

TECHNICAL BRIEF

OIL AND CONFLICT

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Introduction

Oil is an essential, high-value commodity for both industrialized and developing countries. Owing to the diverse uses of oil and its direct links to economic and social well-being, the demand for it continues to grow as incomes rise and populations expand in most developing countries. Oil prices have risen markedly in recent years, making control over oil resources an important potential driver of development. Oil income can be a source of national prosperity, bolstering public finances, encouraging investment, and providing employment in a range of activities directly and indirectly related to the oil itself. However, oil extraction and trade, and the associated revenues, can also bring significant challenges, especially in countries with fragile social and political institutions. Among other challenges, countries with an abundance of non-renewable natural resources such as oil often experience lower levels of economic and human development than countries with fewer natural endowments. This paradox is referred to as the 'resource curse'.

This technical brief examines political, social, and economic scholarship on the relationship between oil, governance, and armed conflict. Its purpose is to provide USAID staff and partners with an evidence base to facilitate further analysis and decision-making. The brief is organized in three parts, looking at the effect of oil on (i) democratization, (ii) the onset and continuation of civil conflict, and (iii) the outcome of civil conflicts. This technical brief summarizes two streams of research that indicate a complex relationship between two factors that can be mutually reinforcing: those that impede democratization and those that heighten the risks of armed conflict.

Oil and Democratization

A large number of studies have considered the effect of oil on democratization and regime type. Resource-rich governments, or 'rentier states,' often use low tax rates, high public spending, and patronage to maintain their authority, resulting in lower levels of democratic accountability.¹ In a seminal 2001 article, Michael Ross

of UCLA argued that "oil hinders democracy," and many subsequent studies reached a similar conclusion.² The rentier effect is the most widely-cited causal mechanism to explain this relationship, but there may also be other anti-democratic effects of oil.³ For example, scholars have argued that elites in petrostates impede democratization for fear that it will lead to expropriation of their assets, or that oil generates corruption, which in turn prevents democratization.⁴ The geopolitics of oil may also lead powerful oil-importing states to support friendly autocratic regimes in petrostates, thereby limiting democracy.⁵ In short, however, the proliferation of hypothesized micro-mechanisms linking oil to authoritarianism generates some uncertainty about the precise nature of the causal relationship, and the subject remains contested.⁶

As one possible way to increase domestic accountability, some argue for the importance of oil revenue transparency. Autocratic leaders often seek to hide the extent of oil revenues from the public to give them a free hand in spending and patronage. For instance, the patronage system in

Saddam Hussein's Iraq necessarily involved corruption and waste of public expenditure. Accordingly, few knew how Iraq's oil money was spent, and publication of economic statistics relating to the oil industry was a criminal offence.⁷ Governments, civil society, industry and international donors observing this tendency have called for increased transparency as a way to bolster domestic accountability and a sense of national ownership over the oil income.⁸ Although USAID's experience indicates some anecdotal evidence in support of the idea that increased transparency leads to more desirable outcomes, there is little systematic empirical evidence that establishes that linkage. Efforts such as the Extractive Industry Transparency Initiative, the UN's Global Compact, and the Voluntary Principles on Security and Human Rights are consistent with this idea.⁹



An officer guards the Barjusiya oil fields in Iraq, February 2009 (Essam Al-Sudani/AFP)

Oil and the Onset of Domestic Conflict

There is empirical evidence that oil creates conditions under which domestic conflicts and civil war are more likely than in non-petrostates.¹⁰ For instance, one study found that countries that derive at least one-third of their export revenues from fossil fuels face twice the risk of civil war than those countries that do not have such exports. Specifically, “the ‘median country’ had a 10% chance of civil war over a decade, whereas the same country as an oil exporter would have an estimated 21% chance.”¹¹ While illuminating, that finding is based on global historical data and should be applied cautiously in the case of any single country. The presence of large oil reserves is not, of itself, a decisive driver of civil war or poor governance.¹² Given the multitude of mechanisms by which oil influences conflict risk, the effect of oil in a particular country is likely conditioned by other factors that relate to the presence (or absence) of conflict mitigating forces in that society.

Oil is believed to affect the onset of conflict through a variety of mechanisms that can be grouped into two basic hypotheses, grievance and funding. The grievance hypothesis is that the processes around oil exploration, extraction, and distribution can create especially severe grievances among segments of the population, motivating them to rebel. In countries with poorly-developed governance systems, oil revenue is often ineffectively or inequitably distributed, generating significant (real or perceived) economic and political inequality.¹³

Sometimes the distribution of resources is perceived (perhaps accurately) to follow pre-existing patterns of elitism or exclusion. In Iraq, for example, oil is primarily located in areas dominated by Kurdish and Shi’a ethnic groups, while the elites controlling the state—including oil income—have historically been Sunnis. At the same time, population groups affected by a decline in an oil-producing state’s terms of trade as a result of the “Dutch disease” may grow disenfranchised with their government.¹⁴ Moreover, the local population in the area of the oil fields may be exposed to significant hardships, including forced displacement, land expropriation, or environmental hazards and degradation of agriculture.

In Nigeria’s Niger Delta region, for example, oil-related pollution has created public health risks by contaminating drinking water sources and damaging livelihoods through impacts on agriculture and fisheries. In June 2009 violence erupted in Bagua province in Peru as Amazonian indigenous groups clashed with national police over oil exploration rights on indigenous lands. The weak institutions sometimes found in petrostates may engender widespread corruption and dysfunctional governance. These dynamics could limit the capacities of the state and local communities to form effective and legitimate arrangements for managing disputes and allocating rights over property and resources. Plausibly, the incentive structures arising from these patterns create conditions ripe for domestic conflict or communal violence.¹⁵ Finally, note how the grievance-inducing impact of oil aligns with the findings described in the previous section where oil impedes democratization. Where oil inhibits democratization, grievances related to the oil industry may be exacerbated insofar as authoritarian govern-



A man surveys the damage done to the Cano Limon-Covenas oil pipeline after it was bombed by FARC guerillas in August 2001. (Efrain Patino,AFP)

ments are less responsive to them. Rebel funding is the second major hypothesized link between oil and domestic conflict. One possibility is that oil provides a stronger incentive to potential rebels to fight because the “prize” for victory is larger than in most non-petrostates: if they are successful, rebels gain control of the state’s oil income. This was Paul Collier and Anke Hoefler’s original notion of rebel “greed, not grievance.”¹⁶

More recently, they and others have argued that ‘lootable’ resources like oil are not simply a prize of victory, but a strategically crucial source of funding, enabling rebels to purchase the weapons, supplies, recruits, and other goods and services needed to sustain the fight.¹⁷ In Nigeria, for example, large quantities of oil are ‘bunkered,’ meaning that it is taken by rebels directly out of the pipelines and sold on the informal market. Another source of rebel funding comes from taking oil industry workers hostage and extorting the oil companies or the workers’ families for money.¹⁸ Further, in some cases foreign actors may actually fund or assist the rebels directly, as they seek to form relationships that will pay off once the rebels secure victory.¹⁹ Some research suggests that increases in oil prices may even be associated with increased conflict.²⁰ There is also evidence that rebel groups in resource-rich states are more abusive of civilian populations during the fighting itself.²¹

Systematic evidence about the financial rewards of fighting in a rebellion or domestic conflict is very difficult to obtain. Nonetheless, in his analysis of thirteen resource-related conflicts, Ross finds that looting played a significant role in at least ten of them.²² For instance, two rebel groups in Colombia, the ELN and FARC, extorted by various means an estimated \$140 million annually from the oil industry in the late 1990s.²³ How this total income translates into rebel wages or individual incentives is unclear but it was enough to theoretically provide each rebel roughly \$7,000-14,000 in gross annual income—in a country in which GDP per capita was \$2,340. The rebels' oil revenue is in addition to their other sources of revenue (in Columbia, chiefly the illicit drug trade), which increases the financial incentive for a rebellion. Similarly in Nigeria, studies of the conflict in the Niger Delta suggest that rebels are “commanding monthly salaries of over N50,000 (\$320 USD)—well above the wage that can be plausibly commanded by an educated youth in the formal sector.”²⁴

Both the grievance and funding mechanism are likely at work in many conflicts, and they may even be mutually reinforcing.²⁵ Weak institutions could mean that the state has difficulty maintaining law and order, creating opportunities for rebels to steal oil from pipelines, hold oil industry hostages, and otherwise capture resources to finance their operations. Conversely, the self-financing operations of the rebels could break down domestic institutions, as local governors, police, and judges are bought off or threatened by the rebels. For this reason, USAID's conflict assessment framework examines the ‘means’ and ‘motives’ sides of the ‘conflict equation.’

Of course, it is important to remember that under the right conditions, oil may also play a role in more functional, virtuous cycles, whereby oil revenues are seen to be allocated in a generally fair or legitimate manner and serve to support more effective service delivery and governance.

Oil and Conflict Outcomes

Another factor can compound the mutually reinforcing dynamic described above in which oil hinders democratization and generates multiple societal grievances. Recent research suggests that oil income has an additional effect: it reduces the probability of regime overthrow, which in turn reduces the potential for democratization.²⁶ Just as the oil industry is a potential source of funding for rebel operations, it also can fund government military and political campaigns. Building up financial, military, and political reserves is easier in a petrostate than in a non-petrostate because the government generally faces less domestic accountability about how it spends the income from oil sales. There is significant evidence that petrostate governments spend more on military arms and personnel than non-petrostates.²⁷

Consequently, when a petrostate regime is threatened, typically it can shift resources to meet the threat. The manner in which the regime does this will depend on the situation and on the regime's preferences, leading to a considerable variety of strategies. In Libya's civil war in 2011, Qadhafi chose to use his financial reserves to employ African mercenaries to fight against domestic rebel forces. In Nigeria, authorities have tried to use amnesty of-



Conflict over oil in the Niger Delta, September 2008. (Pius Utomi Ekpei/AFP)

fers that include cash and job opportunities to try to purchase peace in the Niger delta. In Angola, the government simply outspent the rebels in weapons purchases and military expenditure. Faced with widespread protests in 2009, Iranian officials used the Iranian Revolutionary Guard and various state-sponsored militia groups to repress political activists.

Of course, even leaders of wealthy petrostates who govern poorly can and do lose power: the Shah of Iran in 1979, King Faisal of Iraq in 1958, and Colonel Qadhafi in 2011 are examples. Petrostate regimes appear to be particularly vulnerable to overthrow at times of transition from one leader to the next, or when an incumbent leader's health is failing. Still, most of the time oil provides the government with the resources needed to quell political dissent.

In sum, oil income provides a government with significant resources to address potential rebellions, which in turn means that rebels have a lower probability of overthrowing the government in petrostates than in non-petrostates.²⁸

Conclusion: Next Steps

The purpose of the present report, as with other technical briefs in the series, is to provide development practitioners with a succinct summary of the existing evidence-base and academic research related to topics pertinent to USAID's work. It is not intended to guide policy or programs. DCHA/CMM recommends that country teams designing or implementing development projects related to oil—particularly in fragile or conflict-affected environments—should incorporate a conflict assessment into their planning process. DCHA/CMM can provide technical assistance to that end. Further, country teams have at their disposal a considerable number of existing program guidance resources from USAID's Office of Democracy, Human Rights, and Governance (DCHA/DRG); Office of Infrastructure and Engineering (EGAT/I&E), Office of Natural Resource Management (EGAT/NRM), and Office of Environment and Science Policy (EGAT/ESP); as well as Regional Bureau technical offices, such as the Africa Bureau Office of Sustainable Development (AFR/SD); and the U.S. Government Interagency, such as the State Department and Department of Energy.

Endnotes

1. Mahdavy, 1970; Crystal, 1990; Karl, 1997; Ross, 2001
2. Ross, 2001; Jensen and Wantchekon, 2004; Bellin, 2004; Epstein et al., 2006; Ulfelder, 2007; Gassebner et al., 2008; Tsui, 2007; Goldberg et al., 2008; Morrison, 2009; Ramsay, 2011
3. Bellin, 2004; Ulfelder, 2007; Goldberg et al., 2008; Morrison, 2009
4. Boix, 2003; Fish, 2005: 133
5. Bellin, 2004
6. Haber and Menaldo, 2011; Acemoglu et al., 2008; Herb, 1999; Dunning, 2008
7. Tripp, 2002
8. Ross, 2011; Humphreys et al., 2007; Barma et al., 2011
9. Extractive Industries Transparency Initiative, accessed at <http://www.eiti.org>; The Voluntary Principles on Security and Human Rights, accessed at <http://www.voluntaryprinciples.org>; and Publish What You Pay, accessed at <http://www.publishwhatyoupay.org>.
10. Fearon and Laitin, 2003; Collier and Hoeffler, 2004; Ross 2004a, 2004b, 2006; LeBillon 2005, 2007; Buhaug et al., 2009; Lujala, 2010. Note that while there is broad consensus on this point, it is not universal; see Smith, 2004.
11. Fearon and Laitin, 2003: 85. See also Collier and Hoeffler, 2004; Humphreys, 2005; and Lujala, 2010 for other quantitative estimates.
12. Luong and Weinthal, 2010
13. Crystal, 1990; Chaudhry, 1997; Karl, 1997; Wantchekon, 2002; Vandewalle, 2006.
14. Humphreys, 2005. "Dutch disease" is the idea that an increase in export revenues from natural resources will cause a country's exchange rate to appreciate, thereby making the country's other exports more expensive, resulting in the manufacturing sector being less competitive. The term itself was coined by *The Economist* in the 1970s to describe the experience of the Netherlands after the discovery of natural gas in the North Sea.
15. Fearon and Laitin, 2003
16. Collier and Hoeffler, 1998
17. Collier and Hoeffler, 2004; Ross, 2004a, 2004b; LeBillon, 2005, 2007
18. LeBillon 2005, 2007
19. Ross, 2004b, 2005
20. Dube and Vargas, 2007
21. Weinstein, 2007
22. Ross, 2004. Note that while Ross finds no evidence that oil-related looting provides funding for the startup costs of rebels, the expectation of looting during the course of the fighting nonetheless generates an incentive for the onset of rebellions in petrostates.
23. Dunning and Wirpsa, 2004
24. Watts, 2007: 640
25. Fearon and Laitin, 2003: 81

26. Colgan, n.d.
27. Chan, 1980; Ross, 2001
28. Colgan, n.d.

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