advocate for conflict-sensitive approaches to investment. The primary focus of this research has been on the palm oil and iron ore sectors, since they are attracting the largest foreign investment and are already playing a role in the country's conflict dynamics. The research includes two case studies – one on Arcelor Mittal's iron ore investment and one on Sime Darby in the palm oil sector.

The study found that:
- Despite regulatory and governance reforms, the awarding of concession agreements is still being conducted behind closed doors and the terms are not being effectively communicated to the affected communities, thus fuelling mistrust amid reports of corruption;
- Social development clauses of concessionary agreements are not benefiting the affected communities or the wider population; they have so far failed to translate into meaningful improvements in livelihoods, social services and basic infrastructure, reinforcing existing inequalities;
- Both sectors (iron ore and palm oil) require the provision of land, and given the already complex issue of land ownership, the acquisition of land by foreign companies is further complicating existing local tensions and ethnic rivalry.

Awarding concession contracts

Since 2005, the government of Liberia has taken various initiatives to reform natural resource governance, improve transparency and stamp out corruption. Unfortunately, despite these attempts, the failure of government at both national and local levels to enforce the legislation and to stamp out corruption has proved to be a major challenge.

To improve transparency, the Freedom of Information (FOI) Act was passed by the national legislature in 2010, giving the public the right to request and review documents held by public bodies and private entities performing public functions or receiving public funding. However, the application of the FOI has been limited: the act has not been widely disseminated and has so far been used largely by the press union. Based on interviews, local civil society and communities are aware of the FOI but have been unable to access or properly understand the details and complexity of concession contracts affecting their communities. According to discussions with local civil society groups, the government has made no effort to disseminate this information to these affected communities.

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[13] Government of Liberia (2010). *Republic of Liberia: Millennium Development Goals 2010 report – Progress, prospects and challenges towards achieving the MDGs*. Monrovia: Ministry of Planning and Economic Affairs and UNDP.

[14] The Millennium Development Goals 2010 report states that employment (formal and informal) is 96.3%, of which 78% is vulnerable informal employment.

[15] Fund for Peace (2012). *UNLocK Liberia: Montserrado and Nimba Counties Special Report January 2010 – January 2012,* Fund for Peace Publication FFP: CULRR1207.

The government's attempts to improve transparency have led to the adoption of the Extractive Industries Transparency Initiative (EITI) as well as reforms to procurement and financial management laws. Government oversight has also improved with the introduction of the General Auditing Commission (GAC) and the establishment of an Anti-Corruption Commission (ACC).

Each concession agreement is negotiated by trained government employees with technical input from Liberia's Ministry of Land, Mines and Energy (MLME) for the iron ore sector and the Ministry of Agriculture (MoA) for the palm oil sector. This is then reviewed by the executive legislative before being passed into law. Negotiations are required to be in compliance with the Public Procurement and Concessions Act of 2010 (PPCA), which requires the government to ensure that concessioning of known state minerals is conducted as part of a transparent and competitive system.

However, despite these efforts, reports are still emerging in both sectors of systemic corruption, particularly during negotiations for awarding contracts. In May 2011, Front Page Africa[16] reported how the Israeli firm Elelnilto won the 25-year licence to develop the US$1.6 billion Western Cluster iron ore mine. The awarding of the contract raised suspicion because Elelnilto has no technical history in the mining and production of iron ore and was awarded the contract despite three other competitive bids from recognised mining companies. The palm oil sector has also been affected by allegations of corruption as the government was accused of awarding below market value contracts to Cavalla Rubber Company (CRC) and the Palm Oil Plantation to the SIFCA group of companies.

Both these reports led to protests and the allegations are being investigated by the GAC and the ACC. The concern is that continued allegations of corruption will eventually lead to violence. For example, in July 2010, the superintendent of Grand Gedeh County, the site of the Putu mining concession, was accused of misusing public funds. This subsequently led to a mass demonstration in March 2011 near the Putu iron mining concession, where demonstrators hijacked a vehicle and disrupted exploration activities for a 24-hour period, demanding greater pay for security guards and increased access to employment. The protest resulted in the deaths of two civilians and eventually required the deployment of government paramilitary units.[17]

Monitoring concession agreements

Based on discussions with company representatives, during the operationalisation of each concession contract, there is an expectation that county authorities should play a key liaison role and have primary responsibility for meeting the communities' socio-economic needs. However, a major concern for companies is that authorities lack the capacity to manage social development activities and coordinate effectively with the local population. In July 2011, the government passed an act giving power to the National Bureau of Concessions (NBC) to oversee all aspects of concession negotiation, implementation and monitoring. The NBC is therefore responsible for soliciting compliance reports from concessionaires, coordinating the monitoring activities of government agencies and offering technical advice on concession negotiation.

The implementation of these concessions is then supposed to be monitored by the Environmental Protection Agency (EPA), the Forestry Development Authority (FDA), the Bureau of Concessions (BoC), the MoA and the MLME. The responsibility for monitoring royalties and taxes generated from these concessions falls under the remit of the Liberian Extractive Industries Transparency Initiative (LEITI). However, based on discussions with an LEITI member, these tensions and the occasional violence over

[16] R.D. Sieh (2011). 'Probing Elelnilto', *Frontpage Africa*, 8 May 2011. Available at http://frontpageafricaonline.blogspot.co.uk/2011/05/probing-elelnilto.html

[17] S. Fallah (2010). 'Liberia: Corrupt officials complicity – 2011 threatens Mittal social development fund', *Frontpage Africa*, 10 June 2010. Available at http://www.corpwatch.org/article.php?id=15599

concessions have revealed gaps in the framework governing both the palm oil and iron ore sectors. This is particularly evident in terms of the need to monitor and enforce the conditions of the contract. So far, these organisations have been largely ineffective in carrying out this function, as communities consistently complain of the lack of government presence in plantations to monitor conditions and their inability to establish improved relations between Sime Darby and the local population, despite the recent turmoil in December 2011.

There is hope that, with the introduction of the NBC, the monitoring of activities will improve. However, if this bodies continue to be ineffective, the conflict risks surrounding both sectors will persist.

Lack of inclusive social development
So far, much of the spending on social development activities has been focused on Monrovia. This has exacerbated frustrations between the political and economic elite and the indigenous groups. According to the ICG, the government now needs to focus development on places outside the capital, targeting those who feel excluded in order to boost reconciliation within the country.[18]

The government has shown a willingness to address some of these issues. There is an attempt to decentralise responsibility for public services delivery to the county authorities, with a limited sharing of political authority passed down to the councils and elected county superintendents. Local elections were due to be held in 2013, with the aim of fostering greater inclusion of rural communities. However, the legislation still has to be passed and there are fears that if delays over decentralisation continue, responsibility for delivery of public services will remain in Monrovia, further marginalising vulnerable groups.

This lack of capacity and power at the local level is a major challenge within the iron ore and palm oil sectors. As part of the government's policy to ensure agreements and equitable exploitation of mineral resources, each concession contract includes a Mineral Development Agreement (MDA) which requires each company to contribute to a Social Development Fund (SDF). Each SDF is set up to finance development activities primarily in the counties where mining concessions are located. In the palm oil sector, concession agreements include the provision for an 'Oil Palm Development Fund (OPDF)' or a 'Rubber Development Fund (RDF)' when rubber plantations are taken over, as well as a 'Community Development Contribution (CDC)'. However, because the palm oil sector does not involve the extraction of non-renewable resources, the contributions to the fund are much smaller.

The monitoring of SDF expenditure requires oversight by a government management committee at the county level. Although the SDFs are a step forward in ensuring that revenue streams from the concessions are channelled directly to the affected communities, hence bypassing central government, the ability of the funds to be effective still relies heavily on strong local authorities. However, at the moment, many of these authorities lack the capacity to act as dynamic partners in communicating with the local communities, implementing socio-economic development programmes effectively and engaging with companies.

Exacerbation of land disputes
In Liberia, there is an anomaly between the customary laws and the statutory laws governing land rights, adding to the already complex land disputes. According to the FFP, many Liberians feel that the formal state justice system has failed to provide accessible, affordable and timely services for communities and to address the root causes of land conflict as effectively as the customary system.[19]

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[18] International Crisis Group (2012). Op. cit.
[19] Fund for Peace (2012). Op. cit.

These issues are particularly prevalent in Nimba County where the Arcelor Mittal and BHP Billiton mines are located. Here, land disputes are a serious source of conflict due to the perplexity of traditional, historical and government claims to land. Existing competition over land resources is further exacerbated by the influx of refugees from neighbouring Cote d'Ivoire, the return of local residents who fled years of internal insecurity and the lack of clarity within the state system over land access. The FFP report also found that many individuals in Nimba County cited the ineffective formal justice system as a factor exacerbating land conflict and ethnic tensions and reported that taking a neighbour to court created huge animosity in the county.[20]

The palm oil sector is less exposed to local-level land disputes. This is because much of the land has already been allocated through the concession agreements and, as a result, the government has allocated the land irrespective of customary law. However, the clearing of huge areas of land inevitably creates local tensions, as in many cases this land provided a primary source of livelihood to local subsistence-based farming communities.

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[20] Ibid.