

3 principles for natural resources to become a blessing for development

By Erik Solheim
12 December 2014

Many of the world's biggest economic success stories have happened in places with few or no natural resources.

This is clearly visible in Asia. Tiny Singapore, without a single natural resource, has transitioned from one of the poorest countries in the world to one of the richest. Japan and South Korea rebuilt their war-torn countries and became two of the most advanced economies on the planet through hard work, industrialization and education. China, which used to be a poor country and net oil exporter, is now the world's second-largest economy and top importer of oil, with 600 million people brought out of poverty in the process. There are success stories on all continents.

On the other hand, countries richer in natural resources have ended up much poorer. Mountainous North Korea has access to mineral wealth that more successful neighbor in the south lacks. In West Africa, oil-rich Equatorial Guinea has a higher gross domestic product than Poland, but the life expectancy of its citizens is 20 years lower than that of the average Pole. If natural wealth alone determined development, the list of winners and losers would have been very different.

Many resource-rich countries have not lived up to their development potential due to the "resource curse" of the negative effect of natural resources on the economy, society and politics in these nations.

Extraction of gold, diamonds or oil can reap huge profits with very little effort and employing a relatively small workforce. An offshore oil field off the coast of West Africa can be drilled from a rig with an international crew sailed in from the Gulf of Mexico, transported to Asia by a European tanker and sold through traders in London. Unlike the producing cars or manufacturing textiles, natural resource extraction can occur almost completely separate from the rest of the economy, adding few jobs and contributing little in terms of technology transfer and development.

In addition, profits from natural resource extraction can create the perception that money comes easy, rather than through hard work. People see that corrupt officials and elites with access to the flow of resources get rich much faster than hard-working entrepreneurs, not to speak of workers. The result can easily become societies where the combined energy, creativity and talent of the people are focused on finding ways of capturing the scraps of the profits from natural resources rather than any other livelihood.

Profits from oil, timber or minerals can be controlled by a country's leader and shape the entire political environment of a nation. Such income can be kept out of normal budgets and thus outside the scrutiny of the media, civil society and public opinion. Nontransparent wealth from national resources often gives access to huge amounts of money to fund large political machineries and buy favors from the security forces, business and at the community level. Natural resource wealth can break the social contract that exists between people as taxpayers and governments as providers of public services. Rulers may feel they owe the people nothing.

Governments propped up by large cash flows can therefore become entrenched dictatorships, fuel military coups or breed insurgencies involving local people who benefit little from resource extraction but have had their livelihoods destroyed and rivers polluted.

Three principles can turn natural resources into a blessing for development:

1. Natural resources belong to the people. Profits should benefit the people, not a company or a president or the individual who happened to own the ground where natural gas or iron ore was found. A strong and universal principle of natural resource ownership by the people will increase pressure on governments to use revenues for public services rather than for private gain.

2. Openness and transparency to ensure popular ownership and shared benefits. It is much harder to steal or mismanage natural resources when opposition parties, journalists and volunteer groups can see how much is extracted, how much it is sold for and where the money goes. Norwegians can go www.nbim.no see how the balance of the Norwegian oil wealth fund change every second, while Botswana is the world's top producer of diamonds yet one of the least corrupt nations in Africa. Much has also been achieved internationally. The Extractive Industries Transparency Initiative, Publish What You Pay and Transparency International have all done much to make governments and companies implement transparency standards. The Organization for Economic Cooperation and Development and the G-20 are working on improving international tax standards to avoid profit shifting and tax evasion. National volunteer organizations like Maka Angola are exposing corruption in the local oil industry while international donors are funding news group Thomson Reuters's efforts to shine the global spotlight on illicit financial flows.

3. Good, development-oriented leadership. Ghana has benefited great from its oil wealth and was the first African country to halve extreme poverty. Former Prime Minister John Kufuor deserves much credit for his leadership in the fight against corruption and work to ensure that oil revenues fuel development. When oil was first discovered offshore, he initiated a national dialogue on the benefits and the pitfalls of petroleum, with support from me and others, and later presidents have followed Kufuor's lead on this. Equally important are effective institutions like the Ghana Petroleum Commission, Ministry of Energy and Petroleum, the Ghana National Petroleum Corporation and the Ghana Sovereign Oil Fund that all regulate and supervise each other. The Norwegian Oil for Development Program has assisted Ghana and many other oil-producing nations in setting up the right structures, the same way the Australian Mining for Development initiative is doing with countries rich in minerals. The aim of the OECD's Tax for Development program is to help countries squeeze more tax revenues out of their resources.

Ownership by the people, full openness and good leadership is what it takes to turn natural resources into a blessing for development!

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This article was originally published on www.devex.com