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Boom, Bust and Better Policy: Crisis Lessons for Resource Rich Countries

by

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"The views expressed are those of the author and do not necessarily reflect the views of UNCTAD"

Boom, Bust and Better Policy: *Crisis Lessons for Resource Rich Countries*

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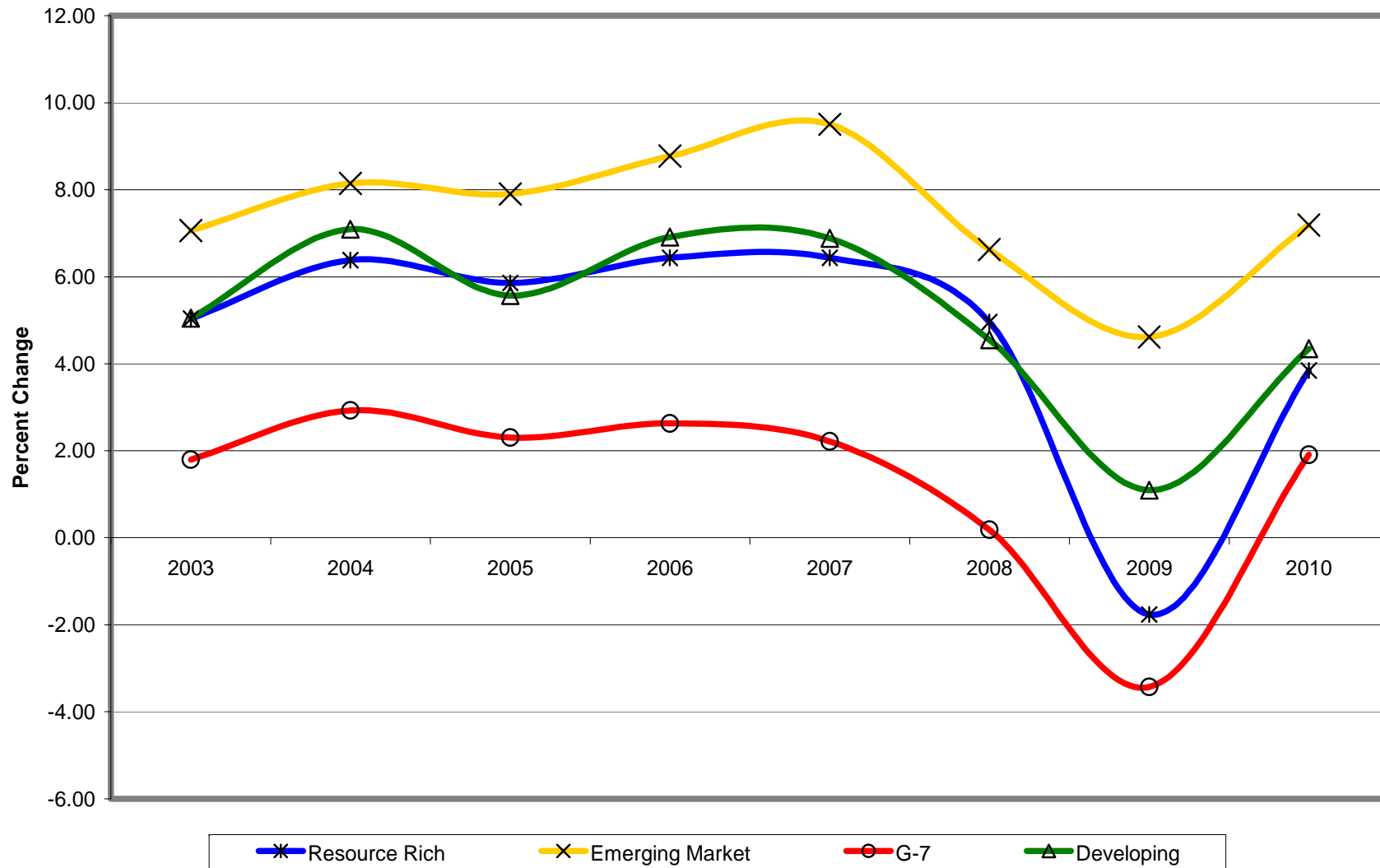
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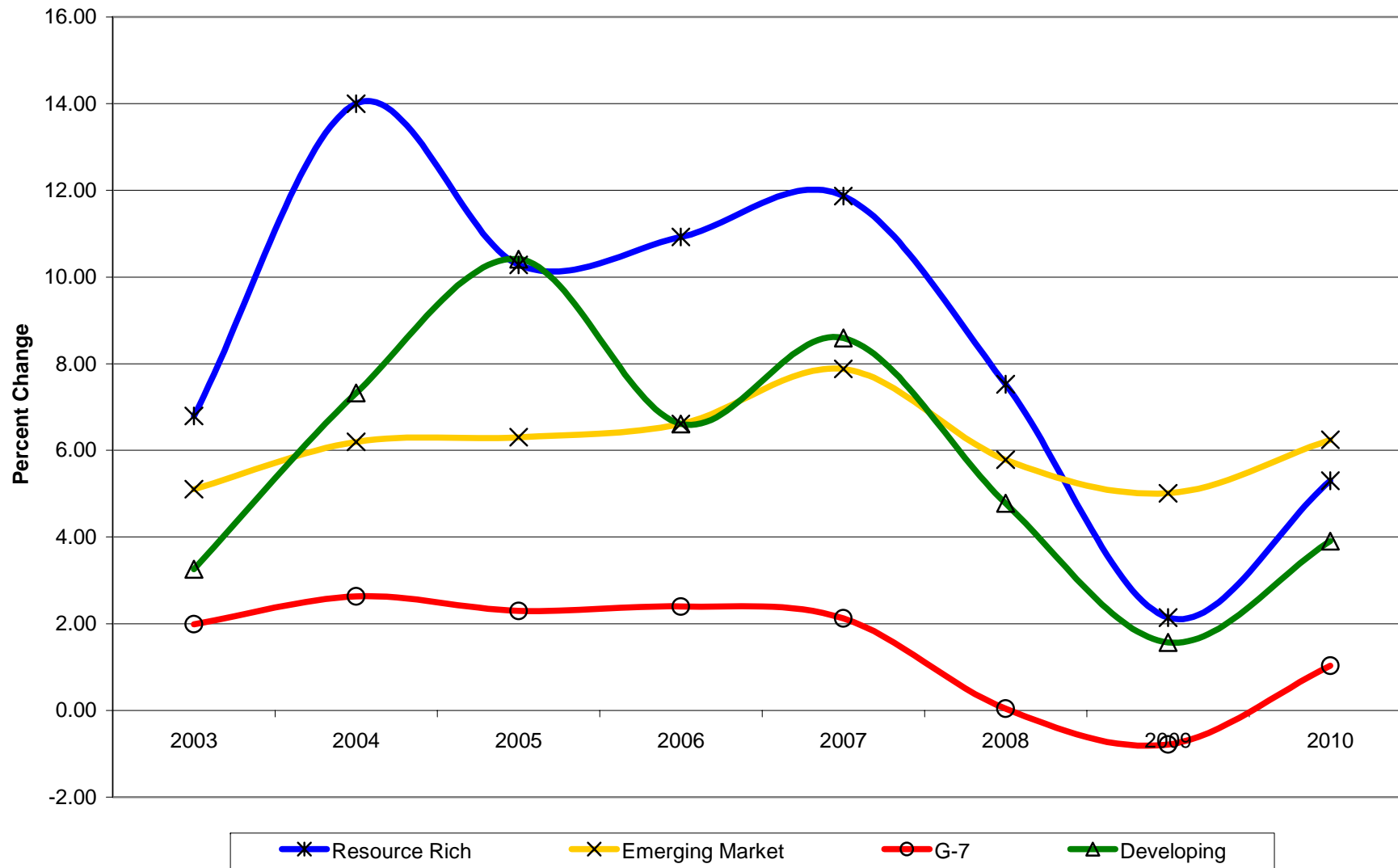
Shared Interests

- Producers, consumers, investors have a shared interest in sustainable management of non-renewable resources
- Global downturn has hit all stakeholders, but resource rich countries the hardest.

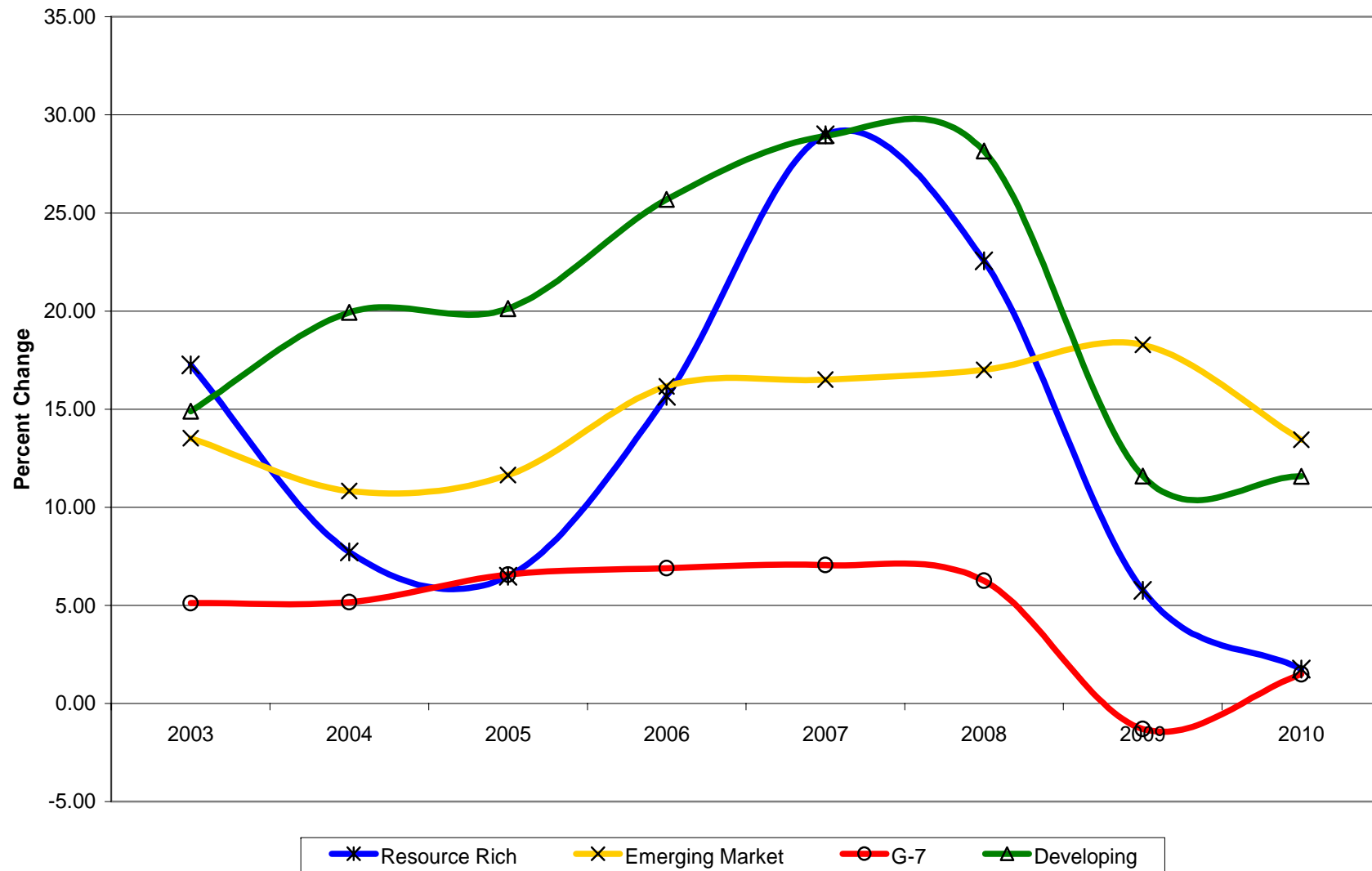
Heavy Volatility: Change in GDP (2003-10)



Private Consumption (2003-10)



Domestic Credit Growth (2003-2010)

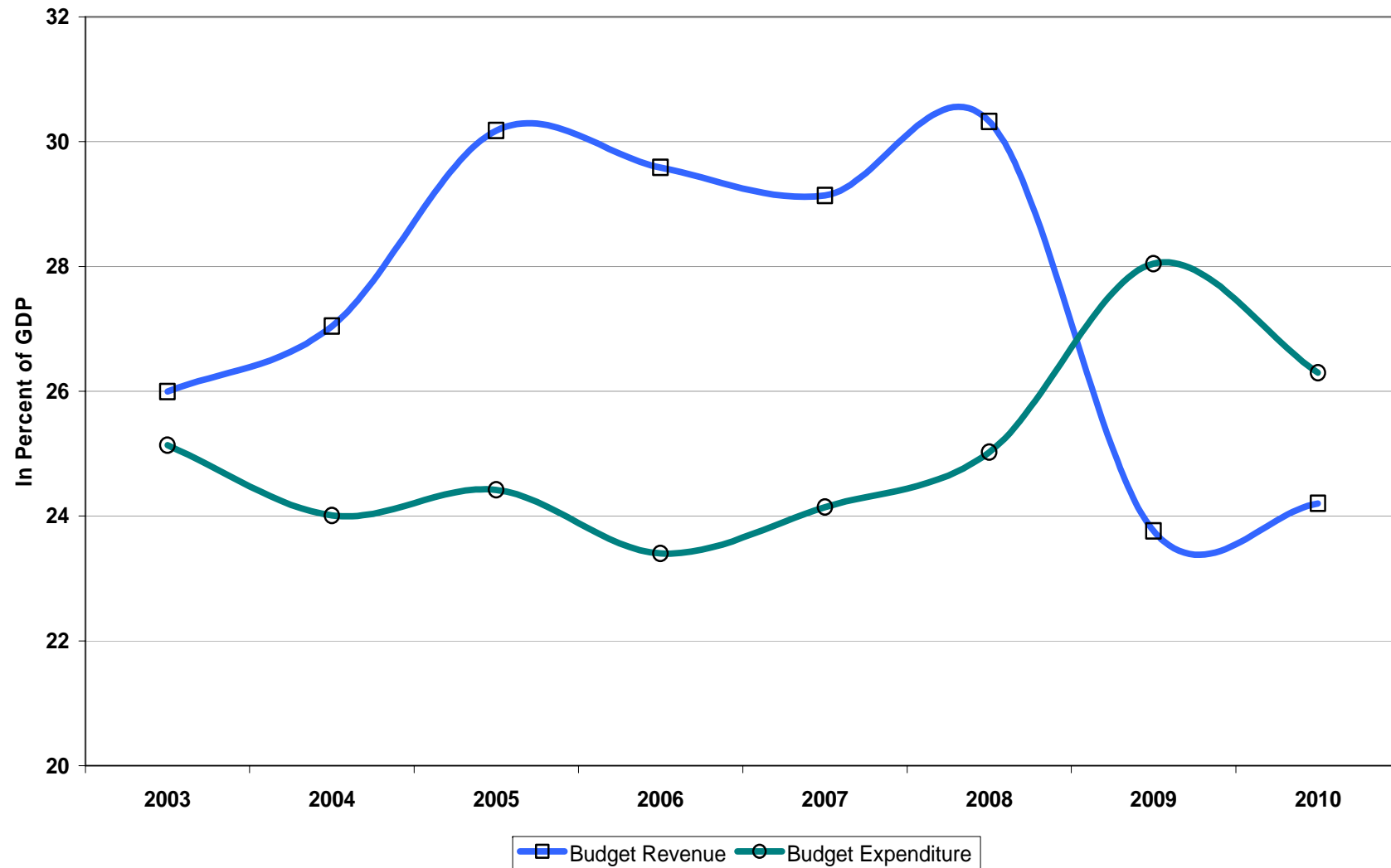


Keys to better performance

- Not following the wrong model
- Economic Diversification
- Greater transparency and public accountability for spending as well as revenues

- **Sovereign Wealth/Savings Funds help...**

Budget Revenues & Expenditures (2003-10)



- **But are not the solution...**

The Diversification Imperative

- Chile: From 1970 to 2008 mining products in total exports declined from 85 % to 59 % while manufactures in total exports increased from 12 % to 35 % => GDP growth 2009: -1.7%
- Malaysia: From 1970 to 2005 the share of manufacturing in GDP increased from 12.2 % to 35.8 % GDP growth 2009: -3.6%
- Botswana: mineral sector represents 75% of export earnings => GDP growth 2009: -12%

The Norwegian Model Misunderstood

- Oil discovery 1969
 - Savings Fund only created in 1990 and received its first inflows in 1996.
- ⇒ Norway's GDP was 35% lower than Sweden and Denmark in 1970...today it is 40% higher and its Human Development Index among the highest in the world
- Norway's priorities were to build human capacity and diversify economy
 - Investment in education and know-how
 - policies to increase the share of employed laborers in the labor force
 - Leveraged oil to build high tech and high value added industries including for hydrocarbons sector
 - Price subsidies, transfers, and tariffs to shield and support certain domestic industries
 - Parliament and public decided oil policies. Transparency paramount. Norway first OECD country to implement EITI
- ⇒ A lesson for new producers (Timor Leste, Ghana, Uganda...)

Transparency and Accountability

- Progress on Revenue Flows
 - Dual disclosure of payments/revenues by extractive companies and governments in 32 EITI implementing countries
 - Transparency of revenue streams becoming global norm
 - International Accounting Standard
 - US listing requirement
 - Companies unilaterally disclosing payments

Need Transparency of Contracting

- Concessions not granted through open, public processes
- Contract terms not disclosed
- Individuals may benefit, but not country
- Secrecy weakens oversight and compliance

Need transparency of spending

- Better public understanding of volatility issues
- Public support for more sustainable spending policies
- More legislative and public oversight of spending of resource windfalls
 - Opacity and corruption still prevalent
 - Favoritism and oligopolies hamper sound development

Natural Resource Charter

- Presents best practices along the whole value chain of resource extraction
- Directed at policy makers in resource rich countries
- Directed at extractive companies and their home governments



A Shared Global Interest in Effective, Transparent and Accountable Management of Non-renewable Commodities

A subject for the G20?

- Boom Bust Paper Series available on www.revenuewatch.org
- Natural Resource Charter available at www.naturalresourcecharter.org