

Savings and Investment Decisions in Natural Resource Rich LICs

Paul Collier

Centre for the Study of African Economies,
Oxford University



Region	'Known' subsoil assets/km ² (in USD)
World	105,000
OECD	114,000
Africa	23,000
South Asia	53,000
LAC	95,000
MENA	361,000
East Asia & Pacific	77,000
ECA	93,000

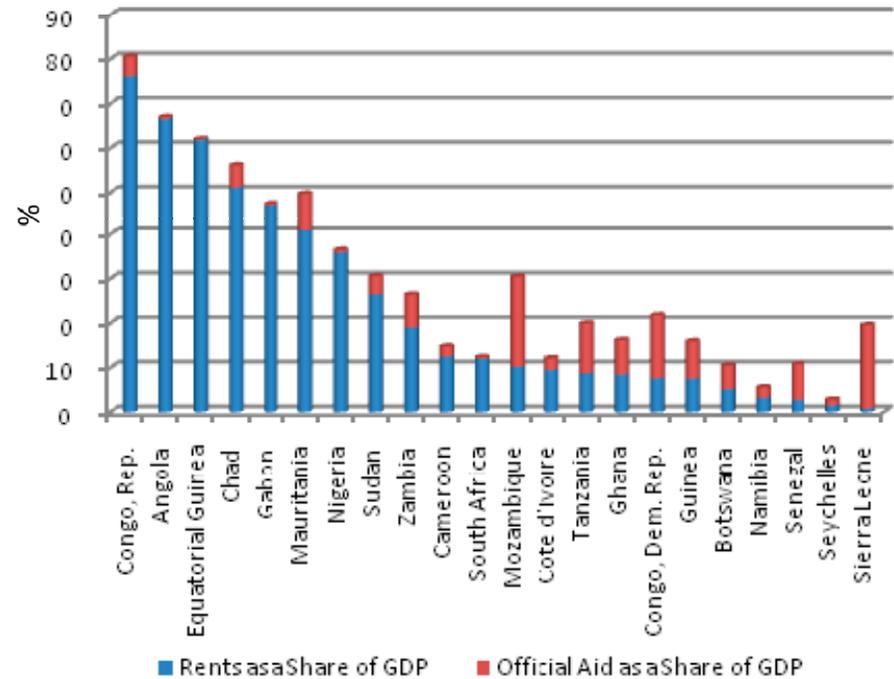
Source: World Bank (2006), Collier and Hoeffler calculations

Should policies be distinctive?

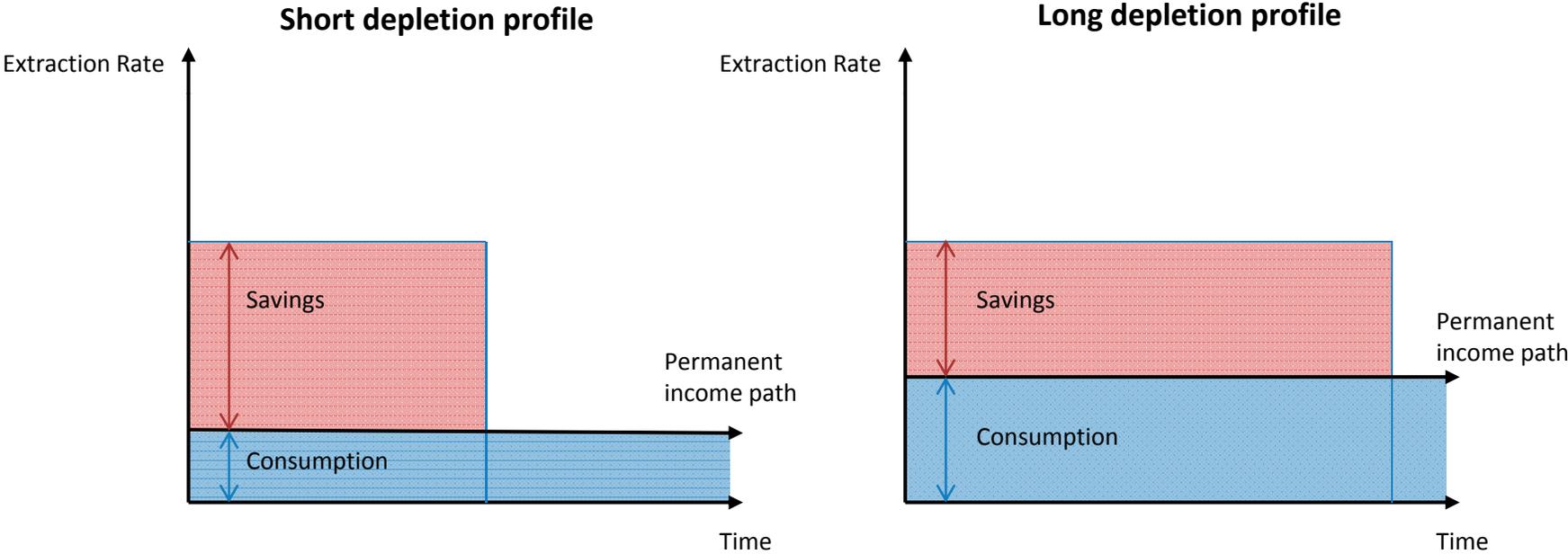
How can the politics be got right?

Big government is inevitable

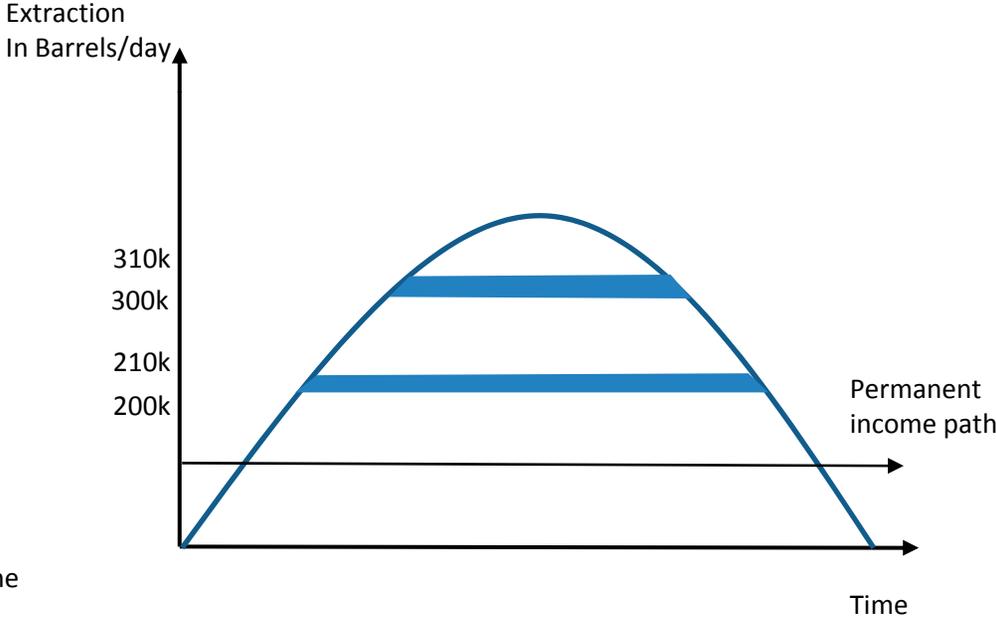
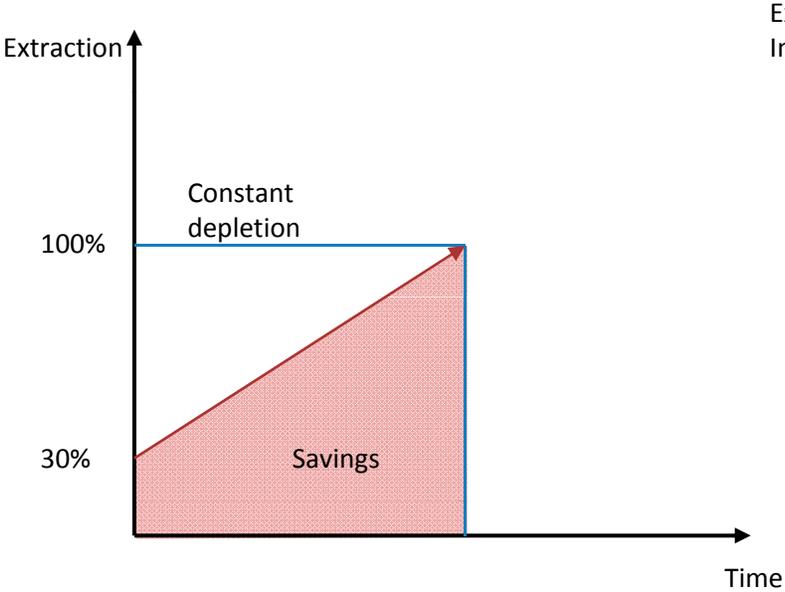
Sub-Saharan Africa	2000	2008
ODA	\$12bn	\$36bn
Resource Rents	\$39bn	\$240bn



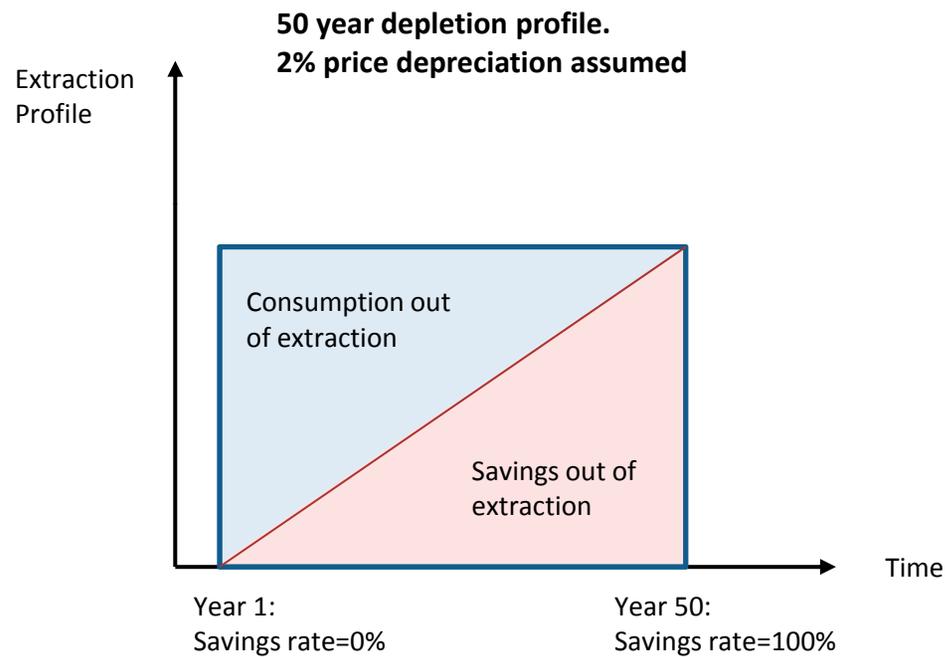
The earlier exhaustion will occur, the higher savings should be



Savings rate should rise as resources are depleted

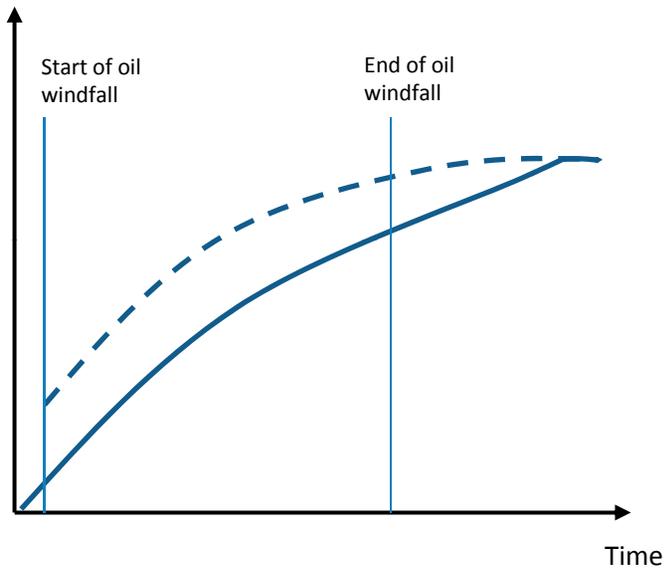


Hotelling rule

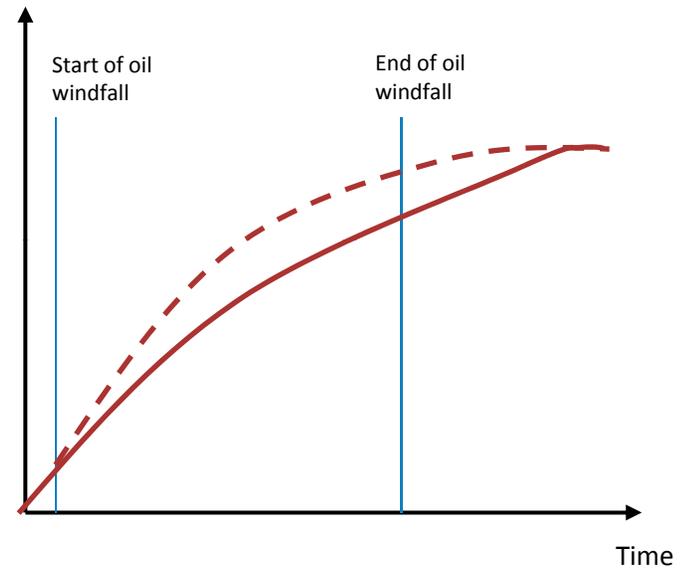


Savings and convergence

Consumption



Capital stock



Consumption and Investment paths with and without oil windfall

Capital Scarcity and Investment

Country	Natural Capital per capita (\$)	Produced Capital per capita (\$)
Norway	57,000	120,000
Nigeria	4,000	660

Source: World Bank Wealth of Nations (2006)

Investing in Investing

- Building capacity for public investment
- Building capacity for private investment
- Building capacity for reducing the unit cost of capital

Absorption and temporary saving abroad

- Delaying investment – investing in investing
- Delaying consumption – investing
- Supporting tradable sector – investment composition

Managing volatility

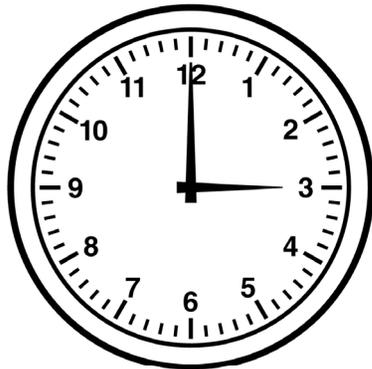
- Placing bounds on the rate of change of public spending

	Maximum increase	Maximum decrease
Public consumption	+10%?	-3%?
Public investment	+20%?	-10%?

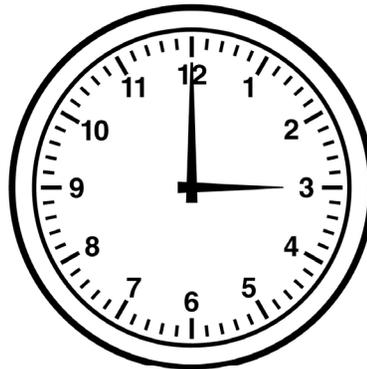
The Desired Policy Package

- 3 Policy clocks:

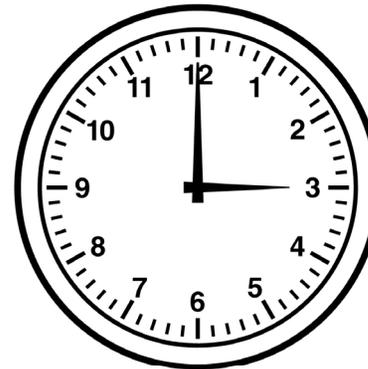
Depletion



Investing in
Investing



Riding commodity
price tiger



Timeframe:

A generation

A decade

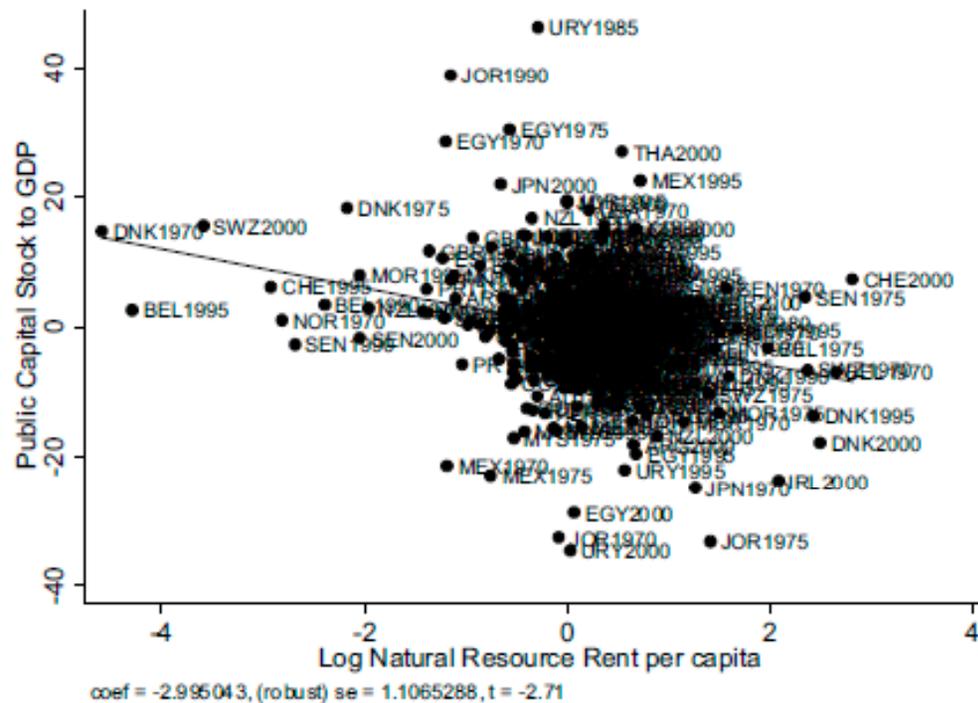
Erratic

Should policies be distinctive?

How can the politics be got right?

History of wrong decisions

Figure 3: Public Capital and the Curse: Partial Effects



Sovereign Resilience Funds

- Purpose:
 - To ride commodity price tiger
 - To manage the Investing in Investing transition
- Form:
 - Conservative and liquid assets
 - Independent to manage hedging

Sovereign Development Funds

- Purpose:
 - To irreversibly accumulate assets
 - To balance domestic and foreign asset accumulation
 - To manage domestic investment projects
- Form:
 - Variant on SWF model but with focus on both domestic projects and foreign assets
 - Professional standards of project assessment
 - Repository for ODA in addition to resource rents

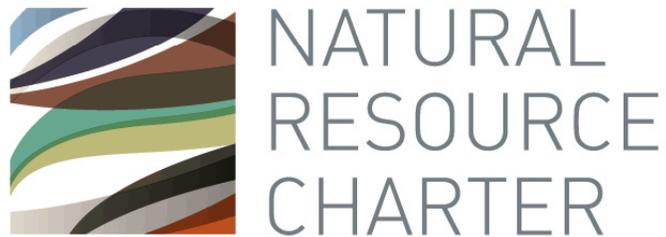
The Role of Central Banks

- Central Banks have established independent role
- SRF represents natural extension of current central bank functions
- SRF and SDF draw on CB political independence and in-house expertise (in a expert-scare environment)

International Support



www.eiti.org



www.naturalresourcecharter.org

