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Tackling the link between natural resources and conflict: Lessons from the Kimberly Process

by

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1. What are ‘conflict resources’?

- Natural resources used to finance belligerents in armed conflict (more specifically: armed rebel movements)
- Clearest example: conflict diamonds (Sierra Leone, Angola, DRC...)
- Other examples: gold, coltan, timber, cocoa...
- Highlighted in UN panel reports (DRC, Liberia, Cote d’Ivoire) and NGO investigations

Conflict resources: impact on investment

- Perpetuate conflict (thus making legitimate investment impossible or hazardous)
- May undermine entire commodity sectors (example: diamonds)
- Jeopardize development benefits of FDI
- Risks for companies and individuals involved

But:

- No correlation between *FDI* and conflict as such

2. Tackling conflict resources: the example of the KPCS

- Origins: 1990s ‘diamond wars’ in Angola and Sierra Leone – UN panel and NGO reports
- Insufficiency of UN sanctions
- >> creation of Kimberley Process as informal forum in May 2000
- Formalized in November 2002: KP Certification Scheme as intergovernmental instrument
- UN-backed (UNGA and UNSC Resolutions) – but not part of UN system
- Progressively strengthened by additional provisions on monitoring, compliance/admission, statistics

The KPCS – how does it work?

- Official certification of all rough diamond shipments
- Trade with non-Participants or without KPC illegal
- Need for internal controls to guarantee legitimate origin
- Compulsory statistical reporting (and compulsory confirmation of all shipments)
- Implemented by binding legislation in all Participants
- System of monitoring (peer review) and mechanism for compliance issues
- Near-universal participation by diamond producing, trading and polishing countries (47 Participants, including 25 EU MS via EC)
- 'Light' but effective and inclusive governance structure (Plenary; rotating Chair; Working Groups)

The KPCS: impact

Achievements:

- Coverage of production/trade: has reduced proportion of trade that is subject to UN embargoes to 0.2% of production; no significant producers outside the system
- Huge increase in proportion of trade through legitimate channels (e.g. in DRC, Sierra Leone)
- Has acted as catalyst for stronger focus on internal controls
- Enforcement (e.g. as measured by seizures)
- Transparency / increased revenues for producer governments
- Improved investment environment

Challenges:

- Weakness of internal controls (traceability) in some Participants – particularly as regards artisanal mining
- Linked to this: smuggling - e.g. Côte d'Ivoire conflict diamonds (but: KPCS has for the first time clearly distinguished legitimate from illegal trade)

3. The KPCS: a model for other commodities?

- Useful lessons:
  - Using a trade instrument for conflict prevention
  - Moving beyond company-specific labelling to certification of an entire commodity sector
  - Implementation by binding national legislation
  - Using multilateral discipline to leverage better internal controls
  - Cooperation between governments, industry and NGOs
- Limitations:
  - Physical specificities of diamonds; compact nature of sector and trade
  - Political momentum (and consumer pressure) on conflict diamonds: not replicated in other sectors
  - KP only tackles *conflict* – other tools more appropriate for social/environmental issues

Conclusions / prospects

- KP experience could be used in other sectors – but with caution
- 'Bilateral' variants possible: e.g. timber (EU/FLEGT)
- Regional approaches: Great Lakes?
- Need for inclusive approach (industry/civil society)
- Usefulness of a forum for exchange of best practice?