Natural Resource Management in sub-Saharan Africa: Consequences and Policy Options for Africa

AERC Senior Policy Seminar XII
Maputo, Mozambique
28-30 March 2011

Seminar Report

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The ***African Economic Research Consortium (AERC),*** established in 1988, is a public not-for-profit organization devoted to the advancement of economic policy research and training. AERC's mission is to strengthen local capacity for conducting independent, rigorous inquiry into problems pertinent to the management of African economies through a synergetic programme combining research with postgraduate training in economics. There are two principal approaches to this: learning by doing research in thematic, collaborative and other modalities, and support for postgraduate training through collaborative master's and PhD programmes.

Networking – the linking of individuals and institutions in a knowledge-sharing, expe¬rience-sharing framework – is the key strategic instrument for implementing AERC's activi¬ties. The network approach links economists within and outside the region and promotes professional esprit de corps.

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Natural Resource Management in sub-Saharan Africa – AERC Senior Policy Seminar XIII, Maputo, Mozambique, 28–30 March April 2011: Seminar Report

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Abbreviations

AERC	African Economic Research Consortium
AfDB	African Development Bank
CSAE	Centre for Study of African Economies
BOM	Bank of Mozambique
DPR	Department of Petroleum Resources
DRC	Democratic Republic of Congo
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
MDGs	Millennium Development Goals
NEPAD	New Partnership for Africa's Development
NEITI	Nigerian Extractive Industries Transparency Initiative
NNPC	Nigerian National Petroleum Corporation
OECD	Organization for Economic Co-operation and Development
PPT	Petroleum Profits Tax
NRFs	Natural Resource Funds
SEZs	Special Economic Zones
SWFs	Sovereign Wealth Funds
SPS	Senior Policy Seminar
SSA	Sub-Saharan African
UN	United Nations
UNECA	United Nations Economic Commission for Africa
ZCCM	Zambia Consolidated Copper Mines

Acknowledgements

Natural Resource Management is one area that preoccupies policy makers across Africa. If resources are managed well, there is a potential to reduce poverty. Africa is well known as home to some of the largest deposits of natural resources in the entire world, but the issue of governance is critical to promoting responsible and just management of these resources. It is very clear that in order to reduce poverty, we must tackle governance issues head on. There is need for coordination, cooperation and partnership as we try to deal with some of these issues. It is, therefore, imperative for Africa to take a leadership role in developing initiatives to address the problem in a sustainable manner. Also, due to poorly designed development agreements, which most of the time favour mining companies, there has not been significant fiscal benefit to support government budgets. However, the long run success or failure of resource-rich economies depends on the choices made as to how resources will be used. The discussions in this books will be mainly on experiences and lessons learnt on this important subject matter.

AERC is immensely grateful to the Government of Mozambique for welcoming us to the country and the Bank of Mozambique, for co-hosting Senior Policy Seminar XIII. I also thank the authors who produced very high-quality papers, and the partici¬pants for their active participation in producing the seminar's policy recommendations to be shared with other African policy makers who did not find time to take part in this event.

We are grateful to all those who made the seminar a success. We thank Prof. Olu Ajakaiye, AERC Research Director for his valuable input into the preparation and implementation of the seminar. Similarly, AERC appreciates the hard work of Charles Owino, Manager, Communications, John Mwazemba, Technical Editor, and Sandra Mulluka, Communications and Publications Assistant in organizing the event. AERC also acknowledges with thanks Dr. Kulundu Manda, Thematic Research Manager, Dr. Samuel Mwakubo, Collaborative Research Manager and Jacqueline Macakiage, Manager, Resources for their role as rapporteurs. Winston Wachanga, Information Re¬sources Administrator, worked on promotional materials, and Catherine Chang'oli, Hellen Makimi and Bertha Chedeye who assisted with logistics. To all of these and the many others who were involved, AERC extends its heartfelt gratitude.

William Lyakurwa
Executive Director
African Economic Research Consortium

Natural Resource Management is a Major Challenge for sub-Saharan African Economies

Africa is richly endowed with minerals and energy resources. Although precise data are not available – principally because much of the continent is under-explored – it is likely that Africa hosts about 30 percent of the world's mineral reserves. Over the years, some societies have succeeded in harnessing natural resources for sustained increase in production, while others have not. Indeed, for a growing number of countries in Africa, the discovery and exploitation of natural resources is a huge opportunity, but one that is fraught with considerable risks. Some countries have harnessed their natural resource reserves for growth, but for others, the mere discovery of mineral reserves has brought untold misery, bloody conflicts and stirred up irreconcilable differences.

Harnessing natural resources for sustained development is both technically and politically difficult, which explains why the historical record is poor. Success depends on getting a chain of decisions right, not just once, but repeatedly for around a generation. This may follow a four-stage sequence: managing the process of discovery; capturing the rents on natural resources through taxation, balancing the use of revenues between consumption and investment, and managing the investment process to achieve good returns. The politics needed to support these technical decisions is inevitably specific to each society. However, as a general guide, it is necessary to combine two features: institutions and public understanding. The Natural Resource Charter, which has been adopted by The New Partnership for Africa's Development (NEPAD) as a flagship programme and endorsed by the African Development Bank (AfDB), can both provide governments with some guidance on the design of institutions needed for the decision chain, and help citizens better understand the key issues.

The complexity of harnessing natural resources aside, it has to be done for the benefit of countries in Africa and their citizens. It is this realisation of the central importance that can be played by harnessing natural resources for growth that the AERC Senior Policy Seminar XIII (SPS XIII) looked at Natural Resource Management in sub-Saharan Africa and the consequences and policy options for the continent as the topic for the seminar. The seminar, which was held in Maputo, Mozambique, in March 2011, was attended by 103 policy makers and researchers from 27 countries.

The discussions were organized around the following five themes:

- Role of the State in Natural Resource Exploration and Exploitation.
- Policy Issues in Resource Rent Extraction – Hydrocarbons.
- Policy Issues in Resource Rent Extraction – Hard Commodities.

- Meeting the Challenges of Economic Diversification in Resource-rich Countries
- Managing Savings/Investment Decisions in Resource-rich Countries including Sovereign Wealth Fund and related issues.

Opening Session

Chair:	Hon. Abdul Razak, Deputy Minister of Mineral Resources, Mozambique
Welcome:	William Lyakurwa, Executive Director, AERC
Keynote Address:	Ernesto Gouveia Gove, Governor, Bank of Mozambique
Official Opening:	Hon. Aiuba Cuereneia, Minister for Planning and Development, Mozambique
Overview of Seminar:	Olusanya Ajakaiye, Director of Research, AERC

The AERC Communications Manager, Charles Owino, called the meeting to order and then took participants through the programme of the AERC Senior Policy Seminar XIII, after which he invited the choir of the Bank of Mozambique to entertain the guests. He then invited the session chair, Hon. Abdul Razak, Deputy Minister of Mineral Resources, Mozambique, to continue with the programme.

Session Chair: Abdul Razak, Hon. Deputy Minister of Mineral Resources, Mozambique.

The Hon. Razak, the deputy minister, welcomed all the participants to Mozambique and to the meeting. He said this was an important seminar for Mozambique given that the country is rich in mineral resources. He also thanked the choir of the Bank of Mozambique for the wonderful entertainment. He then welcomed Professor William Lyakurwa, the Executive Director of AERC, to give welcome remarks.

Welcome: William Lyakurwa, Executive Director, AERC

Prof. William Lyakurwa observed in his welcoming remarks that the topic of the thirteenth Senior Policy Seminar – Natural Resource Management in sub-Saharan Africa – continued the general theme that preoccupies policy makers across Africa: managing resources in order to reduce poverty. Africa is well known as home to some of the largest deposits of natural resources in the entire world. Algeria, Angola, Libya and Nigeria together produce a substantial portion of the world's crude oil; South Africa and several other African countries are a major source of the world's gold output, while Zambia is home to copper deposits; Botswana, the Democratic Republic of Congo (DRC), and Sierra Leone are major sources of diamonds, yet other strategic minerals such as chrome, coltan, bauxite and manganese are major export products from a number of African countries. Further, a good proportion of the world's tropical hardwood, coffee, cocoa and rubber exports are from Africa. Foreign exchange earnings from these and other natural resources constitute a major source of Africa's income. Thus, Africa should take maximum advantage to benefit from these resources to generate revenue for growth.

He observed that the issue of governance is critical to promoting responsible and just management of natural resources in Africa. It is very clear to all that in order to reduce poverty, we must tackle governance issues head on. There is need for coordination, cooperation and partnership as we try to deal with some of these issues. It is, therefore, imperative for Africa to take a leadership role in developing initiatives to address the problem in a sustainable manner. In addition, due to poorly designed development agreements, which most of the time favour mining companies, there has not been significant fiscal benefit to support government budgets. Nevertheless, the long-run success or failure of resource-rich economies depends on the choices made as to how resource-riches will be used.

Keynote Address: Ernesto Gouveia Gove, Governor, Bank of Mozambique

The Governor of the Bank of Mozambique, Ernesto Gove welcomed all the participants to Mozambique and to the meeting as a co-host of the meeting. This was because the Bank of Mozambique was a host institution in the organisation of the seminar. He noted that the theme and topic of the seminar was current and important to Mozambique given that the country is active in the extraction of mineral resources. It was thus important for the Bank to encourage the holding of such a seminar in order to share information and ideas to contribute to better management of natural resources.

He stressed that the Bank and the people of Mozambique were willing to learn from the experiences of other countries. The growth in the country has been about 7% and inflation has been in the single digits. However, due to the global financial crisis, the country faces inflationary pressures; forcing it to adopt prudent macroeconomic measures. Given the adverse effects of high crude oil prices, the country has faced macroeconomic pressures since it does not have crude oil deposits.

Dr. Gove observed that adequate exploration of natural resources is important as this may generate resources for the country and also increase foreign exchange reserves. He stressed that it was important that markets work better, thus, introducing reforms that bring better transparency and justice in the management of natural resources. It was his wish that the seminar deepens knowledge in the management of public and valuable natural resources such as oil, coal and natural gas.

Official Opening: Aiuba Cuereneia, Minister for Planning and Development

Hon. Aiuba Cuereneia welcomed all the participants on behalf of the Prime Minister of the Republic of Mozambique. He noted that Mozambique is a beautiful country and paid tribute to AERC for choosing Maputo as the venue for the seminar, adding that the theme of the seminar was very timely. He said that the rising oil prices, the tsunami and earthquake disasters that recently hit Japan are very worrisome.

He said that the Government of Mozambique has put another wave of reforms to improve the management of natural resources. The country adheres to the Extractive Industries Transparency Initiative (EITI). Mozambique has a long coastline, a number of infrastructures, and a vast arable land. These provide a good basis for national development. However, the scarcity of financial resources is a big constraint. At the end of his opening remarks, he declared the seminar officially opened.

The Deputy Minister of Mineral Resources of Mozambique then made a presentation on the "Management of Mineral Resources in Mozambique". After this, he introduced Prof. Olu Ajakaiye, Director of Research, AERC, to give an overview of the seminar. As the chair of the session, Hon. Razak then introduced Prof. Paul Collier, from the Centre for the Study of African Economies (CSAE), UK, to make a presentation on "The Role of the State in Natural Resources Exploration and Exploitation.

The reason why natural resources are usually turned into a disaster is that benefits are harvested as a long and complicated decision chain.

The Role of the State in Natural Resources Exploration and Exploitation

Presenter: Paul Collier, the Centre for the Study of African Economies (CSAE), UK

Discussant: Touna Mama, Special Adviser, Prime Minister's Office, Cameroon

He made a plea for institutions that are pertinent to provide checks and balances against corruption and mismanagement of natural resources. The reason why natural resources are usually turned into a disaster is that benefits are harvested as a long and complicated decision chain.

In terms of upstream issues, the stages are: Discover the natural resources, determine the taxation and revenue rates for the natural resources, devotion of the revenue to savings, and build the capacity of the economy to transform the savings into investment.

These decisions require a series of institutions to manage the decision chain and these institutions should be best designed to fit each country or society. There is, therefore, no institutional blueprint, but there is a basic set of requirements that they must all adhere to in order to get the decisions right. He noted that he is part of the Natural Resource Charter, which is independent of multilateral organisations.

Singling out Guinea, he noted that it inherited disadvantageous deals with resource extraction companies and the government was bankrupt and in arrears with the International Monetary Fund (IMF) and the World Bank. Yet, Guinea has iron ore, which had been valued at US$10 billion but one company bought a quarter of the rights for US$2.5 billion and nothing was remitted to the government.

For natural resources, there is a very powerful asymmetry of information: the resource extraction companies are global specialists in discovery, extraction and evaluation. In Africa, usually governments sell prospecting rights and this generates three problems. Firstly, is Information asymmetry– the companies have more information than the governments do.

Several companies buy multiple prospecting rights and wait to see if someone else successfully prospects for a resource: this is optimal for companies, but not in the interest of the country. Prospecting rights need to be time-bound to a few years.

Secondly is the corruption problem – the companies know that the easy way to get a good deal is to bribe the society's agent who negotiates on their behalf. This is why globally, the natural resources sector is the most corrupt.

Thirdly is the time consistency problem: no company will pay a lot of money for the right to prospect because there are only two possible outcomes – nine of 10 times, you find nothing. For the remaining one possibility, you may find something worth a billion dollars, yet you paid US$100 million to prospect. Very likely, the government will renege on the deal and try to change some of the contract terms.

A subsequent lively discussion concluded that Africa should:

- Get some public geological data before starting to sell the rights: know what you have. It is a good investment in reducing information asymmetry and is a very good use of aid money. Mozambique has already implemented this.
- Structure competition between resource extraction companies through a tender process. The advantage is that the process of competition reveals the value of resources to the government and reduces information asymmetry.
- Several companies buy multiple prospecting rights and wait to see if someone else successfully prospects for a resource: this is optimal for companies, but not in the interest of the country. Prospecting rights need to be time-bound to a few years.
- All clauses of the contract should be observed so the government capacity to monitor the companies on the ground should be built. For instance, negotiate the tax code to be similar for all the companies involved so that there are no special concessions to any individual company.
- Resource extraction needs supporting infrastructure (transport, energy etc). The tradeoff is that most companies want to do it themselves: build a railway in return for light taxation.

As at January 2010, the estimated crude oil and natural gas reserves in Nigeria stood as 37.2 billion barrels and 187 trillion cubic feet, making Nigeria one of the keys players in the global energy supply.

Policy Issues in Resources Rent Extraction -Hydrocarbons

Chair:	Hon. Ana Paulo Chichava, Deputy Minister for Coordination of Environmental Affairs, Mozambique
Presenter:	Akpan Ekpo, Director General, West African Institute for Financial and Economic Management, Nigeria
Discussant :	Gero Amoussouga, Economic Advisor to the President of Benin

In contemporary economic activities, crude oil consisting mainly of hydrocarbons is a crucial input among the world's most strategic natural resources. In Africa, we have several oil exporters including Angola, Mauritania, Nigeria, Chad, Congo Republic, Cameroon, Equatorial Guinea, and Gabon. As at January 2010, the estimated crude oil and natural gas reserves in Nigeria stood as 37.2 billion barrels and 187 trillion cubic feet, making Nigeria one of the keys players in the global energy supply.

Nigeria joined OPEC in 1971, but prior to that, oil companies operating in Nigeria were granted individual concessions to work and produce oil. As at then, the companies bore the risks and costs of exploration, development and production; thus they only paid royalties and Petroleum Profits Tax (PPT). With the membership of OPEC, the Nigerian government acquired participating interests in multinational oil companies operating in the country through Joint Venture Partnership in compliance with OPEC Resolution XV1, Article 90. Presently, the operating arrangements in the upstream (exploration and production) are joint ventures, production sharing contracts and service contracts.

Nigeria's oil and gas sector has dominated merchandise exports. Oil revenue from exports grew from US$718 million to US$9.4 billion from 1970 – to 1978, but declined dramatically from a high level of US$25 billion in 1980 to US$4.7 billion in 1986 following the collapse of crude oil prices. In 2008, Nigeria recorded US$75 billion from its total oil exports. The oil and gas sector's share of GDP declined from a high of about 48 percent in 2000 to 25 and 22 percent in 2005 and 2006 respectively. The petroleum sector has also dominated government fiscal revenues. Oil royalties, petroleum profits tax, domestic crude sales and other petroleum revenues, which accounted for only 26 percent of federally collected revenues in 1970 rose dramatically to

Oil literally drives the Nigerian economy, thus the Fiscal Responsibility and Public Procurement Acts have indirect impact on the country's fiscal management.

81 percent in 1980. The corresponding figures for 1990, 2000 and 2007 were 73.3, 82.5 and 79 percent respectively.

All that Nigeria gets from the oil sector are rents and the sector is characterized by massive corruption and rent-seeking. There is not much to show for, particularly as regards the continuous improvement in the standard of living of the people despite the huge rent/revenue collected through the petroleum sector. In recent times, from 2002 to date, there seems to be better attempts to manage the oil windfall arising from the 'sudden' realization that oil is not only an exhaustible resource, but that its prices are volatile – implying revenue volatility as well.

Oil literally drives the Nigerian economy, thus the Fiscal Responsibility and Public Procurement Acts have indirect impact on the country's fiscal management. Excess Crude Oil Account and the newly to be passed Petroleum Bill have direct impact on the oil sector. Though oil production has risen by leaps and bounds, slow growth and incidence of gas flaring characterize the natural gas sub-sector. The gas flaring syndrome has been of great concern to government authorities. However, the objective now is to articulate the challenges constraining governments take from the hydrocarbon sector, notably oil and gas, drawing attention to the urgency, rigour and comprehensiveness needed in implementing on-going reforms in the sector.

Ensuing lively discussion from the floor revolved around:

- Recent audits of the petroleum industry under the auspices of the Nigerian Extractive Industries Transparency Initiative (NEITI), have reinforced longstanding concerns and criticisms regarding the capacity of the federal political executive, the Department of Petroleum Resources (DPR) and the Nigerian National Petroleum Corporation (NNPC) to effectively execute their administrative and management functions in the industry.
- Some stakeholders still argue that oil companies are under taxed and that they exploit the lack of expertise from the tax authorities to rob the government of extra revenues. It seems that the yet to be passed Petroleum Bill will address issues of taxation of oil companies. Corruption is a vexatious issue in the oil industry.
- The entire paper discussed government participation in the oil industry, the amnesty programme, which was started in the Niger Delta that had an uprising because the local community

Zambia privatised its copper mining industry in the 1990s, in the hope of attracting foreign investment in the sector.

did not feel that they were benefitting from the oil rents. During the rebellion, oil production declined, but after that, the government sent out an amnesty, although not all rebel groups aligned themselves to it. Before oil, these areas were exporting coffee, cocoa and groundnuts and received 50% derivation but only got 13% for oil.

- The government has established a Ministry of Niger Delta to redress past neglect by the previous government. On the issue of inefficient refineries – the four refineries are producing below 40%, but 80% of all the refined products are imported. Special interest groups ensure that the refineries don't work to ensure their incomes. Income from oil comes from royalties; production sharing contracts etc and 90% of the government's income comes from oil. And finally, the worst pollution in Nigeria comes from oil companies' extraction activities.

Policy Issues in Resource Rent Extraction – Hard Commodities

Session Chair:	Hon. Anna Paul Chichava, Deputy Minister for Coordination of Environmental Affairs, Mozambique
Presenter:	Anthony M. Simpasa, Bank of Zambia
Discussant:	Adrina R. Coker, Deputy Governor, Bank of Sierra Leone

Anthony Simpasa's argument is that optimal taxation of mineral assets presents the greatest challenge for developing countries faced with inadequate capacity in the tax collecting institutions. Yet, taxation of natural resources can make a significant contribution to the fiscal revenue of these countries. His paper addressed critical policy issues relevant to the taxation of hard commodities, using taxation of Zambian copper as a case study.

Zambia privatised its copper mining industry in the 1990s, in the hope of attracting foreign investment in the sector. However, the poor design of the development agreements embodying generous tax and other concessions precluded the country from generating meaningful fiscal benefits from the copper boom, which accompanied privatisation of the mines.

The windfall gains from the boom accrued largely to foreign mine

Lessons that can be learnt from the Zambian experience is that high dependency on one commodity makes a country vulnerable to external forces and limits its ability to plan.

owners. In 2008, the authorities cancelled the resource contracts, replacing them with a mineral tax code aimed at capturing a sizable share of mineral revenue. The reforms provided the government with an opportunity to rectify past mistakes related to capture and management of natural resource revenues. With the most egregious windfall tax scrapped off the tax code, there is optimism that investment flows in the sector will remain strong, and with other tax elements remaining in force, these should start yielding revenue benefits for the Treasury. The challenge is to ensure that the resources are applied in a more prudent and transparent manner in order to benefit the Zambian people.

The presenter traced the history from the discovery of copper by white settlers in the 19th century, to the management during colonial days. Then, he linked this to the early days of independence to the present day to enable participants understand how the ownership of the mines, the fiscal regimes in place and the movement in world copper prices have shaped the industry's contribution. Participants were taken through the boom years in the 50's and 60's when the external conditions were favourable to the copper industry. Though the mines were foreign owned, Zambia benefitted from the 35% contribution to GDP, 90% to exports and 20% to fiscal revenues. Revenue was mainly from production royalties.

Lessons that can be learnt from the Zambian experience is that high dependency on one commodity makes a country vulnerable to external forces and limits its ability to plan. Thus, the mineral taxation policy must be competitive and not distortionary. It should ensure the greatest benefit for the public whilst encouraging investment in the sector. There must also be professionalism and fairness in the negotiation of agreements.

Weak institutions, lack of expertise, poor governance and accountability structures have led to Development Agreements that have largely favoured private investors. Zambian resource rents are usually paid to the national treasury, but consideration should be given to the social and economic impact to the communities affected by the exploitation and provision for sustainable development in local areas after depletion of resources. It is imperative that governments are effective in the management of revenues during boom periods to lessen shocks during low periods. Africa should, therefore, learn from the experiences of other countries.

Unpredictable and regressive taxes have the potential to cut shares of profits and discourage investment in the medium to long-term, and must, therefore, be avoided.

In the analysis of mining tax systems, it is necessary to consider the complete set of all taxes, fees and even exceptions and not individual tax rates (effective tax rate). Chile, which was used as a model, receives most of its mining revenue from corporate income tax. There are no royalties or ring fencing. Fiji, on the other extreme, imposes corporate income tax, royalties and export duties, yet because of concessions like tax holidays, it receives very little revenue from the mines.

Some policy lessons

Privatisation of Zambia Consolidated Copper Mines (ZCCM), was especially an interesting case for Zambia and other commodity-producing countries. It was anticipated that its sale would generate significant benefits for the Zambian people, but poorly designed development agreements greatly robbed the country of fiscal benefit to support the budget.

Changes to the mineral tax code in 2008 provided an opportunity to rectify past mistakes. Although the approach to the fiscal reforms caused distress in the mining industry, withdrawal of windfall tax appears to have reversed this animosity. Coming at a difficult period of the global financial crisis, the government had the option to balance between reduced investments in the sector or to proceed with the windfall tax. Ultimately, the government reasoned to abandon the windfall tax.

The government is also urging caution emphasising that Zambia should draw lessons from other mineral-rich countries with which it competes for mining investment. The key lesson to draw from the 2008 tax reforms is that mining companies ought to cultivate constructive relations with all regulatory authorities and encourage collaboration with tax authorities to wade off suspicion of incongruence and indifference.

Governments in Africa must, therefore, ensure that tax systems are neutral or progressive to motivate innovative investment decisions and stimulate profit seeking. Unpredictable and regressive taxes have the potential to cut shares of profits and discourage investment in the medium to long-term, and must, therefore, be avoided.

Mining taxation presents an important policy challenge especially for developing countries. Governments have the responsibility to ensure the mining sector makes a fair contribution to public revenues to enable it deliver on infrastructure and social services expected by its citizens. The mineral

Resource-rich economies are among the least diversified in Africa. This is because the relative price changes due to resource exports – the "Dutch disease" – discourage other tradable activities.

fiscal regime must be defined by certainty, stability and administrative convenience to ensure continued investment by the private sector. There must, however, be shared responsibility:

- For the governments – Streamlined, effective fiscal regimes
- For the mining companies – Transparency in reporting
- For the citizens – Expertise in monitoring.

Meeting the Challenges of Economic Diversification in Resource-rich Countries

Session chair:	Hon. Pedro Conceição Couto – Vice-Minister, Ministry of Finance, Mozambique
Presenter:	John Page, The Brookings Institution, USA
Discussant:	Thobile Dlamini, Principal Economist, Ministry of Natural Resources & Energy, Swaziland

John Page's paper, which focused on meeting the challenges of economic diversification in resource-rich countries warned that exploitation of natural resources is a huge opportunity, but one that carries considerable risks. With few exceptions, natural resources have not resulted in sustained growth and development in the continent. Thus, Africa has a particularly bad track record; resource rich economies have weaker long run growth, higher rates of poverty, and higher inequality than non mineral-dependent economies. It has been found that based on historical performance, after two decades, output for the typical African commodity exporter will be around 25 percent lower than it would have been without the resource boom. He noted that lack of diversity is one of the reasons, both because more diversified economies grow faster, and because export concentration leads to high volatility.

Resource-rich economies are among the least diversified in Africa. This is because the relative price changes due to resource exports – the "Dutch disease" – discourage other tradable activities. The presenter suggested that improvements in the investment climate and strategic public actions in agriculture, economic geography, and knowledge can mitigate the Dutch disease. However, because the investments needed are large, careful evaluation of their costs and benefits is essential.

Three resource-rich economies from outside Africa – Chile, Indonesia, and Malaysia – show quite different, but successful patterns of structural change and growth: Indonesia and Malaysia used "shared growth strategies" to industrialize while Chile invested in knowledge-based agro-industry (salmon; wine). It is, therefore, imperative to note that responding to the resource curse requires making good choices.

For the vast majority of resource-rich economies in Africa, economic structure matters a lot. A number of countries – South Africa and Nigeria prominent among them – will face the challenge of resource depletion. For the majority of others natural resources will not be sufficiently abundant to ignore the country's economic structure. There are two reasons why the structure of a resource-rich economy matters: What an economy makes matters for its long-term growth; countries whose exports are concentrated in natural resources are exposed to significant risks of declining commodity prices and volatility.

Economies with more sophisticated manufacturing sectors grow faster: "Sophisticated" products embody advanced country knowledge and productivity and as the manufacturing base moves from low sophistication to higher sophistication activities, new export opportunities arise. Then knowledge becomes more generalized and productivity rises. More diverse economies have higher incomes and are better able to take advantage of opportunities in global markets. In addition, a wide range of industrial activities provides a broad basis for the entry and exit of firms.

Primary commodity prices have declined historically relative to manufactured goods and estimates of the long-term rate of decline range from -0.6 to -2.3 percent per year; underscoring the role of diversification. A major external change would be required to break the decline in commodity prices, and it is not clear at this stage what that change might be.

Dutch disease and diversification

During a commodity boom, the income from resource extraction increases the demand for all goods. In the case of traded goods, the increased demand can be met by imports at fixed international prices. The production of non-tradable goods is usually characterized by rising marginal costs, and their price rises relative to internationally traded goods. The foreign exchange market reflects this in a real exchange rate appreciation, reducing the potential profitability of new (and existing) tradable goods-producing activities. This limits diversity in production and exports and may also constrain the ability of firms to enter new, more sophisticated production and export lines.

Policy issues

- Investment climate reforms as strategies for competitiveness are attractive for two reasons: Institutional and policy reforms come at relatively low fiscal costs and it is relatively easy to evaluate the social costs and benefits of investments in infrastructure and education. Beyond the investment climate, many of the economic activities needed for a successful diversification are lumpy – in size, space, and time. Once a minimum threshold of activity is reached, growth outside the minerals sector can be sustained, but below that threshold, marginal improvements may not yield the intended results. "Lumpiness" implies the need for a coherent strategy.
- Investing in agriculture: Agricultural yields have stagnated or declined for 40 years. Crop yield losses range from modest to significant, depending on crop, soil type, climate and production systems. Asia's productivity has increased threefold during the same period. If current productivity levels are maintained, Africa will probably have lost global competitiveness in all of its main agricultural products by 2050.
- Investing in knowledge: Natural resource activities generate opportunities for idiosyncratic knowledge – Norway and oil is an example. Natural resource exporters can use revenues to generate knowledge in unrelated sectors – Chile and salmon is another. Sector-specific knowledge can be used to develop ancillary industries – like what Qatar has done with pollution. Knowledge generation can also be linked to spatial policies – Malaysia and electronics provide a perfect example.
- Generating knowledge relevant to new exports in agriculture or services, such as tourism, where geography or other endowments provide a comparative advantage. Linking knowledge with geography is important and investing in the quality of technical and university education in areas where existing agglomerations exist or in proposed regional SEZs cannot be overemphasized.
- Improving the investment climate alone may not be sufficient to

meet the diversification challenge. Three interrelated areas of strategic government action that appear to hold promise in helping Africa's resource-rich economies to diversity include raising agricultural productivity, using spatial industrial policies and investing in new knowledge. Evaluating the costs and benefits of such strategic interventions is both difficult and essential.

Managing Savings/Investment Decisions in Resource-rich Countries including Sovereign Wealth Fund and Related Issues

Session chair:	Hon. Simon D'Ujanga, Minister for Energy, Uganda
Presenter:	Ibrahim Elbadawi & Boaz Nandwa, Economic Policy & Research Institute, UAE
Discussant:	Lila Hemedi Mkila, Deputy Governor, Bank of Tanzania

The presenter took participants through theoretical and empirical literature on the causes and consequences of the natural resource "curse" noting that these have provided important contributions to understanding why natural resource abundance may not necessarily translate into higher economic growth in some countries.

He emphasized that while the early theories of the natural resource curse were originally confined to the Dutch disease, these have been extended to institutions, volatility and inefficient specialization in an effort to explain the observed inverse relationship between natural resource abundance and GDP per capita growth.

His presentation explored some of the various savings and investment strategies and policy options available that might lead to sustainable economic development trajectory among the resource abundant sub-Saharan African (SSA) countries. Given the diverse nature of SSA countries and their resource bases, there is no single strategy that can magically prevent recurrence of the natural resource curse across these countries.

Some of the strategies advocated in his presentation varied from setting up of savings and investment natural resource funds (NRFs), in the form of sovereign wealth funds (SWFs), and fiscal policy rules to cushion the SSA countries against the adverse effects of overreliance on revenues from natural resources. This is expected to decouple government spending from the volatility of the revenue base. Other options that he discussed encompass domestic investment in productivity that is enhancing sectors and institutional reforms in an effort to diversify SSA economies.

A floor discussion led by the discussant first summarized the contents of the paper presented and highlighted the some policy issues. This was followed by an open discussion by all participants at the plenary with the following points coming out very strongly:

- Importance of the government taxing its citizens so that they can scrutinize and monitor government expenditure, otherwise if the government does not tax citizens then they may not monitor and scrutinize government expenditure.
- The resource management practice of resource-rich countries in Africa is poor and requires to be changed.
- In terms of savings and investment strategy – the Dubai model was worth looking at, and also from successful African countries, models adopted by countries like Botswana should be emulated.
- Need to add in paper that there is increased concern of the growth of the sovereign funds and concern from regulators on the issues of transparence and governance. Sovereign funds are inappropriate for Africa. For instance, Norway started by investing in education. Africa needs to use the funds to invest in their economy. Need for keeping funds outside the country should be short term and particularly when prices are high and low for the fund could be used for smoothing spending. In addition, building capacity for the economy is important, therefore, keep the funds out if there is no capacity to build the economy and bring them back as the capacity is built.
- Countries should know what to do with the revenue from natural resources. For instance, in Nigeria, all the unsustainable resources are used for consumption and this is a wrong thing to do.
- The analysis in paper concerning sovereign funds could be misleading. There is need for caution and for countries to believe what they can do. There is no need to believe that if corruption is in a country then

they should keep the money in a sovereign fund. Africa has to try to investment.

- SSA countries have assets that are dormant but if they are exploited today they are misused. What SSA needs is making good decisions that cannot use all the fund from natural resources. What is required is good management of the resources.
- It is not a rational decision to panelize the current generation to save the future.
- In Uganda, there is a law on minerals, which emphasizes transparence but now with the discovery of oil, there are two laws on field management and another revenue use.

Lessons and Policy Options

After the plenary discussion, participants went into three working groups to discuss lessons learnt and policy options. What emerged was that Africa is relatively rich in natural capital compared to other forms of assets (economic infrastructure, human capital, technology, etc.). It is, therefore, crucial for Africa to exploit its natural capital prudently. For this to happen, we need to: Strengthen government structures and institutional arrangements necessary for ensuring transparency, public awareness and consultation in the design and granting of concessions and licenses, and invest in technical capacity especially in geo information, monitoring and evaluation of natural resource stocks and rents from their exploitation. Another recommendation is to institute proper accounting for the capture of revenue and rents from natural resources separate from other revenue sources as well as invest sufficient shares of revenue and rents into alternative forms of capital, giving priority to: Economic infrastructure (roads, energy etc.), raising agricultural productivity, raising human capacity development (education, health, skills development etc.) and poverty reduction through long-term investment in economic growth and improvement of basic livelihoods prior to the establishment of sovereign wealth funds.

Participants suggested the following strategies & policy options:

- Countries should share experiences in negotiating contracts and award of concessions. African policymakers should be made increasingly aware of the long-term impact of signing unbalanced contracts with private companies. Subjecting contracts to public scrutiny can go through institutions such as parliament to reduce the atmosphere of top secrecy. The sale of exploration rights has been taking place in secrecy, where the companies are more informed than the government. In the issue of contract design, it was noted that companies that are not successful in discovering natural resources in one block usually transfer those costs to areas where they are likely to do so, and therefore, deny the government of income from the stated profit. However, these are allowable costs in most tax regimes without which companies would not try to explore. Negotiation teams should include experts on matters of law, economy and related areas to ensure that contracts are comprehensive and integrated.

- Governments should invest in discovery and evaluation capacity building as a means to verify and evaluate what is discovered. There must be strengthening of the management system in order to ensure that the investment made through natural resource rents can result in direct and positive results for economic growth and development.
- There is a need for better coordination between parliament, ministries and government departments to better strengthen the regulatory framework. It may be better for fiscal matters related to mining to be managed by the ministry of finance rather than of mining and environmental resources.
- There is a need to improve capturing of rent from multinational corporations through the provision of information on the quality and specifics of minerals being extracted. There is also a need to have a separate accounting mechanism at the level of government for revenues and expenditures related to mining and it is also important to have a monitoring and evaluation mechanism that will allow the government to evaluate the size, type and quality of the resources as well as evaluate best prices for the resource in question. There is need to apply resource accounting systems since in most cases the agreement with the companies is on revenue sharing (of the profits). This is based on the intrinsic value of the resource itself and this covers the rights of the present and future generation.
- The state has a role in ownership and this reduces information asymmetry and improves revenue returns. Rather than spreading resource rents thin, governments should concentrate the rents into one or two areas where they have comparative advantage as a means of

achieving diversification. Diversification should focus on non-resource based sectors to prompt investment in other sectors e.g. agriculture which should be modernized, the development of transportation and energy infrastructure, improvement of the business climate etc.

- Attaching African experts/consultants to multinational mining companies so that they can in turn replicate these management models in other areas of the economy. There is low investment in geological information, research and infrastructure to evaluate discoveries and output. Resources are not fully tapped due to poor evaluation because some governments lack both financial and human resources to properly evaluate natural resource discoveries. There should be sustainable development/monitoring and evaluation of environmental impact. A percentage of the mines' income can be put aside to manage environmental aspects i.e rehabilitation of mined areas. The rehabilitation is carried out in a phased approach, as one area is mined, the other is rehabilitated. There is a National Commission of Closure that binds mining companies to rehabilitate mined areas and be held responsible for side effects for five years after they close the mines.
- Most African economies are not quite ready to build sovereign wealth funds as they are still grappling with poverty and several pressing needs in the areas of education (primary, secondary and tertiary) and in the areas of health and other services. Sovereign wealth funds can hedge against price fluctuations and there is, therefore, the need for a fund, not necessarily akin to what Norway has implemented. The best way is to invest part of the rents derived from natural resources in income and employment generation that will also benefit future generations. Reserve funds must be transparently managed, but not necessarily for creation of wasteful bureaucracies.
- Although it is possible to leave the resource underground, particularly if you do not have the capacity to spend, it is equally possible that later extraction may find those resources outdated e.g. coal has been outdated by alternative sources of energy. Africa has been dogged by lack of a clearly defined strategy of maximizing gains from the exploitation and utilization of the gains obtained by governments. Economic diversification should be planned systematically, not only when there's no other high revenue yielding resource, or during booms. Lack of diversification is the cause for complaints about the low level of development of 'resource-rich' areas. Examples include Namibian

diamond-rich areas. African governments must start to consider investing in basic preliminary technical (including geological) studies to improve the knowledge regarding available resources (Further detailed studies can later be developed by interested companies. Joint exploration should also be taken into consideration).

- The government should motivate those working in mineral exploration and exploitation so that they are retained in public service and make the maximum contract duration for companies to bebe 5 years. This should free up tracts for exploration by others.

Encourage as much as possible other economic activities (like historical tourism) around closed mine sites which can go on for a very long time (if not, forever) after the mine is closed. Examples: Namibia (The Rossing Uranium Mine).

Closing remarks by Governor Gove:

The Governor thanked the AERC for having chosen Mozambique as the venue for the seminar. He also thanked all participants who he noted had travelled long distances to be at the seminar and he believed that each participant would go back enriched by the seminar. He noted that what everyone had learnt would play a great role in guiding our countries in better management of natural resources. The seminar was important in re-establishing communication chains between participants – and that the network of policy makers had been strengthened. As a parting shot, he underscored the important challenge we face: Africa is still one of the poorest regions worldwide and we should exploit our resources for our benefit. We need to strengthen our institutional and human capacities to see what we have, how much we have through mapping activities, and capacity to negotiate good contracts that will serve our countries' interests. Corruption and transparency should not only be seen from the point of view of countries – it sometimes emanates from the side of those who are holding the resources and from the companies themselves.

Closing remarks by William Lyakurwa

The AERC Executive Director ereiterated his appreciation to all conference participants who he noted included honorable ministers and other distinguished guests for taking time to participate the seminar. He pledged that AERC would continue organising policy seminars as way of bridging the link between research and policy making. He explained that AERC had been building capacity for some time and it has to find its place in policy making. He urged participants to share the outcomes of the meeting with those who did not attend the seminar. He profusely thanked AERC funders who made the seminar possible. He said that AERChas been supported over the years by philanthropic institutions. He concluded by making a passionated plea to African policy makers to make a pledge to support the activities of AERC. He noted that AERC has received support from African governments such as Nigeria, South Africa, and Kenya. He made an express plea for all participants to support the activities of AERC. He closed by thanking the staff of the Bank of Mozambique who had worked tirelessly to ensure the seminar's success.

Annex A

Seminar Papers

1. ***Role of the State in Natural Resources Exploration and Exploitation*** Paul Collier, Centre for Study of African Economies (CSAE), UK

2. ***Policy Issues in Resource Rent Extraction – Hydrocarbons (Taxation)*** Akpan Ekpo, Director General, West African Institute for Financial & Economic Management, Nigeria

3. ***Policy Issues in Resource Rent Extraction – Hard Commodities (Taxation)*** Anthony M. Simpasa, Bank of Zambia

4. ***Meeting the Challenges of Economic Diversification in Resource-rich Countries*** John Page, The Brookings Institution, USA

5. ***Managing Savings/Investment Decisions in Resource-rich Countries including Sovereign Wealth Fund and related issues*** Ibrahim Elbadawi & Boaz Nandwa, Economic Policy & Research Institute, UAE

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Annex C

Seminar Programme

Monday, 28 March 2011

09:00–10:00		**Seminar Opening**
	Session chair:	**Hon. Abdul Razak,** Deputy Minister of Mineral Resources, Mozambique
	Welcome:	**William Lyakurwa,** Executive Director, AERC
	Keynote address:	**Ernesto Gouveia Gove,** Governor, Bank of Mozambique
	Official Opening:	**Hon. Aiuba Cuereneia,** Minister Planning and Development, Mozambique
10:00–10.30		*Tea/Coffee Break*
10.30-–12:30	Overview:	**Olu Ajakaiye,** Director of Research, AERC
	Session 1:	***Role of the State in Natural Resources Exploration and Exploitation***
	Session chair:	**Hon. Abdul Razak,** Deputy Minister of Mineral Resources, Mozambique
	Presenter:	**Paul Collier,** Centre for Study of African Economies (CSAE), UK
	Discussant:	**Touna Mama,** Special Adviser, Prime Minister's Office, Cameroon
	Discussant:	**Massoud Moussavi,** American University, USA
		Floor Discussion
12:30–14:00		*Lunch Break*
14:00–15:00	**Session 2:**	***Policy Issues in Resource Rent Extraction – Hydrocarbons***
	Session chair:	**Hon. Ana Paulo Chichava,** Deputy Minister for Coordination of Environmental Affairs, Mozambique

	Presenter:	**Akpan Ekpo,** Director General, West African Institute for Financial & Economic Management, Nigeria
	Discussant:	**Gero Amoussouga,** Economic Advisor to the President of Benin
		Floor Discussion
15:00–16:00	**Session 3:**	***Policy Issues in Resource Rent Extraction – Hard Commodities***
	Presenter:	**Anthony M. Simpasa, Bank of Zambia**
	Discussant:	**Adrina R. Coker, Deputy Governor, Bank of Sierra Leone**
16:000–16:30		*Tea/Coffee Break*
		Floor Discussion
16:30-17:30	**Session 4:**	***Meeting the Challenges of Economic Diversification in Resource-rich Countries***
	Session chair:	**Hon. Pedro Conceição Couto-** Vice-Minister, Ministry of Finance, Mozambique
	Presenter:	**John Page,** The Brookings Institution, USA
	Discussant:	**Thobile Dlamini, Principal Economist, Ministry of Natural Resources & Energy, Swaziland**
		Floor Discussion
19:00– 21:00		*Cocktail/Reception*

Tuesday, 29 March 2011

09:00–10:00	**Session 5:**	***Managing Savings/Investment Decisions in Resource-rich Countries including Sovereign Wealth Fund and related issues***
	Session chair:	**Hon. Simon D'Ujanga,** Minister for Energy, Uganda

	Presenter:	**Ibrahim Elbadawi & Boaz Nandwa,** Economic Policy & Research Institute, UAE
	Discussant:	**Lila Hemedi Mkila,** Deputy Governor, Bank of Tanzania
		Floor Discussion
10:00–10.30		*Tea/Coffee Break*
10:30–10:45	Working Groups arrangement:	**Olu Ajakaiye**
10:45–12:30		**Working Group Discussions**
12:30–14:00		*Lunch Break*
14:00–16:00		**Working Group Discussions continue**
16:00–16:30		*Tea/Coffee Break*
16:30–18:00		**Working Group Discussions continue**

Wednesday, 30 March 2011

09:00–10:30:	**Session 6:**	**Working Group Finalisation of Reports**
	Session chair:	**Hon. Samuel Rathedi –** Permanent Secretary, Ministry of Wildlife & Tourism, Botswana
10:30–11.00		*Tea/Coffee Break*
11:00–12:30		**Presentations of Working Groups:** Groups A, B, and C
12:30–13:00		**Wrap Up & Closing:** Olu Ajakaiye, Director of Research, AERC
		Lunch Break
18:30– 22:00		*Closing Dinner*