

Understanding Relationships Between the Green Economy, Resource Financialization and Conflict

A key aspect of the United Nations' sustainable development approach centres on creating markets for financialized 'natural capital' products, particularly in resource-rich, lower-income countries. The appeal of this comes from a set of policy promises termed the 'triple-win': achieving environmental sustainability, socially inclusive economic growth and poverty alleviation. Yet, these policies are controversial for many reasons, including their potential to foster inequitable property regimes, leading to increased potential for conflict. There is a need to understand the context and relationships among the green economy, resource financialization and emerging areas of conflict within the Southern African region. This will be pivotal in achieving sustainable policy reform and coordinated action.

What is the 'green economy'?

In recent years, overlapping economic and environmental crises have contributed to growing support for the coordinated establishment of pro-environment economic policies and programmes around the world. In the lead-up to the 2012 United Nations Conference on Sustainable Development, or Rio +20, the 'green economy' emerged as the dominant policy approach for achieving global transitions toward sustainability. Following the framings favoured by the United Nations (UN) and partners, the green economy refers to a flexible policy toolkit that includes recommendations for environmental regulations, market-based and financial instruments, and voluntary initiatives to promote capitalisation of environmental goods and services and stimulate green economic growth.

Guiding assumptions of the green economy approach include: (1) environmentally sustainable, or 'green', economic growth is possible within the appropriate accounting, market and regulatory contexts; (2) green growth can be socially inclusive, pro-poor, and can maximise both immediate and local benefits to reduce poverty and vulnerability

and long-term global benefits toward sustainability; (3) green economy transitions should be universal to realise cumulative global shifts toward sustainability; and (4) policy tools must be flexible – there is no single green growth pathway, and strategies will vary by region and country based on context, capabilities, preferences and resources.

The broad appeals of green economy approaches to environmental preservation and development lie in a package of policy promises around capturing 'triple-win' opportunities for achieving socially inclusive environmental sustainability, economic growth and poverty alleviation. For the international community, these reforms promise to make the global economy and the global environment 'work' to support one another, while providing offsetting mechanisms to mitigate environmentally destructive activities. For lower-income countries with large endowments of natural resources, these schemes promise new means of financing national development programmes and preserving natural ecosystems, which have become increasingly framed in policy discussions in terms of capital assets. On a

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local level, these policies promise to lead to new programmes that will preserve natural resources, enhance livelihoods, increase resilience in the face of environmental hazards, and generate streams of income for cash-strapped local communities.

The logic and mechanisms of resource financialization

The logic underlying natural resource financialization is that economic growth and environmental preservation are only compatible when nature and its functions are priced and marketed correctly. Nature financialization involves a few related processes. First, it requires the creation of commodities, or marketable goods, by applying monetary valuation techniques to natural ecosystems and environmental processes. Second, it requires institutional changes that introduce commercial principles (e.g. efficiency), methods (e.g. accounting; cost-benefit assessment) and objectives (e.g. profit maximisation) into environmental governance and resource management practices. Third, the monetary value that is attached to ecosystems is used as the basis for creating tradable instruments, such as carbon credits, which are then marketed as environmental credits and offsets.

A variety of natural properties and functions are the subject of established or proposed financialization initiatives. These include coastal protection services; terrestrial and marine biodiversity; marine and freshwater purification services; terrestrial, marine, and coastal carbon storage and generalised or unspecified environmental and ecosystem services. Since the adoption of the Kyoto Protocol, compliance markets for certified carbon offsets – financial instruments that are linked to treaty requirements for capping or reducing greenhouse gas (GHG) emissions that, when traded across international borders, allow continued emission of GHGs in industrial contexts in exchange for climate mitigation activities elsewhere – have been particularly integral to international strategies for climate change mitigation, and are one of the most vigorously promoted areas of the green economy. In addition, a number of voluntary markets for financialized environmental products and services have arisen under diverse private trading and certification schemes. Voluntary markets are not linked to laws or international agreements, but are markets on which governments, companies and individuals can purchase offsets for mitigation.

Three primary groups of stakeholders have key roles and responsibilities related to bringing about green economy transitions. Members of the UN system and multilateral development

banks are expected to provide technical advice and support to governments in the areas of policy and project design. The private sector plays the role of investor and innovator. The public sector carries the greatest burden in these transitions and is responsible for influencing the flow of private funds; triggering policy and investment transitions; ensuring ministerial collaboration and mainstreaming of environmental issues, and designing and implementing new fiscal and tax policies.

In national contexts, resource financialization requires cooperation among donors, international banking and finance, environmental organisations, formal governance institutions, national governments and civil society. Policy reforms frequently build upon existing regional-level planning structures, national-level environmental programmes (NEPs) and protected area (PA) networks, and establish linkages to international programmes and mechanisms, such as the Clean Development Mechanism (CDM) and programmes that help countries develop national strategies for Reduced Emissions from Deforestation and Degradation (REDD/REDD+).

Establishing linkages to these programmes is appealing to the governments of many lower- and middle-income countries. This is because these programmes are designed to attract external investment in green infrastructure development, and incorporate schemes for payments for ecosystem services (PES) to local communities with the goal of compensating for the local costs of environmental preservation and contributing to poverty alleviation.

Resource financialization and conflict in SADC countries

Research on natural resource conflicts demonstrates the significance of so-called ‘high-value’ natural resources to sustainable development planning, conflict, and security issues. While this category of resources conventionally includes mostly extractive products like gold, oil, natural gas and diamonds, for example, it can be argued that resource financialization is creating a new class of non-extractive high-value natural resources. These are the monetised natural capital assets on which environmental derivatives are based.

Since the resources in question cannot be extracted and traded in informal markets, conflicts that arise around natural resource financialization are likely to be focused around particular localities. They may result from clashes over basic understandings of environmental phenomena, policy objectives or implementation practices. Such conflicts may

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result in violence, but may also result in tensions, ideological insurgencies, new social movements, and antagonism and resistance.

These conflicts may occur in the international political forum, or among member countries of the Southern African Development Community (SADC). The mismatch between actual reform and the practical realities and constraints to planning within the public sector is one reason that conflict happens. However, there are countless other contributory factors including challenges and barriers to environmental mainstreaming, long-term regional political and economic dominance by South Africa, persistent poverty, HIV/AIDS, gender inequity, bureaucratic gridlock, poor capacity within government ministries, and failed attempts to create employment, entrepreneurship and trade opportunities. Furthermore, governments of SADC member states and their partners have interpreted and translated international and regional-level policies and recommendations into national planning in different ways, which can result in contradictory or contested policy objectives on international, regional, national and sub-national levels.

Many financialization projects include poverty alleviation and enhanced livelihoods as goals, yet in practice they shift the rights of access and control of land and resources away from direct users. Control of territory and resources can be shifted to select local elites, state agencies, non-governmental organisations and/or private investors. Yet again, this can result in conflict among practitioners, officials and communities. Furthermore, because natural resources frequently cross national borders, the politics of cross-border resource management can be a source of conflict, particularly in regions with high levels of economic inequality and dependency relationships between countries.

Conflicts can escalate quickly in situations of highly uneven political and economic power, or in which members of one or more groups are perceived to unfairly exert their interests over those of others. Because of the distribution of roles and responsibilities across stakeholder groups discussed above, the bureaucratic complexity of resource financialization, and the high stakes of these policy reforms for donors, governments, investors, and local actors, when conflicts do emerge, they can cross scales and be catalysed at multiple jurisdictional levels. On a basic level, programming for financialization often occurs without guidance on means of assessing the potential for conflicts, trade-offs, and synergies to arise as projects are implemented. This can undermine efforts to achieve goals of inclusivity, enhanced livelihoods, poverty alleviation and, ultimately, environmental sustainability.

The 'policy paradox' of community-based forest management

In recent decades, Tanzania has built an international reputation as a leader in decentralised community-based forest management (CBFM), and the Suledo Forest Reserve is an internationally renowned success story in community-based management. However, emerging REDD+ policies are at odds with CBFM because there is a stark difference between the idea of managing a forest to maintain it as 'standing carbon', and managing a forest for multiple and flexible purposes based on the needs and priorities of local communities in negotiation with other stakeholders along the lines of CBFM. This 'policy paradox' contributes to the revitalisation of centralised top-down approaches to forest management in Tanzania, and, for the residents and managers of the Suledo Forest Reserve, increasing conflict with administrators over governance, rights, and benefits of forest management.

Challenges of offsetting schemes

In south-eastern Madagascar, Rio Tinto/QIT Madagascar Minerals (QMM), a mining company co-owned by the government of Madagascar and a multinational mining corporation, has sought to offset environmental damage caused by extensive mining activities through establishing private restrictive PAs dedicated to biodiversity offsetting. In this setting, the state, private sector actors, non-governmental organisations and displaced and under-compensated local communities have come into repeated and sometimes violent conflict as a result of the inequitable arrangements of the offsetting scheme.

Working across boundaries

The Maloti-Drakenberg Transfrontier Conservation Area is a collaborative boundary PA operated jointly between South Africa and Lesotho oriented around biodiversity conservation and PES around water resources. Despite portrayals of their collaboration over the PA as promoting peace and international cooperation, the uneven partnership between the planning committees of South Africa and Lesotho has resulted in conflict and gridlock. Planning conflicts have contributed to tensions in local communities as the South African committee has sought to dominate priority-setting to, what many perceive, the disadvantage of both Lesotho's planners and local stakeholders.

Policy recommendations

- **Priorities should focus on short and long-term benefits and the risks of policy reform.** Because of the lack of evidence-based studies that objectively document the feasibility of ‘triple-win’ outcomes in the context of financialization-oriented reforms, efforts should be placed in understanding the context for proposed reforms and identifying specific risks, costs and benefits to different stakeholders before implementing policies.
- **Social and institutional research should be conducted to assess and identify potential areas of conflict among stakeholder groups.** In the context of specific regional, national or sub-national green economy reform processes involving financialization, research should be used to identify risk of conflicts arising and to inform protocols for avoiding or mediating conflict situations.
- **Donors and relevant UN agencies should develop clear guidance.** Global organisations and donors should create ways to assess unanticipated conflicts, trade-offs, and synergies that arise on different jurisdictional levels in the context of policy reform.
- **Project managers should demonstrate evidence of inclusive planning activities and adhere to transparent, detailed, and timely reporting procedures.** This is to ensure better understanding and awareness of conflict dynamics in the context of policy implementation. As it stands on a project level, policy implementation, evaluation and reporting lacks consistency and transparency.
- **In the case of REDD+ and other national-scale programmes, equity mechanisms must be established.** Establishing mechanisms that link local projects to national programmes should be used to ensure that members of communities who maintain carbon forests and other resources have a say in policy decisions that affect them and receive the financial benefits of their conservation activities.
- **Planners introducing reforms both through national programmes and through local projects should assume that circumstances shaped by highly uneven political and economic power can create conflict,** including violent conflict. Therefore, reforms that increase inequalities, such as those that involuntarily resettle people, restrict people’s livelihoods or take decision-making about access and control over resources away from direct users, must be viewed as unacceptable.

Further reading

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Credits

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Institute of Development Studies, Brighton BN1 9RE UK
T +44 (0) 1273 606261 F + 44 (0) 1273 621202 E ids@ids.ac.uk W www.ids.ac.uk
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