

## High Level Seminar

# Natural Resources, Finance, and Development: Confronting Old and New Challenges

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## THE POLITICAL ECONOMY OF REFORM IN RESOURCE RICH COUNTRIES – PROFESSOR RAGNAR TORVIK

- **A practitioner's perspective**
  - **Revenue Watch is an independent organization which promotes the transparent, accountable and effective management of oil, gas and mining resource**
  - **Support governments, parliamentarians, civil society and the media in about 40 countries globally and 20 resource rich countries from Africa and the Middle East and North Africa**
  - **Natural resource governance reform critical:**
    - New producers (Ghana, Uganda, Liberia...)
    - Higher commodities prices => increased resource rents => pressure for reform
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## INCENTIVES VS. INSTITUTIONS: A COMPLEX RELATIONSHIP

- **Causality between incentives and institutions runs both ways... How to disentangle these effects?**
  - **Transparency and accountability are critical to reform**
    - Extractive Industries Transparency Initiative (EITI) : 28 candidates, 5 'compliant' countries; reports in 23 countries
    - Revenue Watch Index: 1<sup>st</sup> attempt to measure and compare the information governments from 41 countries disclose about the oil, gas and mining industries
    - The majority of countries examined by this report (29 out of 41) provide limited public information on their natural resource sector
  - **Transparency necessary for accountability ... as well as to align incentives of different stakeholders**
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## RENT SEEKING AND RENT CAPTURE

- **Model: rent seekers vs. entrepreneurs...implicit theory of public sector?**
  - **Governments manage natural resource assets on behalf of their citizens in the vast majority of countries and NOCs control 80% of oil reserves**
  - **Resource rich governments & rent capture**
    - Micro-level: principal-agent problem and rent seeking undermining state institutions (corruption)
    - Macro-level: different patterns of rent capture systems: Angola vs. Nigeria and role of NOCs
    - Asymmetry of information and power leads to unbalanced deals (i.e. lower share of rent): tax holidays, transfer pricing, stability clause beyond cost recovery....
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## ENTREPRENEURS IN IMPERFECT & INTERNATIONAL MARKETS

- **Resource rich economies: market distortions and imperfections**
    - In oligopoly/monopoly (public or private) => more entrepreneurs  
=> lower market share and income?
  - **Domestic entrepreneurs vs. international markets**
    - Expected vs. actual rent: cost recovery ; large share of the rent 'exported' abroad...
    - Unrealistic expectations undermines resource management capacity and strengthens rent-seeking behaviors
  - **Beyond incentives, supply of entrepreneurs depends on critical conditions partially met in resource rich developing countries:**
    - Provision of infrastructure
    - Regulatory framework and business climate
    - Education and human capital
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## SAVING VS. SPENDING: NATURAL RESOURCE FUNDS (NRF)

- **NRFs: vehicle for institutional solutions that alter entrepreneurs, rent-seekers and governments' incentives ?**
    - Absence of clear impact on fiscal outcomes (Ossowski et al., 2008)
    - Reverse causality: countries with prudent fiscal policies tend to create NRFs (Crain and Devlin, 2002)?
    - In practice: NRFs raided by governments and rent seekers (Nigeria, Venezuela) and moral hazard problem with entrepreneurs (Kazakhstan)
  - **The Norwegian model misunderstood:**
    - Oil discovery 1969
    - Savings Fund only created in 1990 and received its first inflows in 1996.
    - Norway's GDP: 35% lower than Sweden and Denmark in 1970...today it is 40% higher
  - **Sustainability and relevance of NRFs based on high savings level (PIH)?**
    - Need macroeconomic stability and volatility management but...
    - ... Not at the expense of economic diversification and development
    - Ghana's mixed model; reform in Timor Leste...
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## A VALUE CHAIN APPROACH TO REFORM IN RESOURCE RICH COUNTRIES

- **The Natural Resource Charter (NRC) is a recently launched initiative that provides guidance to resource rich countries, companies and the international community on best practice in resource management.**
  - **The Charter encompasses the whole decision chain that policy makers face – from decisions around whether or not to extract through to spending and savings choices via the setting of environmental and social standards.**
  - **NRC:**
    - No political heritage or sponsorship: an independent group of the world's foremost experts in economically sustainable resource extraction (Collier, Spence, Venables...)
    - Global consultation with governments, civil society, companies and the international community
    - Content updated annually by a Technical Group
  - **NRC's Oversight Board:**
    - Ernesto Zedillo, former President of Mexico (Chair)
    - Luisa Diogo, former Prime Minister of Mozambique
    - Mo Ibrahim, Chairman of the Mo Ibrahim Foundation
    - Abdlatif Al-Hamad, Chairman of the Arab Fund for Social and Economic Development
    - Shengman Zhang, Chair of Citigroup Asia-Pacific
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