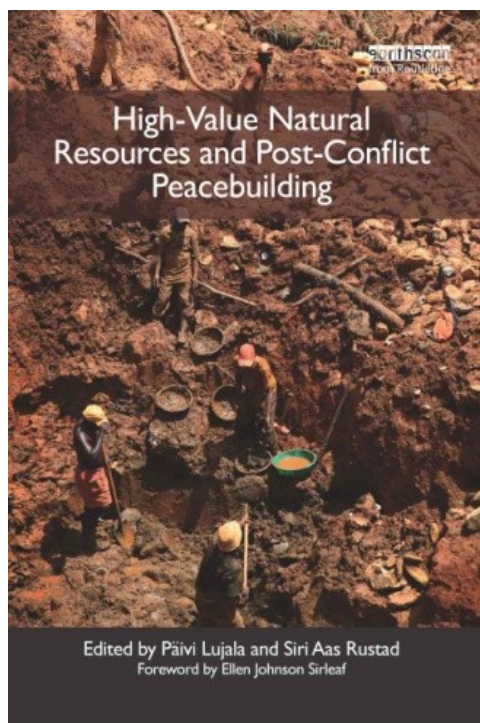


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**Part 2: Commodity and revenue tracking: Introduction**  
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## **PART 2**

### **Commodity and revenue tracking**



# Introduction

Unofficial and illegal resource extraction and trade should be formalized to curb peace spoilers' access to resources and to maximize state revenues. Although commodity- and revenue-tracking systems can be useful in this regard, tracking is only a part of the picture: it is also essential to publicly disseminate information about resource and revenue flows. Transparency can help limit opportunities for corruption, and the ability to compare the revenues that the government receives to the services it provides can increase demands for public scrutiny of expenditures.

Four chapters in part 2 take a close look at the Kimberley Process Certification Scheme (KPCS), a methodology used to track the origins and global movement of rough diamonds, and the process that led to its development. The chapters offer the viewpoints of a researcher, an industry representative, a practitioner, and a government official who was closely involved in developing the scheme and in the early phase of its implementation. Part 2 also includes chapters on the Extractive Industries Transparency Initiative (EITI), which supports transparency in the management of oil, gas, and mining revenues, and the Forest Law Enforcement, Governance and Trade (FLEGT) initiative of the European Union (EU), which is designed to curb the trade in illegal timber.

The KPCS, currently the most advanced commodity-tracking system in use, was developed to break the link between rough diamonds and conflict. Diamond-exporting countries that participate in the Kimberley Process (KP), the organizational entity that originated and oversees the KPCS, must certify that rough diamonds come from legitimate sources that do not contribute to conflict. Importing KP members allow only certified diamonds to cross their borders.

“The Kimberley Process at Ten: Reflections on a Decade of Efforts to End the Trade in Conflict Diamonds,” by J. Andrew Grant, outlines the workings of the KPCS and the principal achievements of the KP: the formalization of mining and trade, increased government revenues in diamond-rich countries, the creation of national and international platforms for discussion of issues related to the diamond trade, and increased transparency in the diamond sector. Grant also traces the history of diamonds in conflict, particularly in Sierra Leone and Angola, and briefly summarizes how the KPCS was implemented in these two countries.

The KPCS was the first serious attempt to curb exploitation of a conflict resource at the global level. One of the cornerstones of its success was that it brought together governments, civil society, and industry in an effort to achieve a common goal. In “The Kimberley Process Certification Scheme: A Model Negotiation?” Clive Wright traces the history of the KP from 2000, when it was established, until the KPCS was signed three years later, after difficult negotiations between the three principal stakeholder groups. Wright identifies three key ingredients that secured the success of the KP in its early years: decision making based on consensus, mutual interest, and respect for the unique experience and expertise of other members. In “The Kimberley Process Certification Scheme:

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The Primary Safeguard for the Diamond Industry,” Andrew Bone outlines the industry’s role in the KP and in the development of the KPCS, and highlights what the diamond industry expects from the KP and the KPCS in the future.

Despite the KP’s demonstrable achievements, the success of the process is debated. Smuggling continues in some participating countries; diamonds have financed conflict in Côte d’Ivoire; and diamonds have been linked to violence and human rights abuses in the Democratic Republic of the Congo (DRC) and Zimbabwe. In “A More Formal Engagement: A Constructive Critique of Certification as a Means of Preventing Conflict and Building Peace,” Harrison Mitchell argues that although a growing number of mining sites and a larger share of exports are now registered officially, and many diamond-exporting countries have experienced an increase in revenues, it is difficult to prove that the KPCS has had a direct effect on peacebuilding.

“Addressing the Roots of Liberia’s Conflict through the Extractive Industries Transparency Initiative,” by Eddie Rich and T. Negbalee Warner, describes how the Liberia EITI (LEITI) has helped to address the causes of the Liberian civil war. By providing civil society with a source of credible data on revenue flows between extractive companies and the government, the LEITI has increased public awareness of revenue flows, provided a platform for the discussion of governance issues related to the extractive sector, and alleviated mistrust and suspicion among the population. The authors underline, however, that improving transparency is only a first step in addressing a more fundamental issue: how resource revenues are spent.

The FLEGT initiative is designed to increase the transparency of forest management and to exclude illegal timber from the EU. Partially modeled on the KPCS, the FLEGT initiative is based on voluntary partnership agreements (VPAs) between the EU and timber-producing countries. Although the licensing system was not designed for conflict-affected countries in particular, many such countries are likely to adopt it. Because the FLEGT initiative focuses on improving forest governance, it has the potential to contribute to peacebuilding. In “Excluding Illegal Timber and Improving Forest Governance: The European Union’s Forest Law Enforcement, Governance and Trade Initiative,” Duncan Brack describes the purpose of the FLEGT and the VPAs, and explains how the VPAs work. Brack also considers the relevance of the FLEGT initiative for post-conflict Liberia.

The chapters in part 2 describe specific commodity- and revenue-tracking regimes currently in operation. Of these, the KP is unique: it focuses on one specific commodity; has global coverage; and includes national governments, industry, and civil society among its members. Although it may not be possible (or necessary) to set up similar global arrangements for other conflict commodities, the KP and the KPCS can usefully inform other initiatives that target different commodities and smaller regions; the current efforts to rein in commodity mining and trade in the eastern DRC are an example. In order to enhance public participation and strengthen demands for improved management of resources revenues, however, all these initiatives need to be accompanied by transparency of revenue flows between extractive industries and government.