Conference on the Management of Natural Resources in Sub-Saharan Africa

Opening Remarks by
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Let me start by thanking Honorable Minister Matata of the DRC for hosting this important event, and welcoming honorable ministers, ambassadors, heads of delegations, and our colleagues from civil society and the private sector. I would also like to thank the conference sponsors, without whom, our deliberations over the next day and a half would not be possible: the government of the Democratic Republic of Congo and Minister Matata for his tireless efforts in working with us; the United Kingdom's Department for International Development; the IMF's Central African Regional Technical Assistance Center (AFRITAC); and the Managing Natural Resource Wealth Topical Trust Fund, which is financed by the European Union, Norway, Australia, Switzerland, the Netherlands, Oman, and Kuwait.

Looking around this morning, as well as seeing a number of old friends, I am struck by the wide diversity of countries represented here, as well as academics, civil society members, and development partners. And of course that is not surprising, because the extraction of natural resources—oil, gas, and minerals—now plays a large role in many SSA economies. In almost half of the countries in sub-Saharan Africa, non-renewable natural resources account for over 25 percent of total exports. In some of these, the ratio is over 80 percent. And the number of countries exporting large quantities of hydrocarbons and minerals is growing by the year—Mozambique has already started exporting coal and has recently discovered natural gas deposits, Ghana recently started to extract oil, and Uganda will soon start producing oil.

But, as all of us know, such endowments can be a mixed blessing. Whether one talks of the resource curse or the paradox of plenty, the message is the same: there are massive challenges to be faced in ensuring that resource wealth contributes in a sustained and inclusive fashion to growth and higher living standards for all.

So we have a serious responsibility here today. We must use our combined knowledge to find ways to turn substantial resource assets into greater economic welfare.

First, let me mention some good news. Despite all the gloomy talk, there is increasing evidence that natural resource extraction and the commodity price boom have fostered economic growth in sub-Saharan Africa over the last decade. For every year—except 2009—natural resource exporters have grown as fast as or faster than other countries in the region. And that was not because other countries were doing badly—the region was among world leaders in growth for the whole decade.

Furthermore, data confirm that living standards, social service provision, and institutional quality are rising among resource exporters.

But we all know that in many countries these improvements come from a depressingly low base. So, as the title of this conference so clearly implies, managing natural resources in low-income countries remains a huge challenge.

- Some of these challenges involve principles of economic management—what is the appropriate fiscal deficit, are fixed but adjustable exchange rates a useful stabilization tool, should savings be held in autonomous sovereign wealth funds?
- But many challenges are more practical—how best to negotiate with international resource companies, including on appropriate tax regimes.
- Fundamentally, however, none of these issues can be faced effectively unless we address the basic challenge: how to ensure that all countries have adequate institutional capacity.

The IMF is currently devoting considerable resources into analyzing these issues: our policy departments are preparing two papers to be discussed at the IMF board over the next six months. These focus on appropriate macroeconomic policy frameworks for resource-rich low-income countries and the taxation of natural resource rents. We are pleased to have some of the staff with us today. In addition, the African Department will soon publish a book on managing oil wealth for inclusive growth in the Central Africa region, as well as a publication based on this conference. Indeed, as we will be discussing over the next two days, the macroeconomic and microeconomic challenges for natural resource exporters are both formidable and intellectually stimulating.

In the short run, one of the major tasks faced by economic policy makers is to reduce the effects of volatile resource prices on the domestic economy. If all of the windfall gains are passed through into the economy, this often results in high inflation and an over-valued real exchange rate. Exports of other products are unable to gain a foothold in the economy, leaving the economy vulnerable when the resource wealth runs out.

Fiscal policy offers some solutions. If, for instance, fiscal policy is guided by medium-term objectives rather than year-to-year swings in revenue, it can help temper the effects of volatile resource prices. Here again, the evidence of the last decade is encouraging. Whereas previously countries had tended to spend windfall gains immediately, and then were forced into savage cuts when prices or production dropped, the profiles of government spending in the last decade have been much smoother. As a result, fiscal policy in the ten resource exporters that collect sizeable fiscal revenues has not been pro-cyclical. While resource prices have moved up and down, the non mineral budget deficit has stayed fairly stable and has even moved in counter-cyclical fashion in some countries (e.g. Botswana). In consequence, the volatility in resource exporters' non-resource GDP has fallen over the past decade– an enormous improvement over the boom-bust cycles of the previous two decades.

Fiscal policy must also address long-term issues. How much of the gains from natural resource exploitation should be spent in the short term – to boost health, education, and infrastructure spending– and how much should be saved for future generations? SSA countries have massive health and education needs and large infrastructure deficits and these expenditures have been shown to raise GDP per capita considerably through stimulating higher productivity and longer life-spans. Indeed, expenditures on these categories can all be considered investments (or saving for the future) because they raise the production capacity of the economy.

Of course, the timing of these investments depends on whether the economy is in a position to put them into place without meeting domestic bottlenecks and is able to utilize them effectively. To some extent, it may be useful to bring investments forward when inflation is under control and to hold them back when growth threatens to become unsustainable. I look forward to hearing more from Professor Venables on this topic later today.

In terms of sustainability, the key issue is for these investments to be productive in the sense that they actually increase the long-term growth rate of the economy– and even return revenue to the government, for example through user fees. In this respect it is critical to develop tools and structures to assess whether public investments can earn sustainable rates of return. This issue will be addressed in today's afternoon session and I look forward to the discussion.

The final session today switches gears from macro to structural policies by asking how can we improve governance and transparency in managing natural resources? Many researchers have found a positive relation between the quality of institutions and per capita growth, underscoring the importance of institutions. We are very happy to have with us a number of think-tank representatives that will help highlight these issues and provide suggestions on how to raise the bar in this area.

Recognizing the need for good governance, many resource-rich countries in SSA have made considerable progress in the quality of their institutions over the past decade. Over half of the resource exporters have improved their World Bank Worldwide Governance Indicator ratings on rule of law and corruption and about 40 percent have improved the rating on government effectiveness. Moreover, many resource exporters have made improvements in all three institutional ratings. But this is clearly insufficient. Serious challenges confront the resource exporters, however, since the level of institutional quality among these countries remains below the level in all other countries and some health and education indicators (e.g., measles immunization and primary school enrollment) are also lagging.

Turning from a macro to a micro lens, tomorrow's sessions will cover microeconomic aspects of managing natural resources. For these sessions, we are also pleased to have experts from a wide variety of countries with us. Their hands-on experience of public/private relations and taxation issues in the resource sector will surely provide many insights. Basic themes that will be covered include the role of the public sector in managing natural resources, how risks and rewards are shared between government and private sector investors, and how to ensure that the interests of the state and multinational enterprises converge. With the ratio of government revenues to total exports in single digits in many resource-rich countries, these issues are critical. Indeed, many countries are taking another look at resource taxation, with a view to improving the revenue yield. This is welcome given the finite nature of the natural resource, the likely fall in official financing from advanced countries in coming years, and the massive social and infrastructure needs of low-income countries. In particular, many contracts do not provide African countries with significant additional revenue when prices rise, as has been the case in recent years. Creative transfer pricing (whereby investors shift profits to low-tax environments) has also been a challenge for authorities with weak tax administration. How to achieve good contracts, in which all parties – investors, governments, and other stakeholders – feel that they get a fair share, will be an important take-away from the conference. I look forward to the views of the government representatives from Guinea and representatives of the private sector and civil society on these issues.

One of the difficulties in implementing policy changes to better manage natural resources is the weak level of capacity in many LICs. With limited technical resources, it is not easy to set up appropriate resource taxation regimes, public financial management systems, and long-term saving instruments such as sovereign wealth funds. So, along with other international agencies, the IMF places a high priority on providing technical assistance in these areas. Four TA centers established by the IMF and member countries in Sub-Saharan Africa with donor support have greatly facilitated this process. Our regional technical assistance center for Central Africa, located in Libreville, has played an important role in that area in recent years and a recently-established topical trust fund on managing natural resource wealth wil allow us to further increase our assistance in this area. The trust fund, set up with contributions from a wide range of development partners, provides welcome financing for this conference.

To sum up, I look forward to two days of stimulating discussion around a very important topic. I hope that the panel discussion format will help participants to share new insights on natural resource management that can effectively be used when participants return home. Indeed, with so many new countries actively searching for and finding new mineral deposits, I hope that the findings of this conference will help them to marshal new revenues in ways that can expand their economies and consolidate and buildon the gains that have been made in living standards over the past decade.