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United Nations Development Programme

EXTRACTIVE INDUSTRIES

STRATEGY NOTE

**UNDP's Strategy for Supporting Sustainable and
Equitable Management of the Extractive Sector for
Human Development**

December 2012

CONTENTS

1. Introduction	3
2. Why a strategy is needed: the rationale	5
3. UNDP's past and present programmes, projects and activities	9
4. Global partners: who does what?	13
5. UNDP's Strategy for Equitable and Sustainable Management of the Extractive Sector	18
6. Towards a new UNDP initiative: with global, regional and country-level programmes	20

ACRONYMS AND ABBREVIATIONS

ACODE	Advocates Coalition for Development and Environment	OHCHR	Office of High Commissioner for Human Rights
AIMES	African Initiative on Mining, Environment and Society	PBSO	Peace Building Support Office (United Nations)
CEDAW	Committee on the Elimination of Discrimination against Women	PWYP	Publish What You Pay
CSO	Civil society organization	REDD+	Reducing Emissions from Deforestation and Forest Degradation (plus conservation)
D4D	Diamonds for Development	RWI	Revenue Watch Institute
EITI	Extractive Industries Transparency Initiative	TWN	Third World Network
EU	European Union	UNCTAD	United Nations Conference on Trade and Development
GEF	Global Environment Facility	UNDESA	United Nations Department of Economic and Social Affairs
GGFR	Global Gas Flaring Reduction initiative	UNDP	United Nations Development Programme
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome	UNEP	United Nations Environment Programme
IBRD	International Bank for Reconstruction and Development (World Bank)	UNFPA	United Nations Population Fund
IDA	International Development Association	UNICEF	United Nations Children's Fund
IFC	International Finance Corporation	UNIDO	United Nations Industrial Development Organization
IMF	International Monetary Fund	UNIPP	United Nations-Indigenous Peoples' Partnership
ILO	International Labour Organization	UNITAR	United Nations Institute for Training and Research
IPIECA	International Petroleum Industry Environmental Conservation Association	UN-REDD	United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries
MDG	Millennium Development Goal	USAID	United States Agency for International Development
MIGA	Multilateral Investment Guarantee Agency	WIMSA	Women in Mining South Africa
NGO	Non-governmental organization	WSSD	World Summit on Sustainable Development
OECD	Organisation for Economic Cooperation and Development		

1. INTRODUCTION

UNDP aims to support programme countries to harness their extractive industries for a people-centred and sustainable development process

The management of extractive sectors (oil, gas and minerals) is a major challenge and opportunity for developing countries today. The exploitation of non-renewable natural resources has often triggered violent conflicts, degraded the environment, worsened gender and other inequalities, displaced communities, and undermined democratic governance. In contrast, there are plenty of cases where the effective management of a society's natural resources has unleashed sustainable and equitable human development.

It is the design and implementation of a broad set of policies that determines whether countries can harness extractive resources for sustainable development for all. These include new or reformed legal and fiscal frameworks, reinforced public financial management systems, mechanisms for allocating revenues for high social returns and job-intensive sectors, measures to address displacement and mitigate negative social and environmental impacts, and establishing strategies to diversify production away from extractives.

This paper proposes a United Nations Development Programme (UNDP) strategy to support the efforts of resource-rich developing countries to design and implement such policies. The importance of developing this strategy is underlined by the growing number of countries that seek UNDP's support in managing the risks associated with natural resource wealth, and in transforming this wealth into advances in human development for all women and men. The strategy builds on UNDP's past and present programmes and projects that support the management of oil, gas and mineral resources. The strategy is also informed by initiatives undertaken by international, regional and national organizations and institutions.

The strategy has three elements: i) an **organizing framework** for UNDP's engagement; ii) an **integrated package of services** to respond to unmet demand, exploiting the potential for synergies across UNDP's practice areas; iii) a **new UNDP initiative**, proposing indicative activities and their mode of delivery.

The strategy notes that UNDP would not advocate for resource extraction in all cases. Rather, UNDP supports governments and women and men in communities in making informed choices about whether and how the extraction of resources could take place. When resource exploration and extractions are approved, UNDP would work with all stakeholders to ensure that the benefits are shared equitably, which means an emphasis on pro-poor policies, and in ways that promote realization of human rights and sustainable development.

The organizing framework for UNDP's work structures support to programme countries on extractive industries to: 1) enable participatory legislation, policy and planning processes; 2) conduct people-centred exploration and extraction operations, that are gender-sensitive and address conflict risks and environmental and social sustainability; 3) prudently collect and manage revenues to advance sustainable development for all; and 4) invest in human, social, physical and financial capital to advance sustainable human development, compensate for declining natural wealth and support economic diversification. Throughout, UNDP will take a human rights approach paying particular attention to indigenous peoples and local communities, including women, girls and boys, migrants and artisanal miners and their families, and other vulnerable groups.

The integrated package of services responds to the demand from developing countries for integrated support across the four pillars of the organizing framework. The strategy proposes to deliver this integrated support by supporting countries in the areas of: 1) governance, including participation, transparency and accountability; 2) environmental and social sustainability; 3) conflict prevention and recovery; 4) engagement with the private sector, civil society and local groups (in particular women's organizations and indigenous peoples' organizations), foundations and other stakeholders; and 5) economic and social policy formulation. Gender issues will be mainstreamed within each of these thematic areas.

The new global initiative is to be implemented together with programme countries and in partnership with development partners, civil society and the private sector. The suggested delivery mechanisms of the global initiative are: knowledge management (creation, capture and sharing) and cross-regional fertilization of experiences; policy advisory and technical assistance services (with strong technical capacity across the organization); capacity development at the regional and country levels; catalytic financing; and advocacy and partnerships.

The strategy will be operationalized after its approval by the Executive Group. Its implementation at the country level will have the following components:

1. Assessment of country-specific needs using the organizing framework outlined above. This assessment will include a detailed situational analysis, assessment of risk (conflict sensitivity and environmental and social impacts, including on gender, indigenous peoples and local communities) and forecasting of key trends, and will be undertaken on demand from host governments and in partnership with key stakeholders at national and sub-national levels.
2. Comparing the needs identified with existing or readily available capacities will highlight the key capacity and financial gaps that will need to be closed.
3. Support will be mobilized and delivered by aligning United Nations and UNDP programme instruments and through strengthened partnerships around a nationally-owned agenda of 'extractive industries for human development' with donors, the private sector, foundations and other possible contributors.

The successful adoption and implementation of this strategy will enable UNDP to support programme countries to manage their extractive sector by:

- Increasing 'upstream' support, including: (i) formulating comprehensive policies to manage extractives; (ii) implementing, monitoring and evaluating the implementation of these policies; and (iii) improving institutional coordination and policy coherence across sectoral ministries;
- Strengthening capacities in sub-national governments and civil society, including women's groups and indigenous peoples' organizations to engage in participatory planning, implementation and monitoring of inclusive and sustainable policies for the management of extractives;
- Establishing partnerships with the private sector, international NGOs, foundations and other stakeholders at the global and regional levels to support and scale-up country-level efforts;
- Enhancing UNDP's organizational and programme coherence (through cross-practice and cross-cutting work), strengthening UNDP staff capacities and knowledge, and promoting United Nations-wide efforts to improve coordination and impact at the country level;
- Ensuring that benefits to human development are maximized, with due consideration of human rights and potential impacts on vulnerable groups, including women, girls and boys, indigenous peoples and local communities.

The rest of the document is organized as follows. Section 2 outlines the rationale for UNDP's continued and scaled-up support to countries dependent on the extractive sector. Section 3 reviews on-going efforts and past experiences of UNDP projects and programmes. Section 4 presents a summary of initiatives undertaken by partners globally. Section 5 recommends a framework for an integrated approach for UNDP to engage with programme countries. Section 6 proposes a global initiative and provides options for actions at the country, regional and global levels.

2. WHY A STRATEGY IS NEEDED: THE RATIONALE

What is commonly known as the ‘resource curse’ can be an impediment to advancing human development.¹ Our broad definition of the ‘resource curse’ is a situation where countries: rely on a few commodities as their main source of growth, revenue and foreign exchange earnings, which increases their vulnerability to price fluctuations; are more prone to corruption and an erosion of the accountability mechanisms between the government and its citizens; experience violent conflict and suffer from environmental degradation; and communities, especially those in the areas where the extraction takes place, have insufficient information, voice, and participation to obtain redress for their grievances.² Often these manifestations reflect and perpetuate group-based inequalities, e.g., between men and women, between geographical areas, and between ethnic groups.

One of the most notable economic effects is from the so-called ‘Dutch disease’ which occurs when a large inflow of resource revenue is accompanied by an appreciation of the real exchange rate. That, in turn, tends to render domestic manufacturing and agriculture uncompetitive, leading to job losses and higher unemployment. The adverse competitiveness is often exacerbated by a reorientation of public and private resources away from these sectors and towards those concerned with the booming resource industry. Moreover, lost jobs are not directly compensated for by growth in the natural resource sector, which tends to be capital-intensive and with few backward linkages to the local economy. Again, the adverse impacts on human development tend to be borne disproportionately by some groups, which deepen inequalities. This can happen if a short-term surge in construction related to mining activities generates employment opportunities for males at the expense of reduced competitiveness in an export-oriented industry, such as textiles, that typically employs relatively more women. The result can be increased unemployment and women, and greater gender segregation and wage gaps in the workforce.³

There is ample evidence to show that extraction operations can adversely affect a broad range of social outcomes. Mining communities often experience a high incidence of sex work and gender-based violence. The links between gender-based violence and HIV are well-established. Migrant workers frequently make up a significant share of the workforce in extractive industries. According to the Global Commission on HIV and the Law, migrant populations face a higher risk of HIV and other sexually transmitted infections than workers with secure homes. Because of the transient nature of their work, migrant miners often engage in multiple concurrent partnerships and other unsafe sexual practices, which have driven the spread of HIV especially in southern Africa.⁴ Moreover, there is evidence to suggest that governments in mineral-dependent countries capture relatively less tax revenue and so spend less on social sectors than other countries.⁵ This challenge is particularly evident in the case of spending on HIV/AIDS.⁶

1 Hailu, D., S. Rendtorff-Smith, C. Ochieng, and U. Gankhuyag (2011) “Conflict Prevention in Resource-Dependent Economies: The Role of Economic Policies”, Paper prepared for the UN Interagency Framework Team for Preventive Action and the Poverty Group of Bureau for Development Policy (BDP), UNDP, New York.

2 For more on the resource curse, please see for instance: Auty, R. M. (1993). *Sustaining Development in Mineral Economies: The Resource Curse Thesis*. London: Routledge; Sachs, J. D and W, Andrew M (1995-02-02), NBER Working Paper 5398: Natural resource abundance and economic growth (ideas.repec.org/p/nbr/nberwo/5398.html); Gylfason, T (2001), “Natural resources, education, and economic development”, *European Economic Review*, 45 (4-6): 847–59 (www.hi.is/~gylfason/pdf/dp2594.pdf); Hailu, D. and J. Weeks (2011) Macroeconomic Policy for Growth and Poverty Reduction: An Application to Post-Conflict and Resource-Rich Countries, DESA Working Paper 108, United Nations Department of Economic and Social Affairs. New York (www.un.org/esa/desa/papers/2011/wp108_2011.pdf); Conceicao, P., Fuentes, R. and Levine S., “Managing Natural Resources in for Human Development in Low-Income Countries,” Working Paper 002 December 2011, UNDP Regional Bureau for Africa.

3 A good overview of materials related to women in the mining sector can be found here: www.tinyurl.com/p23nfm.

4 Lucia Corno and Damien de Walque. 2012. “Mines, Migration and HIV/AIDS in Southern Africa.” *Journal of African Economies*. 21 (3): 465-498.

5 Hinojosa, L., Bebbington, A., Barrientos, A. and T. Addison “Social Policy and State Revenues in Mineral-Rich Contexts,” Social Policy and Development Programme Paper Number 44, September 2010. United Nations Research Institute for Social Development.

6 de Soysa, I and T-I Gizelis “The Natural Resource Curse and the Spread of HIV/AIDS, 1990-2008,” *Social Science & Medicine*, forthcoming.

Women and men living in communities that directly depend upon natural resources and environmental services for their livelihoods are disproportionately affected by the extractive industries. Too often, community lands, rivers and ecosystems are despoiled and communities displaced by mining activities. Enormous industrial wastelands are created from vast open pit mines and mountain top removal; voracious use and poisoning of water systems; deforestation; contamination of precious topsoil; air pollution; acid leaching; cancer clusters—the catalogue of devastation is relentless and growing. The rights of farming, pastoralist and indigenous communities are threatened. Each wave of new extractive technologies requires ever more water to wrench the material from its source. The hunger for these materials is a growing threat to the necessities for life: water, fertile soil and food. The implications are potentially severe.⁷

However, there is also sufficient evidence from developing countries to demonstrate that the ‘resource curse’ is not inevitable. Several resource-dependent developing and emerging nations have, to varying degrees, achieved decent economic growth rates over longer periods of time. They have managed to diversify their economies and have resolved the potential negative social and economic impacts of resource-dependence. Therefore, a comprehensive approach, as this strategy proposes, is needed to support countries as they manage the risks associated with resource-dependence and maximize the benefits from those resources.

Given the inherent unsustainability of extracting non-renewable resources, the joint challenge of protecting the environment and maintaining the industry, and the vital and non-fungible relationship between the health of the environment and the health of communities, a holistic approach is necessary to, over time, move from dependence on this industry to a sustainable use of renewable energy resources.

Oil, gas and minerals are becoming major sources of economic growth for several developing countries. This is a result of rising commodity prices over the last decade, advances in exploration technologies and greater political stability in many countries with untapped resource wealth. According to one estimate, no less than 50 African nations are either producing or exploring for oil.⁸ New discoveries of gas along the eastern coastline of the continent could be the largest the world has seen in the last decade.⁹ Minerals essential for industrial and high technology processes are increasing in value and represent opportunities for economic growth. A strategy is needed for UNDP to respond effectively to this new reality affecting its programme countries. While focusing on hydrocarbons and minerals, the strategy has implications for UNDP’s wider work in sustainable development, economic and democratic governance, human rights, gender empowerment and natural resources management.

In an environment of declining aid, revenue from extractive sectors can serve as an additional source of financing for programmes to advance human development. According to data from the Organisation for Economic Cooperation and Development (OECD), official development assistance fell in 2011 due to the global economic recession, and tight budgets in many OECD countries will likely keep aid levels under pressure in the coming years.¹⁰ Moreover, while private capital inflows, such as foreign direct and portfolio investments, are of growing importance to developing countries, these can be highly volatile and concentrated in certain regions and sectors.¹¹ Mobilization of domestic resources for development is a growing priority in developing countries. The potential additional development finance from the extractive sector is a key motivational factor for UNDP’s engagement in the sector.

As global economic growth feeds demand for natural resources, competition for natural resources will increase, placing enormous stress on the environment with diverse repercussions for society. The stresses placed upon the environment from extractive industries could lead to permanent destruction of ecosystems, and be detrimental to the livelihoods of indigenous communities that depend on the environment. In post-conflict countries and elsewhere, internal tensions continue over the allocation of natural resource wealth. The challenge of tackling natural resource induced conflicts

7 One recent study is: Sibaud, P. (2012) *Opening Pandora’s Box: The New Wave of Land Grabbing by the Extractive Industries and the Devastating Impact on Earth*. The Gaia Foundation.

8 www.economist.com/node/21561886.

9 www.bloomberg.com/news/2012-08-29/africa-gas-rush-imperils-100-billion-in-australian-lng.html.

10 www.oecd.org/dac/aidstatistics/developmentaidtodevelopingcountriesfallsbecauseofglobalrecession.htm.

11 dgff.unctad.org/chapter1/1.2.html.

may well come to define global peace and security in the 21st century. With a significant number of civil wars associated with high value natural resources, it is important for UNDP to respond to the challenges if the pursuit of peace and stability is to be realized.¹² Struggles to control scarce and high-value resources, such as precious metals and hydrocarbons, have the potential to trigger a relapse to conflict in countries emerging from civil war. However, if managed well, these resources offer opportunities to rebuild societies and to be part of a peace dividend. Holistic and equitable natural resources management is therefore a critical ingredient in minimizing the risk of conflict relapse while laying a foundation for development following crises.

Demand for UNDP's services is increasing. We are witnessing a rising flow of requests for policy advice and technical assistance from all corners of the world. That demand, which typically comes from national governments through UNDP's country offices, is in the form of requests for UNDP support to improve the management of the extractive sector, for both established and emerging commodity exporters. Most requests come from countries that have recently discovered new resources and are keen to learn good practices (and the lessons of bad practices) from other countries before they design their own strategies. UNDP is also seeing increased demand coming to headquarters through representatives of industry, civil society and donors who seek to partner with UNDP in specific, as well as broad-based, initiatives. Such increasing demand for UNDP's services is a sign of the confidence that member countries and partners have in UNDP to provide high quality support, plus awareness that UNDP has a key role to play. A strategy, therefore, is warranted to meet this rising demand and place UNDP strategically in the management of extractive industries. The objectives should be to ensure that extractive industries contribute to people-centred development, that their adverse environmental effects are minimized, that the extracted rents benefit women and men living in communities that are directly and indirectly impacted by the extractive industries, and that the industries' contribution towards national development objectives reflects the multiple dimensions of sustainability (economic, social and environmental) .

A strategy will enable UNDP to respond to a growing consensus in the international community that extractive industries can contribute to sustainable and equitable development. For example, the outcome document from the Rio+20 World Conference on Sustainable Development, 'The Future We Want',¹³ notes that *"mining offers the opportunity to catalyze broad-based economic development, reduce poverty and assist countries in meeting internationally agreed development goals, including the MDGs, when managed effectively and properly...and recognizes that governments need strong capacities to develop, manage, and regulate their mining industries in the interest of sustainable development"* (p. 40). The Summit also invited *"all relevant agencies of the United Nations system and other relevant international organizations to support developing countries and, in particular, least developed countries in capacity-building for developing resource-efficient and inclusive economies, including through:*

- a) *sharing sustainable practices in various economic sectors;*
- b) *enhancing knowledge and capacity to integrate disaster risk reduction and resilience into development plans;*
- c) *supporting North-South, South-South and triangular cooperation for the transition to a resource efficient economy"*
(p. 48)

2.1 UNDP'S ADDED VALUE

UNDP has two main assets that enable the organization to be effective in support of developing countries on extractives: i) its neutrality and impartiality; and ii) its ability to offer a broad range of services. Many development partners provide specialized support. But the field of extractives is intensely contested. The stakes are high, with billions of dollars in play over many years, often many decades. There are multiple players with varying interests competing for these resources. The frontiers between public and private sometimes become blurred, with countries supporting different actors in pursuit of their national self-interest. The role for an organization like UNDP, which does not have a direct financial stake in how these resources are managed and which is neutral, impartial and human-rights based, can be critical. It can provide

12 Hailu, D., S. Rendtorff-Smith, C. Ochieng, and U. Gankhuyag (2011).

13 www.uncsd2012.org/content/documents/727The%20Future%20We%20Want%2019%20June%201230pm.pdf.

views that arbitrate between competing interests, as well as safeguarding the development outcomes that serve to advance the aspirations of women and men, girls and boys, in developing countries. In addition, of the many organizations that offer support, some focus on macroeconomic issues and revenue management, such as the International Monetary Fund (IMF). Others focus on building legal frameworks, licensing and tendering—the African Development Bank, for instance, or Norway's Oil for Development programme—or on governance issues, as with the Extractive Industries Transparency Initiative (EITI). In contrast, UNDP offers services a broader range of areas, over which the organization also has a mandate. While the sector-specific aspects of managing extractive resources are highly technical, the strategy's emphasis is on their significance for human development. The complexities associated with natural resource extraction call for UNDP's expertise and experience in democratic governance, poverty reduction, crisis prevention and recovery, environmental sustainability, stakeholder engagement, gender and other areas. However, to maximise our impact we must also be aware that prioritization of activities must inevitably take place. Adherence to human rights principles, norms and standards will nevertheless be central to all selected priorities.

UNDP has the institutional infrastructure to facilitate global (North-South, South-South, triangular) cooperation in extractive sector management. UNDP's presence in a large number of countries provides the architecture for facilitation of mutual learning and technical assistance cooperation between resource-rich economies. Notably, UNDP can be a natural entry point for emerging resource-exporting nations, who are seeking assistance from established extractors.

UNDP can also make best use of the demand from multilateral and bilateral development partners, as well as multinational companies, for its support. These partners frequently have important commercial interests in the extractive sector and their involvement is perceived as being at odds with objective advice and national ownership.

In the final analysis, UNDP also needs to support development strategies that will recognise the limits of extraction-based development. By its nature, extraction of oil, gas and minerals has serious implications for people and for the planet. Many countries are struggling to deal with the tensions between the need for resource-fuelled growth and the need to protect the environment and the livelihoods of communities. These tensions are closely related to a need to establish democratic governance, transparency and accountability, and to protect human rights. UNDP can play a significant role in addressing these tensions and support countries to manage their resources in ways that protect the environment and rights of indigenous and local communities particularly. This means that new extraction projects will not always be appropriate and women and men in communities must have the ability to negotiate on fair terms with government and private companies—and have the ability to stop projects that have undue social or environmental costs. They must be able to benefit equitably from extractive processes and, as a minimum, be empowered to seek redress when their rights are transgressed or resources used unfairly or in violation of agreements. Oil, gas and minerals are finite, non-renewable resources. Countries therefore need to put in place upfront strategies for converting natural resource-fuelled growth into broader economic growth and diversification that create jobs and ensures greater resilience.

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