

# Lifting the Resource Curse

How poor people can and should benefit from the revenues of extractive industries

In countries rich in minerals and hydrocarbons, it is often the case that a small number of private companies benefit from the exploitation of these resources, while public revenues are small or misused and local populations remain poor. The way to fight the 'curse' of natural resources is by sharing the benefits fairly between private and public sectors and by better allocating public budgets to improve spending on basic health care and education, tackling inequality and generating employment for poor people. Transparency and accountability are essential throughout the process, and particularly in relation to public spending plans for all levels of government. It is time for a new, fair deal for poor people in countries rich in natural resources. The current global economic crisis makes it even more urgent that this happens.

# Summary

For countries rich in minerals and hydrocarbons, such natural resources should provide an essential source of financing for development. Against all logic, however, it seems that in many cases exploitation of such resources is linked to poverty, inequality, poor public services,<sup>1</sup> and stunted economic growth.<sup>2</sup> This apparent paradox is known as the 'resource curse'.<sup>3</sup>

Some features of the extractive exploitation model help to explain this paradox. On the one hand, significant foreign investment and technology are generally required to exploit natural resources (many resource-rich countries lack these means). On the other, state revenues from the sale of such resources on international markets are very considerable compared with revenues from other productive activities. Both these circumstances, combined with little public monitoring, mean that multinational corporations, producing country governments,<sup>4</sup> and specific interest groups within producing countries tend to pursue their own interests, to the detriment of the majority.

The 'resource curse' is reinforced by a model of economic growth based on extractive activities that very frequently have negative social, environmental, financial, and institutional impacts. These are all consequences of exploitation contracts agreed between producing states and multinational corporations which are harmful to the common good. In many cases, such a model has contributed to bad public policies and low levels or bad quality of public spending in producing countries.

There is ample evidence to show that many resource-rich countries have lost golden development opportunities by agreeing to harmful contracts. Unfair contract conditions serve to explain why the Zambian government received an estimated sum of only \$6.1m (0.61 per cent of a total income of \$1bn) from Konkola Copper Mines for copper extraction in 2006–07. It was reported that net profits for Konkola Copper Mines in the same period were approximately \$301m.<sup>5</sup>

There is also strong evidence to show that producing country governments sometimes lack the right capacity and the necessary political will to manage revenues from extractive industries in a way that meets social goals and promotes development in a sustainable and efficient manner. In addition to the difficulties faced by governments in managing volatile incomes, countries rich in natural resources are particularly vulnerable to problems such as corruption, populism, patronage or political clientelism, and lack of transparency and accountability have limited the achievement of development goals.

Angola's oil revenues (which represent 80 per cent of national income) are estimated at \$10bn per year, and in recent years high oil prices have enabled the country to maintain one of the highest rates of economic growth in the world. However, ordinary Angolans have not benefited

from the oil boom: 70 per cent of the population live on less than \$2 per day.<sup>6</sup> The non-government organisation Human Rights Watch estimates that between 1997 and 2002 more than \$4bn in state oil revenues 'disappeared' from the Angolan treasury; an amount almost equal to total government spending on social services in the same period.<sup>7</sup>

This situation should, and can, change. For those countries that depend on extractives industries,<sup>8</sup> the income generated by this sector could be transformed into an opportunity if it is used properly. According to estimates by Intermón Oxfam (see Table 3, Annex 2<sup>9</sup>), countries such as Angola, Chad, Nigeria, Ecuador, and Venezuela could use hydrocarbon exports to significantly increase their public spending per capita on education and health by 2015, investing 20 per cent of estimated tax revenues in education and 16 per cent in health. Angola for example, could multiply its spending on health by a factor of between eight and ten.

Fiscal tools – taxes and public spending – are the main instruments that governments can use to improve the share of benefits accruing to the state and thus the sums available for public use. Fair systems of taxation and spending allocation policies that focus on universalising health care and improving the quality of education are necessary in countries with rich natural resources. Bolivia saw oil and gas revenues rise from \$448m in 2004 to \$1.531bn in 2006, due to the redistribution of profits agreed in contracts after 2005,<sup>10</sup> although the revenues still needed to be allocated to increase social spending. Indonesia and Norway are good examples of countries with significant revenue from natural resource extraction, where public spending is aligned coherently with long-term development goals.

Oxfam's research highlights some key factors for improving the opportunities offered by revenues from extractive industries: upgrading legal and fiscal frameworks in poor countries with natural resources; renegotiating contracts with big extractive companies; and putting in place or reinforcing public financial management systems. These systems should prioritise the use of extractive revenues for social spending, as well as for setting the foundations for the diversification of production, for job creation, and to mitigate the social and environmental impacts of exploitation.

A cornerstone of such policies should be the promotion of transparency throughout the extractive industry supply chain, from the agreement of contracts to the allocation of revenues through public budgets. The active involvement of civil society is essential to track both the origins and uses of revenues from extractive exploitation. It is also of crucial importance to have public institutions which can support this process of participation and which are efficient in their control, monitoring, and enforcement of it.

Any effort to reduce the negative impacts of extractive models must include these elements if it is to be successful in improving the living standards of poor populations in resource-rich countries.

### **Governments of countries rich in natural resources should:**

- Set legal and fiscal frameworks for the extractive industry (EI) sector in order to protect the interests of the country's people. Existing frameworks or contracts which do not meet this principle and go against the public interest must be revoked or amended, to ensure a fair deal between companies and national governments.
- Sign up to the Extractive Industries Transparency Initiative (EITI) and impose maximum transparency throughout the sector's value chain, from licensing and the award of contracts stipulating the government's share of revenues, to the point of reinvestment of such revenues in social spending. Governments should also provide forums for accountability, and promote mechanisms of checks and balances through national parliaments and civil society organisations (CSOs).
- Include civil society and community representatives in decision making about EI policy;
- Publish details of their EI revenues on a regular basis and avoid the inclusion of confidentiality clauses in new contracts;
- Detail the use of fiscal incomes from extractive industries within national and local budgets and development plans, in both the short and medium terms (i.e. for mitigating health and education or environmental impacts in exploited areas) and the long term (i.e. for productive diversification and to reconstruct sources of livelihood in exploited areas). Governments should also ensure equity criteria in the distribution of EI revenues at both national and sub-national levels, and should develop counter-cyclical management mechanisms to ensure the sustainability of public investment in the event of significant, sudden, or volatile flows.
- Establish/enact and implement appropriate regulatory mechanisms that protect affected communities and conduct independent impact assessment prior to approving EI projects;
- Establish mechanisms for communities in affected areas to participate in decision making and for protecting the right to free, prior, and informed consultation (FPIC);
- Promote agreements with tax havens included in OECD lists to automatically receive information on inflows of companies with activities within the country.

### **Governments in countries with recent natural resource discoveries:**

The production model mainly based on extractive industries can undermine pro-poor, inclusive, and socially and environmentally sustainable development. For this reason, governments in countries with recent natural resource discoveries should carefully evaluate different options and consider possible alternatives to an economy highly dependent on extractive industries, promoting a national debate among all actors likely to be involved or affected. This debate, prior to the decision on the exploitation of the resources, should include at a

minimum:

### ***Analysis of benefits vs. real costs***

- Study the likely social impacts (displacement of populations, destruction of livelihood resources) and environmental impacts in the areas to be exploited;
- Analyse the possible impacts of the distribution of revenues among different regions, anticipating problems and establishing redistribution norms before projects begin;
- Identify 'no-go' areas – zones that are established as being of environmental and/or cultural importance for the nation.

### ***Analysis of control mechanisms on the 'resource curse'***

- Evaluate the quality and the capacity of public financial management systems to plan and manage incomes from extractive industries (which are usually volatile and difficult to estimate with accuracy), undertaking necessary improvements before initiating the process;
- Evaluate the quality and capacity of institutional and regulatory mechanisms for the control of corruption, clientelism, and opportunism in both the public and private spheres and throughout the entire chain of the extractive business, at both the national and local levels;
- Evaluate the degree of responsibility of non-government actors (civil society, media, and others) in monitoring both the generation and exploitation of public resources obtained from extractive industries, especially at the local level.

### ***Analysis of opportunities***

- Assess the level of public and private resources that could be used in other areas of development and their potential to generate employment in more sustainable ways;
- Assess the possibility of integrating extractive projects into a wider development strategy at the national and local levels.

### ***Civil society organisations should:***

- Reclaim their key role of defending the public interest in the planning, management, and use of EI revenues;
- Demand transparency and the setting up of forums to ensure government accountability in respect of extractive revenue spending and to monitor private sector behaviour during exploration and exploitation projects. In this context, a role for civil society is to ensure governments are meeting the Millennium Development Goals.
- Strengthen alliances between CSOs monitoring EI revenues, those working on budget tracking, and other actors involved, such as national parliaments, progressive private investors, and international NGOs;
- Build their capacity to monitor and influence the EI value chain, as

well as to monitor and control tax evasion and potentially corrupt practices. A number of non-government organisations (Publish What You Pay, the Revenue Watch Institute, the International Budget Project) and donors as UK Department for International Development (DFID), Norwegian Agency for Development Cooperation (NORAD), the World Bank and the EITI (multi-donor fund) are willing to support CSOs in such areas.

### **OECD countries and international donors should:**

- Promote transparency throughout the EI sector and, in particular, advocate for transparency in agreements between multinational companies and governments of resource-rich countries;
- Promote mandatory disclosure regulations for companies listing shares on stock exchanges in OECD countries – for example, the Extractive Industries Transparency legislation in the USA (the proposed ‘American Law’);<sup>11</sup>
- Establish and apply transparency and corporate responsibility criteria for the companies they support through their export credit agencies (ECAs). They must demand that such companies comply with the highest international standards in the social, humanitarian, and environmental spheres;<sup>12</sup> respect and adhere to OECD guidelines and UN standards for multinational companies, as well as the OECD Anti-Bribery Convention and the UN Convention against Corruption; and consider the possible proposal of an OECD convention on transparency and reporting for multinational companies. ECAs should have in place policies requiring FPIC, disclosure of payments and contracts, independent monitoring of projects, and assurance of minimum governance conditions before financing projects.
- Encourage and support governments of resource-rich countries to use EI revenues to achieve the Millennium Development Goals (MDGs) and for productive diversification. Support with ODA (Official Development Assistance) to partner countries that ratify the EITI; establish fair legal and tax frameworks; fight corruption; and show commitment to improve public financial systems and to promote a system of checks and balances through formal and informal mechanisms (parliaments and CSOs). Donors must support programmes to improve capacity to manage public resources, for example, as the principles of the Paris Declaration establish for ODA funds.<sup>13</sup>
- Support programmes to strengthen the capacity of governments to monitor existing contracts and to collect taxes in an effective way;
- Support national parliaments and CSOs working at local, national, or international levels to promote sound management of EI revenues as part of a true EITI implementation;
- Promote a minimum level of taxation on all extractives industries that guarantees that countries keep for the future of their citizens a major share of the benefits obtained;
- Promote and support a national debate to analyse impacts before

embarking on extractive projects in non-dependent countries.

### **The private sector should:**

- Comply with the highest international standards in the social, humanitarian, and environmental spheres. It should welcome and apply OECD guidelines and UN standards for multinational companies, as well as the OECD Anti-Bribery Convention and the United Nations Convention against Corruption, and possible new conventions/initiatives on transparency and accountability that may be put in place.
- Agree to apply transparency in contract negotiations. Renounce the inclusion of confidentiality clauses in contracts;
- Accept fair terms of agreement, instead of taking advantage of their own negotiating capacity with fragile states to ensure they benefit disproportionately and unfairly;
- Publish their payments for access to resources on an individual, country-by-country, project-by-project basis and implement transparent contractual and licensing arrangements;
- Demonstrate commitment to human rights and sustainable development principles and maintain a respectful dialogue with communities. In line with this, undertake human rights and environmental impact assessments and establish complaints and reparation mechanisms;
- Disclose meaningful information about EI impacts and benefits, apply mitigation measures, and compensate adequately communities that are physically and economically affected.

### **International financial institutions:**

- The World Bank should support the development of strategies aimed at gradually reducing the economic dependence of developing countries on extractive industries. It should further develop policy measures regarding common requirements for such countries, in order to ensure that national resources are properly targeted towards sustainable social investment.
- The World Bank and the IMF should promote policies conducive to achieving the MDGs, including through fair taxes on extractive industries and improved public management.
- The World Bank and the IMF should not accept extractive projects as 'the model of development' and should only encourage and support poor countries' extractive projects if there is clear evidence for a positive and sustainable impact on poverty alleviation and no relevant environmental damages.
- The World Bank should make poverty reduction a priority over the interests of producing countries, large corporations and developed countries when dealing with potential conflicts of interest which may arise in future.
- Regional development banks should establish payment disclosure mechanisms for projects, as the International Finance Corporation

(IFC) currently does.

- IFIs should have in place policies requiring FPIC, disclosure of payments and contracts, independent monitoring of projects, and the assurance of minimum governance conditions before financing projects.

#### **Other institutions:**

- Regional economic blocks could have a key role to play in ensuring fair deals for individual countries, providing negotiating strength.
- In particular, Pan African institutions like the African Union Commission and the Pan African Parliament can play a relevant role in terms of accountability through peer-review mechanisms, helping to ensure that national governments are held accountable.

# 1 Introduction

## Box 1: Extracting the benefits

People in Nicaragua are divided in their opinions regarding the consequences to the country of the discovery of oil in exploitable quantities. Rosario Salazar, a food seller in the capital Managua, believes that oil can be positive, provided foreign companies do not take it all for themselves, leaving the country with nothing.

In the opinion of Cristaldo, another interviewee, 'When the price of oil is high, governments tend to spend it all and fall into debt, without keeping any reserves for when prices drop again; and they spend the money on inflating government structures ... building unnecessary public infrastructures or "white elephants"'.<sup>14</sup>

Source: Oil Watch Mesoamérica<sup>14</sup>

In 2006, the Overseas Development Institute (ODI) carried out research indicating that at least eight African oil-producing countries (Nigeria, Equatorial Guinea, Sudan, Angola, Congo-Brazzaville, Gabon, Chad, and Cameroon) could together generate oil revenues which, when added to projected public spending and household contributions, would provide enough financial resources to reach their development objectives.<sup>15</sup> According to estimates by Intermón Oxfam (see Table 3, Annex 2<sup>16</sup>), countries such as Angola, Chad, Nigeria, Ecuador, and Venezuela could use hydrocarbon exports to significantly increase their public spending per capita on education and health by 2015, investing 20 per cent of estimated tax revenues in education and 16 per cent in health. Angola could multiply its spending on health by a factor of between eight and ten; Nigeria could multiply its health spending by a factor of 2.5 or three. Chad could more than double its investment in education, while Venezuela could treble its education spending.

Minerals and hydrocarbons represent a real opportunity as a complementary source of financing for achieving the development objectives of many countries. Using extractive revenues to produce teachers, midwives, medicines, quality clean water supplies, and sanitation should be a priority task. However, the reality in many countries rich in resources such as oil, gas, or minerals is very different.

This report analyses the main negative impacts on social, environmental, economic, and institutional conditions of a high dependence on hydrocarbons and minerals; the unfair distribution of profits between private companies and governments; and the poor targeting of public spending in these natural resource-rich countries. It proposes policies and measures to bring about the changes that are needed to raise transparency standards throughout the extractive industries value chain, and to make accountability possible as a cross-cutting and complementary element of every improvement. This report builds on previous research and campaigning work carried out by Oxfam International affiliates and counterparts.

## 2 The extractive model: a burden on people, nature, institutions, and development

Natural wealth in highly-valued raw materials such as oil, gas, diamonds, gold, copper, or coltan, which should boost economic development and reduce poverty, has in fact in many countries given rise to poverty, inequality, weakened public services, and stunted economic growth. This is known as the 'resource curse' or the 'paradox of plenty'. The phenomenon cannot be explained solely by the abundance of natural resources. It is essentially due to the links between excessive economic dependence and the policies related to the sharing of profits, and the social and environmental costs involved in the exploitation of such resources.

A country is economically dependent on oil or minerals – the extractive industries – when its main source of public revenue is the sale of raw materials on international markets.<sup>17</sup> A significant input of foreign investment and technology is usually required to exploit such resources, and investment on this scale is only available through powerful multinational companies.

Very large revenues from exports of natural resources, under a model that is dependent on such industries, could be said to damage the institutional environment and distort the state's priorities,<sup>18</sup> adversely affecting equitable development and sustainable and responsible exploitation of resources. Added to this are the macro-economic problems resulting from irregular flows of public revenues, which hinder development in other sectors of the economy.<sup>19</sup>

### A threat for indigenous and rural communities

'Mining investment in Ghana had displaced thousands of community people and Goldfield Ghana Limited displaced more than 30,000 farmers in five years, whilst Newmont would be displacing about 20,000 farmers in its first and second phases in the Ahafo open-pit cyanide processing gold mine alone.'<sup>20</sup> In 2008–09, Oxfam and partners were campaigning against mining in one of the most important forest reserves of West Africa (the Akyem forest reserve in Ghana), where Newmont has been granted a licence to mine.<sup>21</sup>

Irresponsible exploitation of minerals or hydrocarbons can result in displacement, epidemics, and hunger for affected populations. In some extreme cases, conflicts have been provoked by the urge to control such wealth.

In other cases, corporations and governments have forced entire communities to leave their ancestral land without prior consultation.

Poor rural and indigenous populations are not usually equipped to stand up to such projects or to enforce their rights. Such communities are, moreover, highly dependent on local natural resources for their survival and to maintain their traditions and livelihoods.

Unfortunately, these communities usually lack education services and live in remote areas with little access to the justice system, which limits their ability to access decision makers, to understand decision making processes, to formulate appropriate inputs, and to fully claim their rights.

Since 2008, indigenous communities living in virgin forest on the border between Peru and Ecuador have had their survival put at risk by the Peruvian government's decision to begin oil extraction in previously protected forest areas.<sup>22</sup> Actions of this nature are in direct violation of the United Nations Declaration on the Rights of Indigenous Peoples of September 2007<sup>23</sup> and of International Labour Organization Convention 169.

## Environmental impact

The adverse effects of extractive industries on the environment are many and diverse. The intensive use of hydrocarbons as a source of energy is one of the main drivers of climate change. At a micro level, extractive industries pollute rivers and water sources, and offshore activities can affect the biodiversity of the ocean floor. The clearing of large tracts of forest for the extraction of minerals or hydrocarbons triggers erosion. The quality of the land can also be affected due to drainage of acidic residues from mines, which are usually difficult to get rid of.

In 2003, a class action lawsuit was brought against Texaco Petroleum Company (now a Chevron Corp subsidiary) in Ecuador, alleging severe environmental contamination of land and water in areas where Texaco Petroleum Company had conducted its oil extraction activities from 1960 to 1992. The plaintiffs said that the contamination caused maladies ranging from rashes to deformities in children and cancer. In early 2008, an independent expert recommended to the court that Chevron should pay \$7-\$16 billion in compensation for the pollution,<sup>24</sup> and the estimate is now around \$27 billion.<sup>25</sup> The company has denied the allegations on the basis of having paid \$40 million for clean up. Moreover, the company blames the state company for much of the pollution, and denies the independence of the expert.<sup>26</sup> At the time of writing, the trial is ongoing.

## A dependent economy

Economic growth in countries which rely on natural resources such as minerals and hydrocarbons is lower than in other countries: GDP growth for the period between 1982 and 2006 was greater in non-oil exporting countries (1.58 per cent as opposed to 0.72 per cent).<sup>27</sup>

Low economic growth rates are linked to the high volatility of extractive industry revenues,<sup>28</sup> the complexity involved in adequately managing or absorbing such revenues, and the barriers they create to the development of other productive sectors such as agriculture and manufacturing. All this means that economic growth is not 'pro-poor', that is, it does not create job opportunities for unskilled workers.

As a result, revenues from natural resources do not always meet criteria for sustained economic growth over time, nor allow the design of consistent long-term policies targeted at development. Figure 1 in Annex 1 illustrates how economic growth in OPEC countries shows a positive correlation to the price of oil on the international market. Figure 2 in Annex 1 indicates that such growth is highly volatile over time.

Sudden and variable revenues from the sale of oil and minerals on international markets carry serious macro-economic risks for exporting countries, as such revenues are difficult to absorb and manage adequately. One of the better-known risks of oil and mineral exports is the sudden appreciation in exchange rates of local currencies, the so-called 'Dutch disease'. The flow of foreign currency leads to a higher valuation of the local currency, thus pushing up costs in other economic sectors. If such sectors have an export potential, their competitiveness on the international market will be challenged, as will employment opportunities. At the same time, excessive valuation of a local currency will boost imports to the detriment of local production, which will be more expensive in relative terms.

Oil, gas, and mining industries are not themselves pro-poor, since they typically employ few unskilled workers, and the skilled workers they do employ usually come from abroad. Manufacturing and agriculture, by contrast, are more pro-poor, since they tend to produce more low-skilled jobs than the petroleum industry. In Algeria, for example, the hydrocarbons sector represents 46 per cent of the country's GDP, but employs only two per cent of its total workforce, a pattern that is repeated in many other countries (see Table 1, Annex 1).

Moreover, the mining and hydrocarbons industries tend to work in isolation from other economic sectors. This has several implications:

- Production is not linked to other economic sectors. Raw materials and technology are sourced via the international market and the resulting products are exported, with the result that there is no participation of the domestic market. In extreme cases, petroleum can be pumped from offshore platforms into waiting oil tankers, allowing it to leave a country without even touching its soil.<sup>29</sup>
- Being more dynamic than other sectors, extractive industries give rise to a 'resource movement effect', absorbing a large proportion of available resources (investment and technology, but not employment, as these sectors are capital-intensive) and leaving other sectors devoid of capital.

## Weakening of institutions and democracy

The extractive model of production can negatively influence the behaviour both of development actors and of elites.<sup>30</sup> This may happen due to the concentration of the means of production in certain regions or in the hands of a few investors; the high value assigned to natural resources in the international market; or the degree of economic dependency that leads to predatory as opposed to productive behaviour. Resources are therefore drawn away from economic activities that are more pro-poor, and economic growth is also affected negatively.<sup>31</sup>

Institutions built around these resources tend to be weak.<sup>32</sup> Institutions establish the rules of the game through formal agreements (laws, decrees, contracts) and informal agreements (customs, social norms) that regulate a country's economic, political, and social activity or the way in which development actors or elites interact. Poor-quality institutions intensify the risks of political clientelism or patronage,<sup>33</sup> corruption (rent seeking),<sup>34</sup> populism,<sup>35</sup> and low levels of tax collection.<sup>36</sup>

If a parliament is co-opted by partisan interests, the government has increased opportunities for favouring specific groups in society through budget allocations in exchange for greater political power.<sup>37</sup> The private sector may act to further its own interests, if the contracts that regulate its behaviour are lax.<sup>38</sup>

If citizens in these states become accustomed to the fact that wealth is the result of neither work nor productive efforts, but of contacts within government or with those who administer the distribution of this non-wage revenue, they will have less incentive to educate or train themselves.<sup>39</sup> At the same time, governments will invest less in the country's citizens, realising that they do not need to rely on them to collect public resources through taxes.

The concentration of economic and political power in the hands of an elite consolidates its influence on the distribution of wealth once it is in power, thus securing its members' hold on power. Greater concentration of economic and political power implies fewer incentives for investing in sectors considered to be less profitable or to have more diffuse expected benefits. This can lead to permanently high levels of inequality,<sup>40</sup> weak democracy, and political instability, all of which hinder economic growth.<sup>41</sup>

## The extractive model: an opportunity?

Excessive economic dependence of some countries on extractive industries, even under a good macro administration, can undermine development that is pro-poor and inclusive, stable and sustainable, as the example of Botswana shows.

Botswana has high unemployment rates and high levels of inequality, despite spectacular growth rates in the past few years, thanks to diamond mining (Botswana has sustained the world's highest growth and dependence rates on diamonds over the past 35 years<sup>42</sup>). Botswana achieved a proper management of public finances; intensive and sustained public investment in infrastructure, education, and health services; and a proper distribution of revenues between the state and the private sector.<sup>43</sup> But according to UNDP, its Gini co-efficient in 2006 was 0.6,<sup>44</sup> and indigenous groups still lack services and opportunities.<sup>45</sup> This ongoing problem seems to be exacerbated by its high dependence on mineral extraction.

Multinational companies and institutions such as the World Bank have directly and indirectly promoted the single-export model in many resource-rich countries. It is estimated that more than 100 countries have reformed their hydrocarbon and/or mining sectors over the past two decades under the guidance of World Bank and/or International Monetary Fund (IMF) programmes. Furthermore, the World Bank Group provides on average over \$1bn annually to extractive industries worldwide.<sup>46</sup>

For producing countries, diversification means a breaking down of power monopolies and the setting of higher taxes. In reality, the lack of diversification is as much an issue of a lack of political will for change, as it is a financial issue. The real possibilities of reducing dependence will rely on a combination of factors in each particular case: the economic potential of the resources (reserves, exploitation capacity, price); real possibilities for development of other economic sectors (productive structures, human capital, external factors such as customs duty on value-added or agricultural exports, or the reduction of economic incentives for processing minerals in the country of origin due to a decrease in transport costs); and a consideration of the total costs to the country of exploitation (environment, social unrest).

However, there is rarely a clear, detailed, and open strategy through which to channel growth and extractive revenues as part of a wider agenda that will allow increased revenue and employment<sup>47</sup> and improved education and health indicators. Such information is not contained, for example, in the World Bank's Country Assistance Strategy (CAS),<sup>48</sup> the Poverty Reduction Strategy Papers (PRSPs),<sup>49</sup> or the documents produced for specific mining projects financed by the International Finance Corporation (IFC<sup>50</sup>).<sup>51</sup>

This gap could today become an opportunity. It is necessary to clarify the role that such revenues could play in both the short and long terms in a strategy aimed at driving development and poverty reduction, in order to set the stage for alleviating the effects of the resource curse on both people and the environment. Such a strategy should concentrate first on fiscal policy: there is a need for fairer fiscal frameworks and improved public spending policies in producing countries.

In the same way, a comprehensive assessment of the actual advantages of engaging in hydrocarbon and mineral projects should be carried out

in countries that are not currently economically dependent on these resources, but which nurture expectations as a result of recent discoveries of gas, oil, or minerals – as is the case, for example, in Mauritania, Mali, Ghana, Cambodia, Chad, Uganda, and Mozambique. Other countries in the same situation, such as El Salvador, Honduras, or Guatemala, have shown great caution in the past few years, fundamentally due to the clear resistance shown by indigenous or rural communities to the exploitation of mineral resources in areas of potential extractive activity.

A thorough evaluation prior to the development of hydrocarbon or mineral projects should, as a minimum, be the product of a national debate in the potential producing country among all the actors that are likely to be involved or affected. This evaluation should include a calculation of the actual benefits that can be expected after deducting the potential costs (particularly local costs); an analysis of control mechanisms on the resource curse (i.e. macro-economic and institutional); a clear assessment of the environmental effects (biodiversity affected, versus carbon emissions); and an exhaustive analysis of the costs of investing public and private resources and effort in extractive projects, at the expense of other sectors of activity that could generate more employment and could represent a real productive force for the country in the medium and long terms.

### 3 Unfair distribution of extractive industry revenues

When minerals, oil, and gas are extracted, often only a minor part of the benefit goes to poor populations. This aspect of the resource curse can be reduced, and even reversed, if the right measures are put in place.

The first condition that must be met in order for extractive industry revenues to be used for funding development plans is that the producing countries should actually receive a large proportion of such revenues. Unfair negotiating processes between weak countries and powerful multinational companies frequently result in contracts with highly damaging revenue distribution agreements,<sup>52</sup> which jeopardise the future of poor countries.<sup>53</sup> Especially in the mining sector, countries have been forced to compete with each other in a 'race to the bottom' on issues such as royalties and social and environmental safeguards. Oxfam's work through the West Africa mining convention is designed to address this, so that there are regional/international tax 'floors' that guarantee a minimum income to national governments from their extractive activities. Although this situation occurs mainly in the mining sector, it is often also the case with hydrocarbons.

An Intermón Oxfam report provides evidence that distribution of oil wealth in Latin America during the 1990s clearly favoured the private sector.<sup>54</sup> Having analysed several oil and extractive block contracts, the report calculated that Repsol-YPF's<sup>55</sup> profits in the period covered were 'extraordinary', and to the detriment of some of the poorest economies in the region.<sup>56</sup> In Peru, the *extra* profits (above 25% returns on investment) obtained by the Spanish multinational in the two extractive blocks analysed could have amounted to as much as \$97m – enough to cover the cost of educating 1,077,000 children or the health costs of more than two million Peruvians in 2005.

Konkola Copper Mines in Zambia operated for years under a government contract which fixed an estimated royalty payment of 0.6 per cent for the exploitation of the country's copper reserves, an amount condemned by Christian Aid in 2006.<sup>57</sup> These contractual conditions explain why, in 2006–07, the Zambian government received only an estimated sum of \$6.1m (0.6 per cent of a total income of \$1bn) from Konkola Copper Mines, while in the same year Konkola Copper Mines is reported to have obtained net profits of more than \$301m. Christian Aid's report states that net private profits are higher than the investment in health and social protection in 2006 for the whole country. In that same year, Zambia had the lowest Human Development Index rating in the world, with 68 per cent of the population surviving on less than \$1 a day and a life expectancy of 37 years.

At the end of 2008, the Zambian government approved measures for implementation in the country's national budget in January 2009: the renegotiation of contracts with copper companies and fiscal reform to include an increase in royalties from 0.6 per cent to 3 per cent and an

increase in direct taxes from 25 per cent to 30 per cent, as well as the introduction of a windfall profit tax on copper and other minerals. It is estimated that these measures could generate a total of \$415m in new revenues, for a national budget of close to \$3.7bn<sup>58</sup> (education and health expenses in 2004 were \$293.7m).<sup>59</sup> According to recent reports, however, the Zambian government could be forced to reverse some of these measures in the light of threats from the companies involved to delay projects and cut jobs, as they claim the introduction of a new tax is unfair in the context of the current economic crisis and low mineral prices.<sup>60</sup>

Unfortunately, of course, legal and fiscal reforms developed in the public interest will not necessarily please investors and private corporations. But modifying legal frameworks, developing tougher fiscal policies, and renegotiating contracts are legitimate measures that are sometimes necessary in order to address new financial, political, and social contexts. In the UK in 2005, for example, increases in the price of oil meant that return on investment for companies working in the North Sea leapt to 40 per cent, from a previous average of 13 per cent. As a result, Gordon Brown (then UK Chancellor of the Exchequer) did not hesitate to increase a supplementary tax on North Sea oil extraction from 10 per cent to 20 per cent.<sup>61</sup> British citizens and representatives no doubt approved of this measure, which sought to secure the benefits of the new price scenario for the Treasury and not only for the extraction companies. It is very difficult, however, for developing countries to introduce favourable changes in negotiations with extractive corporations, and the current global economic crisis could make things even more difficult.

Multinational extractive corporations often receive the backing of international institutions and their own governments in negotiations, as is shown in the case of Bolivia (see Box 2). By contrast, citizen representatives of the producer countries (such as parliaments or civil society organisations) are rarely adequately consulted about how resources are to be extracted or revenues shared. Responsible investors, both public and private, who take into account the rights and interests of developing country citizens in their cost-benefit analysis are also few and far between. The technical complexity of production, the plethora of legal and fiscal frameworks, and the usual lack of transparency along the value chain are additional barriers to guaranteeing a fair deal between companies and citizens.

The systems for sharing extractive industry profits between companies and governments are many and diverse, with different legal frameworks, fiscal regulations, and agreements applied around the world: for example, exploitation contracts, licence fees, royalties, tax on profits, production sharing contracts, joint ventures, and consortiums for extraction by companies. Different fiscal regimes may apply to different companies within the same country; a company may even have several agreements with different departments or different levels of government. These elements negatively affect the limited capacity of producing country governments and civil society to monitor existing contracts and to effectively collect agreed taxes.

In 2006, Oxfam America carried out research to determine what percentage of profits from gold mining in Mali found their way back to the communities affected by mining activities. Researchers found that: 'Six laws and regulations resulted in a complex set of taxes, fees and license charges that are effectively incomprehensible to those without some technical background [...] and nearly impossible for citizens to get clear and complete information about revenues and how they are spent to benefit the public [...] Officials who were interviewed [...] did not always know what the law said about the proportions of the various taxes that they should be receiving in their budgets.'<sup>62</sup>

In Nigeria, an independent audit on extractive sector management for the period 1999–2004 carried out by the Hart Group identified discrepancies between the level of reserves in the country, the volume of oil exported, and the amount extracted from the oilfields.<sup>63</sup> A spokesperson for the sector recently declared: 'We know how much the industry sells, but we don't know how much they produce [...] there is a dark hole between the oil field and the terminal.'<sup>64</sup> Nigeria relies on oil revenues for more than 80 per cent of its national budget, yet the government is unable to determine the amount of oil extracted in the country.<sup>65</sup>

In its *Guide on Resource Revenue Transparency*<sup>66</sup> the IMF advocates in favour of public disclosure of extractive agreements as a basic step towards developing a proper legal framework for the extractive sector. In practice, however, some governments, and most of the extractive industries themselves, are still very reluctant to do this, alleging agreed confidentiality clauses or possible damage to the sector due to loss of comparative advantage.

All of these factors make the extractive industry an excellent breeding ground for corruption, if institutions let this happen. Corrupt governments betray the interests of their citizens by selling off their resources to transnational companies or by mismanaging revenues (either by investing in the wrong priorities or simply by pocketing the profits). On the other hand, unscrupulous business practices allow companies to benefit from unfair distribution of business; encourage poor standards in fiscal systems and damage to the regulatory environment; evade taxes; or directly promote corruption. In 2003, Halliburton (a service provider to the oil industry) admitted that its subsidiary Kellogg, Brown and Root (KBR) had bribed Nigerian public officials to obtain tax benefits. Halliburton admitted to 'improper payments of approximately \$2.4m'.<sup>67</sup>

## Box 2: Bolivia and the recovery of hydrocarbons

Bolivia has for centuries relied on its natural resources: gold and tin in the past, and currently mainly hydrocarbons. Gas and oil are the country's primary sources of wealth, and the management of these is therefore crucial to its development. Despite this, successive governments have given priority to the export of hydrocarbons over the need to satisfy domestic energy demands. In the 1980s, Bolivia adopted neoliberal practices and gradually privatised the exploration, extraction, and marketing of hydrocarbons. The national company Yacimientos Petrolíferos Fiscales de Bolivia (YPFB), which until then fed back its profits to the national budget, was asset-stripped and dismantled in 1996, at a time when measures to attract foreign investment were intensified.

Under one such measure, the royalty on extraction activities that companies were obliged to pay to the state was set at only 18 per cent. The result was years of enormous profits for companies and low returns for the Bolivian people, who could only watch as the country's wealth was stripped away. The state granted ownership of hydrocarbons at the wellhead to the extraction companies; an action which contravened Bolivian law and ignored the constitutional requirement for mandatory consultation in the National Congress.

Given these highly profitable conditions, and despite the illegality of the situation, new reserves were discovered, the number of contracts rocketed, and revenues from hydrocarbons soared. But Bolivia's people hardly noticed the difference. The meagre percentage of profits retained was compounded by an income distribution system which entrenched inequality: of every \$18 in revenue, \$11 was allocated to producing provinces, \$1 as compensation to poorer provinces, and a mere \$6 to the national budget. Thus only provinces already rich in resources benefited from the system.

In 2003, following a long and risky process of research, a number of Bolivian activists gained access to some of the illegal contracts and launched a campaign under the slogan 'Hydrocarbons are no longer ours' – as the secret contracts included a clause that stated that oil and gas were the property of the private companies, once they were out of the wellhead. The campaign publicly condemned the manner in which the government gave away the rights of its citizens and raised public awareness of the fact that the country's wealth, and therefore its potential for development, had been compromised.

The management of oil and gas thus became a central focus of political and social upheaval in Bolivia. Following violent repression during the so-called 'Gas Wars', Bolivian president Sánchez de Lozada (who was responsible for most of the illegal contracts) was forced to resign. In 2004, Bolivians voted in a referendum on new regulations for the distribution of hydrocarbon revenues, with 92 per cent of the population in favour of 'the Bolivian State recovering ownership over all hydrocarbons at the wellhead'.<sup>68</sup> The previous split of 82 per cent of oil revenues for the companies and 18 per cent for the state became a 50–50 share with the enactment of a 32 per cent Direct Hydrocarbons Tax (IDH). The country's largest gas fields saw a reversal in shares, with 82 per cent for the government and 18 per cent for the companies. These measures (which were provisional, pending the nationalisation decree of 1 May 2006), together with the renegotiation of all illegal contracts, represented an overall distribution of hydrocarbon revenues of between 55 per cent and 75 per cent for the state, and between 45 per cent and 25 per cent for companies in the period 2005–07.<sup>69</sup>

The 2005 measures defined spending priorities for IDH revenues: 'education, health, productive development and employment generation'. Revenues were to be shared between the central government, local authorities, and provincial governments.

In 2006, the Bolivian government began a process of negotiation with the extractive industries in a process dubbed 'nationalisation without expropriation', which resulted in new contracts being approved through the National Congress in 2007. Pursuant to these new agreements, the state recovered ownership of hydrocarbons at the wellhead, with extractive companies becoming service providers. The state is now responsible for the marketing of hydrocarbons, and the law gives priority to supplying the domestic market. Despite difficult negotiations and protests from foreign companies and governments, the majority of them have signed the new contracts and extraction activities have continued as normal. As a result, Bolivia's public income from oil and gas increased from \$448m in 2004 to \$1.53bn in 2006, accounting for 34 per cent of all public income in the year (up from 8 per cent in 1997).

It is still too early to judge whether there has in fact been an increase in investment in priority sectors, over and above a proportional increase due to increased revenues.<sup>70</sup> Bolivia still has many challenges ahead: increasing transparency in the allocation of new hydrocarbon revenues to reflect priority for spending on basic social services, and solving the problem of regressive taxation in favour of producing provinces, for example, are essential measures in ensuring that exploitation of resources promotes the country's development.<sup>71</sup>

Sources: Oxfam International in Bolivia, CEDLA, CEADDESC, Jubileo Perú, UNDP, and interviews with national experts carried out by Jaime Atienza.

## 4 Using revenues for development

Ensuring sufficient and sustainable funding of basic social services is one of the main responsibilities of developing country governments. Some countries at the lower end of the Human Development Index paradoxically have immense public resources that come from the economic exploitation of natural resources (see Table 2 in Annex 1). Angola's history has been a paradigm of the resource curse in this sense. The country's oil revenues (which represent 80 per cent of public income) are estimated at \$10bn per year, and oil prices have helped to sustain one of the highest rates of economic growth in the world. But ordinary Angolans do not seem to have benefited from the oil boom: 70 per cent of the population lives on less than \$2 per day. The non-government organisation Human Rights Watch estimates that between 1997 and 2002 more than \$4bn of state oil revenues 'disappeared' from the Angolan treasury, an amount almost equal to total government spending on social services over the same period.<sup>72</sup>

Conversely, the successful experiences of oil-dependent countries such as Indonesia (see Box 3) or Norway have one element in common: the appropriate use of tax revenues. Indonesia has used its oil revenues to target reinvestment in measures that would mitigate dependence, and Norway has made sustainable use of its resources by setting up a 'future generations' fund.

### Box 3: Political will for change in Indonesia

Like Nigeria, Indonesia received large windfalls of oil revenue from the late 1960s to the late 1970s, and both countries squandered much of it on patronage and money-losing public investments. The key difference between the two countries, however, was the Indonesian government's stronger commitment to developing the non-oil sector – particularly by promoting manufactured exports and supporting agricultural development.<sup>73</sup> The Indonesian economy became more diverse in the first decade of President Suharto's New Order government and continued to diversify after the oil boom of the 1970s and the bust of the 1980s.

Indonesia and Nigeria produced, on average, the same amounts of oil during the 1980s (both accounting for approximately 7 per cent of the total production of OPEC countries<sup>74</sup>). The two countries, however, had a totally different export structure. Indonesia's exports of manufactured products rose from 1.2 per cent of total exports to 54.4 per cent in 1999 (almost double the proportion of oil). Nigeria, however, continued to depend on crude oil, with exports of the commodity representing 41 per cent of the country's total exports in 1999.<sup>75</sup>

The success of Indonesia's manufacturing sector came about through decades of steady growth, nurtured by a stable environment of fiscal, monetary, exchange rate, and trade policies. More important, however, was the fact that Indonesia's support for the agricultural sector included strong public investments and the adoption of 'green revolution' technologies. Since most of Indonesia's poor people rely on agriculture for their subsistence, support for agriculture was a highly effective pro-poor strategy. From 1962 to 1984, real value added per agricultural worker rose by over 65 per cent in Indonesia; in Nigeria, it dropped by about 15 per cent.

Between 1974 and 1979 the government of Indonesia saved approximately one-third of its total oil revenues. Of income injected into the economy, some 25 per cent was targeted towards infrastructure, mainly in rural areas, and a third was used to stimulate manufacturing.<sup>76</sup>

Although the volatility of revenues from natural resources in Indonesia did create important economic incentives for reducing dependence on natural resources, the degree of popular opposition to powerful elites also shaped political incentives for diversification.<sup>77</sup>

Sources: Ross (2001b), Dunning 2005, EIA (Energy International Administration), UNCTAD, Auty (2004).

## Restrictions for a good spending policy

As was pointed out in section one, and as the case of Nigeria shows (Box 4), resource-rich developing countries usually face significant external pressure (threats), internal pressure (weaknesses), and negative incentives through their reliance on extractive industries, none of which are conducive to achieving good-quality public policies and all of which compound poor-quality social outcomes.

### Box 4: Poor public spending policies in Nigeria

*'For a primary health-care centre to be able to provide assistance to a pregnant woman, the most important thing is to have a competent midwife in there. Can Nigeria not afford it?'*

Bede Ezeifule, director of the Nigerian Centre for the Right to Health, poses this question indignantly on the day that the Nigerian press wakes the nation to a spectacular headline: the former Health Minister is to be prosecuted for authorising the 'allocation' of almost \$2.58m (300 million Nairas) of 'unspent' funds from the 2007 health budget.<sup>78</sup>

According to official figures,<sup>79</sup> Nigeria has one health worker per 16,311 inhabitants (compared with the WHO recommendation of one per 400). According to Oxfam's calculations,<sup>80</sup> the health minister could have employed 8,772 midwives with the 'unspent' budget for 2007. Nigeria can indeed afford more midwives.

Nigeria has one of the world's largest oil reserves and is Africa's major oil exporter. In 2006, hydrocarbons represented about 95 per cent of the country's export revenues, 79 per cent of its public revenues and 44.5 per cent of its total income. However, today it is one of the poorest countries in the world, with 37.3 per cent of its people living in poverty.<sup>81</sup>

According to one analysis,<sup>82</sup> between 1970 and 1999 the Nigerian petroleum industry generated about \$231bn in revenue, or \$1,900 for every man, woman, and child. Yet during this period Nigeria's real income per capita fell from \$264 to \$250 a year. Poverty in Nigeria is partly caused by the decades of poor governance: between 1960 and 1999, corruption drained away \$380bn in resources from the Nigerian population.<sup>83</sup> In 2007, from a budget of \$19.5bn, only 5.4 per cent was spent on health and 8.2 per cent on education.<sup>84</sup>

Sources: Vanguard (2008), Nigeria National Bureau of Statistics (2005), UNDP 2007/2008, Human Rights Watch (2007), Nigeria Federal Ministry of Finance (2008).

The quality and capacity of spending policy (i.e. governance) is conditioned by price volatility: an economy based on finite resources with an unclear 'sell-by' date and the need for significant amounts of foreign investment all affect the planning and use of natural resources. Sustained, long-term investment is particularly difficult to achieve in such a context, and can give rise to:

- **Erratic government spending:** Where the main source of public funds is volatile revenues from the extractive industries and an effective public spending policy is not in place. The poorest and most vulnerable people in society will be most affected. A case in point is Venezuela, where public sector oil revenues fell from 27 per cent of GDP in 1996 to less than 13 per cent of GDP in 1998, before rising again to more than 22 per cent in 2000.<sup>85</sup>
- **Interruptions in government programmes:** A fall in prices can cause unexpected interruptions in long-term projects that require years of sustained government funding, and management will be disrupted, perhaps fatally.<sup>86</sup> For instance, reacting to the fall in oil prices from the end of 2008 (the average price of oil per barrel fell from \$120 in the summer of 2008 to \$40 at the beginning of 2009<sup>87</sup>), the Angolan government has reduced its national budget, thus putting at risk the ambitious and very necessary social spending and poverty reduction plans it had promised during the election campaign in 2008.<sup>88</sup>
- **A rise in demands for increased public spending:** Conversely, price booms and new oil discoveries produce increases in internal demands<sup>89</sup> for increased public spending, which is usually ineffective<sup>90</sup> and unsustainable once the boom is over. In Chad, for example, oil revenues generated a three-fold increase in the national budget between 2005 and 2007. According to the organization Cellule d'Information des Associations Féminines (CELIAF), this sudden increase in income caused problems such as contradictions between planning and effective budget allocations, as well as lack of redistributive fairness in allocations between regions.<sup>91</sup>

During the oil price boom at the beginning of the 1970s, Algeria, Indonesia, Mexico, and Venezuela became caught up in a spending spiral that soon surpassed their available incomes, creating massive deficits. In 1980, these exporting countries had a combined debt of \$106bn, up from only \$13.3bn in 1970. Venezuela saw its debt multiply by a factor of eleven.<sup>92</sup> Unsustainable debts incurred under the 'guarantee' of a new price increase are a very real risk in the current environment of economic and financial crisis.

- **Poor quality investments:** Unsustainable increases in public investment very rarely result in good quality public investment. Investments are often squandered, the risk of corruption and rent-seeking grows, and 'white elephant' projects appear. In 2007, the government of Nigeria launched a communications satellite into space, at a cost of \$340m. In November 2008, controllers shut the satellite down due to problems with its power supply; a BBC expert described it as a 'white elephant in space' and the whole operation as a 'debacle'.<sup>93</sup>
- **Redistribution mechanisms create inequality** in most of the cases

studied and are constantly subject to change. The World Bank estimates that in Indonesia the distribution of income from the extractive sector continues to be the main driver of high levels of inequality between regions: five out of 33 provinces receive a major proportion of the revenues. In Nigeria, only 40 per cent of allocation is based on population and the level of social development within states, which means that current distribution mechanisms benefit mainly medium- and high-income regions and do not target regions with a larger population or higher poverty levels.

A study by the Revenue Watch Institute (RWI) which analyses the distribution of extractive income (from royalties and special taxes) in Nigeria, Brazil, Bolivia, Indonesia, Mexico,<sup>94</sup> Papua New Guinea, and Ghana shows that in all the countries of the sample, the origin of the resources is taken into account when allocating at least part of the resulting income. In all cases (with the exception of Mexico), local authorities in producing regions receive a larger proportion of natural resources income than non-producing regions, even when redistribution mechanisms are in place.

- **Governance of public spending in resource-rich countries is also affected by internal conflict:** When resources are concentrated in one or several areas of a particular country, a boom can affect the geographical distribution of income.<sup>95</sup> Moreover, concentration in a few regions of both the potential benefits and the costs of exploitation for the local population and for the environment creates a breeding ground for internal tensions regarding public spending, which can affect development and the implementation of distribution, compensation, or sectoral policies.

The lack of information on income perceived by the state as a product of extractive activity; the internal discontent and tensions created by a real or perceived regressive distribution of wealth; the fight for control over mineral resources;<sup>96</sup> and the threat of new or strengthened political opponents provide grounds for the governments of such countries to allocate a greater proportion of public resources to military spending.

In the decade from 1984 to 1994, OPEC members' share of annual military expenditures as a percentage of total central government spending was three times higher than for developed countries, and two to ten times that of developing countries with no oil reserves.<sup>97</sup> Fighting over diamond deposits is believed to have been a trigger for the initiation, maintenance, and prolonging of civil unrest in Angola, Sierra Leone, Liberia, and the Democratic Republic of Congo.<sup>98</sup> Between 2001 and 2005 these countries (with the exception of Liberia) allocated up to 2.5 times more resources to military spending than they did to health spending.<sup>99</sup>

## Good public spending and investment policies

A good spending policy requires control over at least two fundamental issues: how revenues are spent, and what are they used for. The experiences of both Indonesia and Norway, which are consistent with the nature of extractive revenues (i.e. high but extremely volatile revenues stemming from the exploitation of a non-renewable natural resource) and the impact that such exploitation has on both local populations and the environment, illustrate this. Priorities in this regard should be as follows:

### **a) Public spending must be linked to a clear multi-annual strategy for development and poverty reduction, aimed at:**

- Complying with international standards on quantity and quality of basic infrastructure and services for education, health, water, and sanitation, which must be sustained. At least 20 per cent of the state budget must be assigned to education and 15 per cent to health.
- Proper redress for directly affected populations (indigenous or rural populations whose ancestral resources are expropriated or who are affected by the environmental impact, or local workers who are displaced) through policies to ensure the creation of new and sustainable livelihoods.
- Promoting diversification, using public investment to support productive investment in all sectors, with a pro-poor and long-term approach.

### **b) Public spending must be responsible:**

Affected countries usually have fragile and exposed economies, which require public spending to be properly planned and structured.

- Impulsive spending (cyclical) must be avoided: i.e. large flows of income may be too high for the national economy to absorb and invest adequately, whereas periods of low revenue income may put the country's social indicators at risk.
- A sustainable level of spending must be ensured, such that current social investments are not put at risk and investment for future generations can be guaranteed.
- Saving part of the resources until the government can use them efficiently is difficult, but essential.

## The need for integrated solutions

In order to ensure appropriate public spending policies, mechanisms must be put in place to improve the management of public finances.<sup>100</sup> However, strong public and non-public institutions are also required in order to act as a deterrent, and to regulate, control, and sanction

governments if they act in an opportunistic or corrupt manner or encourage patronage.

Natural resource funds<sup>101</sup> have been a major step towards solving the problem of managing extractive revenues. The key financial purpose of natural resource funds is to serve as a buffer mechanism to protect the public finance system from volatile markets – hence the name ‘buffer funds’. These funds also seek to prolong the availability of income generated from a finite resource and are therefore also known as ‘future generations funds’. Budget stability, predictability, and sustainability of public investment are not only conducive to sound management of extractive revenues, but also render natural resource funds an attractive tool for financing basic social services.

Unfortunately, the results to date from such funds in developing countries have not been very positive, even when they have been explicitly linked to the achievement of social objectives and goals. The main reason for this has been the lack of an appropriate institutional environment, a problem which unfortunately characterises such countries. Moreover, these tools have failed because they are not linked to either formal or informal accountability mechanisms, and because of a lack of transparency in decision-making processes regarding related public spending.

The complex nature of the barriers confronting public spending as a means for achieving development objectives in such environments requires the application of integrated solutions. Based on this idea, the German development agency GTZ has launched an innovative project which brings together the strengthening of public financial management systems in Ghana with the promotion of transparency throughout the extractive industry supply chain.<sup>102</sup>

The ‘Oil for Development’ initiative launched by Norway’s international development agency in 2005 is based on a similarly integrated vision. The aim in this case is to provide technical support to oil-exporting countries, which will enable them to meet their development objectives. The agency works with governments but also takes into account public participation through civil society associations and other organisations, focusing on three main areas: resource planning, environmental considerations, and revenue management.

# 5 Transparency and accountability as a cross-cutting priority

The development of clear legal and fiscal frameworks and public access to contracts are among the most basic measures required to help direct management of the extractive sector towards development.

However, if extractive industry revenues are to be turned into effective social spending, the transfer of income throughout the value chain must be transparent too. Transparency is necessary in the licensing and award of contracts, in payments made by companies to governments, in the public management of such revenues, and in the targeting and implementation of public spending at the national and sub-national levels.

Certain conditions must be met if transparency is to improve management and targeting of revenues:

- There must exist a multi-annual spending plan and a strategy based on poverty reduction, which must include effective institutions for the monitoring and control of public spending;
- Civil society must participate, and this participation must be enforced and supported by appropriate institutions in the event of complaints by civil society organisations or by the public;
- Civil society must be empowered with the capacity to monitor the use of public resources and to report irregularities.
- The parliament must have the capacity to carry out one of its legitimate functions: to oversee the planning of public resources and the budget execution process.

The Extractive Industry Transparency Initiative (EITI) was launched in 2003 by former UK Prime Minister Tony Blair, with the purpose of improving transparency in payments made by extractive industries and in revenues received by the governments of countries in which they work (see Box 5). Although other transparency initiatives have been promoted within the industry,<sup>103</sup> the EITI has managed to engage the interest and efforts of all the stakeholders involved: governments, companies, investors, international financial institutions, and civil society.<sup>104</sup> Twenty-five countries have already signed up to the EITI initiative,<sup>105</sup> with Azerbaijan and Nigeria having made the most progress in its implementation (although in the case of the latter, the implementation rate has been slow).

#### Box 5: The Publish What You Pay initiative

The EITI emerged as a result of the Publish What You Pay (PWYP) campaign, which was launched in 2002 by a coalition of British NGOs and which now has supporters in countries of both the North and the South. PWYP has expanded its original objectives (publication of payment made by companies, detailing countries and issues to cover Publish What You Earn (profits obtained by the companies), PWYSpent (how governments spend extractive revenues), and PWYShould Pay and You Don't Pay (transparency in the granting of licences and contract negotiations between companies and governments). As a set of tools for lobbying, the PWYP campaign supports the EITI and puts pressure on countries to approve legislation to make transparency mandatory for companies.

The EITI was designed as a means of improving accountability between governments and companies, but it has been less effective in delivering accountability to citizens. To achieve this aim, the EITI will need to go deeper with 'Publish How You Spend it' campaign demands and promote more effective checks and balances through parliamentary or civil society participation at all levels of the supply chain. The EITI also needs to be implemented at the sub-national level. As discussed above, sub-national distribution is vital if extractive revenues are to benefit pro-development spending. The example of Nigeria demonstrates this point (see Box 6).<sup>106</sup>

The current global economic and financial crisis has reinforced the need for an increase in transparency and accountability on the part of international corporations in general, and not just the extractive industries. The EITI has therefore become part of the political debate, and organisations such as Oxfam have proposed adopting similar initiatives in other financial sectors, in an attempt to challenge the massive levels of tax evasion that affect the developing world. The G20 summit held in London in April 2009 provided the first steps for increased regulation and the control of income flows through tax havens.

#### Box 6: Light and shade in the EITI in Nigeria

Nigeria was the first country to incorporate the EITI into its national legislation, under the Nigeria Extractive Industries Transparency Initiative Act (NEITI) of 2007.<sup>107</sup> The NEITI has made the reporting of payments by companies to the Federal Government a legal requirement. The NEITI also seeks to ensure 'transparency and accountability by government in the application of resources from payments received from extractive industry companies'.<sup>108</sup>

As a result of the momentum created by the NEITI, the first independent audit of payments made by companies to the Nigerian government between 1999 and 2004 was published in April 2006. The report revealed that Nigeria does not really know how much oil it produces. It also revealed practices of tax evasion by some companies, and a withholding of revenues by the Nigerian National Petroleum Corporation. This first independent report identified discrepancies totalling \$250m in payments and receipts. According to official sources, this difference was investigated and largely resolved.<sup>109</sup> Despite deficiencies in the process, the publication of such reports provides a cornerstone for reforming oil industry management in Nigeria, and therefore also for the country's economic and political regeneration.

In January 2008, the Nigerian president, Umaru Musa Yar'Adua, stated: 'Fighting corruption is, for us, not just a rating-boosting or public relations gambit. Rather, it is a manifestation of our unequivocal commitment to delivering on our social contract with the people of Nigeria as encapsulated in our Seven-Point Agenda'<sup>110</sup> (a list of priorities set out by the President on taking power in 2007). However, the agenda did not coincide with NEEDS (National Economic Empowerment and Development Strategy – Nigeria's poverty reduction strategy paper) and, inexplicably, it did not include investment in the health sector as part of Nigeria's development priorities.

Under Nigeria's financial system, at least five transfers of capital are required from the point that state revenues are credited to the Federal Account until the point where funds are available for investment in health and education spending at sub-national level in the 36 regional states.<sup>111</sup> Many more transfers are required when funds are transferred to the 774 local authority bodies.

The Nigerian government devolves at least 50 per cent of its budget to the sub-national level. In the Delta State, for example, 64 per cent of the regional budget comes from the federal government, with an added 13 per cent from oil revenues, as it is a state within an oil-producing area. It is one of the richest states in the country, yet has social indicators below the national average (there is one doctor per 82,000 inhabitants, only 30–40 per cent of children are in school, about 27 per cent of households have access to drinking water, and 30 per cent to electricity<sup>112</sup>). From a budget for 2007 of \$1.27bn, the government of the Delta State allocated only 5.1 per cent to education (1.5 per cent to primary and secondary education), 3.8 per cent to health, and 2.6 per cent to water and sanitation.<sup>113</sup>

This is the resource curse at regional level. Five local organisations from the Niger Delta region (three of them working on budget monitoring and public spending) were interviewed in the course of the research for this report. None of them was able to establish the proportion of oil revenues made available for education or health at sub-national level, and only one knew of the existence of the NEITI.

Sources: NEITI Act (2007), personal communication from the NEITI Communications Manager (8 April 2008), Government of Nigeria (2008), ODI (2006b), Ibeanu and Luckham (2006), State Government of Nigeria (2007).

In 2008, the EITI gained renewed momentum, when the president of the World Bank announced an enriched version of the initiative: the EITI++. The EITI++ envisages transparency as a cross-cutting issue throughout the extractive industry supply chain, from negotiation of contracts through to the management of extractive revenues.

However, to date it has been poorly implemented. An evaluation of the way in which the World Bank and the International Monetary Fund promoted transparency in 57 resource-rich countries which receive support from these institutions shows disappointing results,<sup>114</sup> and the success in practice of the EITI++ must therefore be viewed with caution. 'Overall, the assessment found that while both institutions raise the concern of transparency at some level in many resource-rich countries, the approach is neither consistent across countries nor comprehensive. Furthermore, the institutions are mainly focusing on the disclosure of revenues, including the EITI, and are largely not promoting contract transparency or ensuring meaningful civil society participation ...'<sup>115</sup>

### Box 7: Involvement of CSOs in the Chad–Cameroon Pipeline Project

Following the discovery of the Doba oilfield in southern Chad, the ‘Chad–Cameroon Oil Pipeline Project’ was developed rapidly. Both the Chadian government and private companies were in favour of the project, and in 1999 the World Bank decided to support the initiative with symbolic funding of 0.4 per cent, on condition that the Chadian government developed a revenue management plan to ensure sound and transparent management of extractive revenues, which were then to be invested to meet development objectives.

The result was Law 001/99, enacted by the government as an international benchmark for the pro-development use of oil revenues. The law stipulated a royalty of 12.5 per cent on production, with 10 per cent of revenues to be set aside for a Future Generations Fund. Of the remaining amount, 4.5 per cent was allocated to the producing region, 13.5 per cent to fund government recurring costs, and 72 per cent for spending on development plans, with basic social services a priority. Law 001 also established the Collège de Contrôle et de Surveillance des Ressources Pétrolières, a body made up of representatives from ministries, trade unions, and civil society in charge of overseeing expenditure of oil revenues.

Despite all these obligations being established by law, civil society organisations (CSOs) soon began to express concerns regarding the country’s lack of institutional capacity to manage such an ambitious project. The Chadian government lacked (and still lacks) a mechanism for monitoring payments made by companies; distribution of indirect revenues from oil extraction was not covered by the law, and the country’s Poverty Reduction Strategy Paper did not include an estimate of the expenditure required per sector. Moreover, the law included a safeguard: it could not be amended for at least five years. All of these shortcomings led CSOs to demand that the World Bank delay implementation of the project for two years. But investors were getting impatient, the government did not want to wait, and the World Bank gave way.

Project implementation began in 2000 and oil revenues started to flow in 2004. Between 2003 and 2005 the Chadian health budget grew by 32 per cent.<sup>116</sup> During this period, Chadian CSOs (led by the Association for the Promotion and Defence of Human Rights in Chad, or GRAMPT) monitored public spending, providing analysis of investment per sector, oversaw spending in projects financed by oil revenues,<sup>117</sup> and reported on the misuse of funds for projects such as a football stadium in Doba. In addition to controlling public spending of oil revenues, this budget-tracking role also allowed CSOs to predict issues of management capacity and lack of political will which subsequently arose in Chad.

In 2006, when Chad’s oil revenues rocketed, President Déby unilaterally approved amendment of Law 001. The Future Generations Fund was scrapped, the percentages of revenue earmarked for investment were modified, and spending on ‘security’ became a ‘development priority’. In 2008, the political situation deteriorated and, following the declaration of a state of emergency, the government suspended the spending control mechanisms it had previously agreed with the World Bank.<sup>118</sup>

Sources: UNDP, Human Development Index Reports for various years between 2004 and 2008, Association for the Promotion and Defence of Human Rights in Chad (2003, 2004, 2005), Reuters (2008).

CSOs can play a crucial role in achieving pro-development spending of extractive revenues. The presence of CSOs in budget-tracking bodies must go together with guaranteed access to information and capacity building of such organisations to monitor extractive industry revenues. Supporting such processes has been a cornerstone of the work of international non-government organisations such as the International Budget Project (IBP), the PWYP campaign, the Revenue Watch Institute, and the Open Society Institute. In addition to financial, technical, and institutional support, such organisations have developed manuals to help other CSOs in resource-rich countries to monitor income and spending of revenues from extractive industries.<sup>119</sup> Experience in Chad also shows that the participation of civil society must be supported by effective and properly co-ordinated formal institutions that are able to monitor and sanction the behaviour of governments.

Complaints channels will only be legitimate, and therefore properly used, if they succeed in reducing the culture of impunity; if they can guarantee independence of the institutions responsible for dealing with complaints; if they are adequately resourced to carry out their duties (particularly at the local level); and, most importantly, if they afford protection to individuals lodging such complaints. In December 2008, Marc Ona Essangui (the national co-ordinator of PWYP in Gabon), Geroges Mpaga (president of Le Réseau Gabonais de Bonne Gouvernance (ROLBG), a governance network in Gabon and a member of PWYP), Gregory Ngoua Mintsia (a civil servant in Gabon), and Gaston Asseko (a journalist working for Radio Sainte-Marie) were arrested as part of a crackdown by the Gabonese authorities on social and activist organisations reporting on government misuse of the country's oil and mineral revenues. These arrests took place despite the fact that Marc Ona is a member of the national committee in charge of supervising implementation of the EITI in Gabon.<sup>120</sup>

The Civil Society Legislative Advocacy Centre (CISLAC) works in Nigeria to strengthen the links between civil society and its representatives in parliament. In recent years, this organisation has facilitated forums between members of parliament (MPs), representatives from the extractive industries, and CSOs, as well as conducting training sessions with MPs regarding the methodology for NEITI reporting. It is no coincidence that the Nigerian parliament held back the 2008 national budget for five months because of the government's lack of clarity regarding the allocation of surplus oil revenues generated in 2007.<sup>121</sup>

In most countries, the national parliament is legally responsible for monitoring budgets and public spending, but it frequently lacks the necessary funds, capacity, or support to carry out this role. It is therefore important to build the capacity of MPs in budget tracking. The Africa All Party Parliamentary Group (a cross-party grouping of MPs within the UK parliament) has recently requested greater support from international donors to strengthen the capacity of MPs to carry out the budget-tracking role that is expected of them.<sup>122</sup>

# 6 Conclusions and recommendations

Linking extractive revenues to an increase in effective public spending is a matter for governments; indeed, it is an issue of good governance. Addressing the 'resource curse' and achieving this objective is not only desirable for resource-rich countries – it is also essential if they are to break the vicious circle of poverty and guarantee their populations access to basic social services.

Lessons learned include some key issues: upgrading legal and fiscal frameworks and renegotiating contracts with companies when needed, due to previously opaque negotiating practices; establishing or reinforcing public financial management systems where extractive industry revenues can be prioritised for social spending; and minimising the social and environmental impacts of extractive projects. These measures require transparency all along the extractive industries supply chain; democratic public oversight and participation in the process (through the involvement of CSOs and parliaments); and effective public institutions and mechanisms for control, monitoring, and sanctions where necessary. Without these elements, all efforts will fall short. Governments of resource-rich countries need to take the lead, but for good or for bad, they are not alone in this process.

## **Governments of countries rich in natural resources should:**

- Set legal and fiscal frameworks for the extractive industry (EI) sector, in order to protect the interests of the country's people. Existing frameworks or contracts which do not meet this principle and go against the public interest must be revoked or amended, to ensure a fair deal between companies and national governments.
- Sign up to the Extractive Industries Transparency Initiative (EITI) and impose maximum transparency throughout the sector's value chain, from licensing and the award of contracts stipulating the government's share of revenues, to the point of reinvestment of such revenues in social spending. Governments should also provide forums for accountability, and promote mechanisms of checks and balances through national parliaments and civil society organisations (CSOs).
- Include civil society and community representatives in decision making about EI policy;
- Publish details of their EI revenues on a regular basis and avoid the inclusion of confidentiality clauses in new contracts;
- Detail the use of fiscal incomes from extractive industries within national and local budgets and development plans, in both the short and medium terms (i.e. for mitigating health and education or environmental impacts in exploited areas) and the long term (i.e. for productive diversification and to reconstruct sources of livelihood in exploited areas). Governments should also ensure equity criteria in the distribution of EI revenues at both national and sub-national levels, and should develop counter-cyclical management mechanisms to ensure the sustainability of public

investment in the event of significant, sudden, or volatile flows.

- Establish/enact and implement appropriate regulatory mechanisms that protect affected communities and conduct independent impact assessment prior to approving EI projects;
- Establish mechanisms for communities in affected areas to participate in decision making and for protecting the right to free, prior, and informed consultation;
- Promote agreements with tax havens included in OECD lists to automatically receive information on inflows of companies with activities within the country.

### **Governments in countries with recent natural resource discoveries:**

The production model mainly based on extractive industries can undermine pro-poor, inclusive and socially and environmentally sustainable development. For this reason, governments in countries with recent natural resource discoveries should carefully evaluate different options and consider possible alternatives to an economy highly dependant on extractives industries, promoting a national debate among all actors likely to be involved or affected. This debate, prior to the decision on the exploitation of the resources, should include, at a minimum:

#### ***Analysis of benefits vs. real costs***

- Study the likely social impacts (displacement of populations, destruction of livelihood resources) and environmental impacts in the areas to be exploited;
- Analyse the possible impacts of the distribution of revenues among different regions, anticipating problems and establishing redistribution norms before projects begin;
- Identify 'no-go' areas - zones that are established as being of environmental and/or cultural importance for the nation.

#### ***Analysis of control mechanisms on the 'resource curse'***

- Evaluate the quality and the capacity of public financial management systems to plan and manage incomes from extractive industries (which are usually volatile and difficult to estimate with accuracy), undertaking necessary improvements before initiating the process;
- Evaluate the quality and capacity of institutional and regulatory mechanisms for the control of corruption, clientelism, and opportunism in both the public and private spheres and throughout the entire chain of the extractive business, at both the national and local levels;
- Evaluate the degree of responsibility of non-government actors (civil society, media, and others) in monitoring both the generation and exploitation of public resources obtained from extractive industries, especially at the local level.

### **Analysis of opportunities**

- Assess the level of public and private resources that could be used in other areas of development and their potential to generate employment in more sustainable ways;
- Assess the possibility of integrating extractive projects into a wider development strategy at the national and local levels.

### **Civil society organisations should:**

- Reclaim their key role of defending the public interest in the planning, management, and use of EI revenues;
- Demand transparency and the setting up of forums to ensure government accountability in respect of extractive revenue spending and to monitor private sector behaviour during exploration and exploitation projects. In this context, a role for civil society is to ensure governments are meeting the Millennium Development Goals;
- Strengthen alliances between CSOs monitoring EI revenues, those working on budget tracking, and other actors involved, such as national parliaments, progressive private investors, and international NGOs;
- Build their capacity to monitor and influence the EI value chain, as well as to monitor and control tax evasion and potentially corrupt practices. A number of non-government organisations (Publish What You Pay, the Revenue Watch Institute, the International Budget Project) and donors as UK Department for International Development (DFID), Norwegian Agency for Development Cooperation (NORAD), the World Bank and the EITI (multi-donor fund) are willing to support CSOs in such areas.

### **OECD countries and international donors should:**

- Promote transparency throughout the EI sector and, in particular, advocate for transparency in agreements between multinational companies and governments of resource-rich countries;
- Promote mandatory disclosure regulations for companies listing shares on stock exchanges in OECD countries – for example, the Extractive Industries Transparency legislation in the USA (the proposed ‘American Law’);<sup>123</sup>
- Establish and apply transparency and corporate responsibility criteria for the companies they support through their export credit agencies (ECAs). They must demand that such companies comply with the highest international standards in the social, humanitarian, and environmental spheres;<sup>124</sup> respect and adhere to OECD guidelines and UN standards for multinational companies, as well as the OECD Anti-Bribery Convention and the UN Convention against Corruption; and consider the possible proposal of an OECD convention on transparency and reporting for multinational companies. ECAs should have in place policies requiring FPIC, disclosure of payments and contracts, independent monitoring of projects, and assurance of minimum governance conditions before

financing projects.

- Encourage and support governments of resource-rich countries to use EI revenues to achieve the Millennium Development Goals and for productive diversification. Support with ODA (Official Development Assistance) to partner countries that ratify the EITI; establish fair legal and tax frameworks; fight corruption; and show commitment to improve public financial systems and to promote a system of checks and balances through formal and informal mechanisms (parliaments and CSOs). Donors must support programmes to improve capacity to manage public resources, for example, as the principles of the Paris Declaration establish for ODA funds.<sup>125</sup>
- Support programmes to strengthen the capacity of governments to monitor existing contracts and to collect taxes in an effective way;
- Support national parliaments and CSOs working at local, national, or international levels to promote sound management of EI revenues as part of a true EITI implementation;
- Promote a minimum level of taxation on all extractives industries that guarantees that countries keep for the future of their citizens a major share of the benefits obtained;
- Promote and support a national debate to analyse impacts before embarking on extractive projects in non-dependent countries.

#### **The private sector should:**

- Comply with the highest international standards in the social, humanitarian, and environmental spheres. It should welcome and apply OECD guidelines and UN standards for multinational companies, as well as the OECD Anti-Bribery Convention and the United Nations Convention against Corruption, and possible new conventions/initiatives on transparency and accountability that may be put in place.
- Agree to apply transparency in contract negotiations. Renounce the inclusion of confidentiality clauses in contracts;
- Accept fair terms of agreement, instead of taking advantage of their own negotiating capacity with fragile states to ensure they benefit disproportionately and unfairly;
- Publish their payments for access to resources on an individual, country-by-country, project-by-project basis and implement transparent contractual and licensing arrangements;
- Demonstrate commitment to human rights and sustainable development principles and maintain a respectful dialogue with communities. In line with this, undertake human rights and environmental impact assessments and establish complaints and reparation mechanisms;
- Disclose meaningful information about EI impacts and benefits, apply mitigation measures, and compensate adequately communities that are physically and economically affected.

### **International financial institutions (IFIs):**

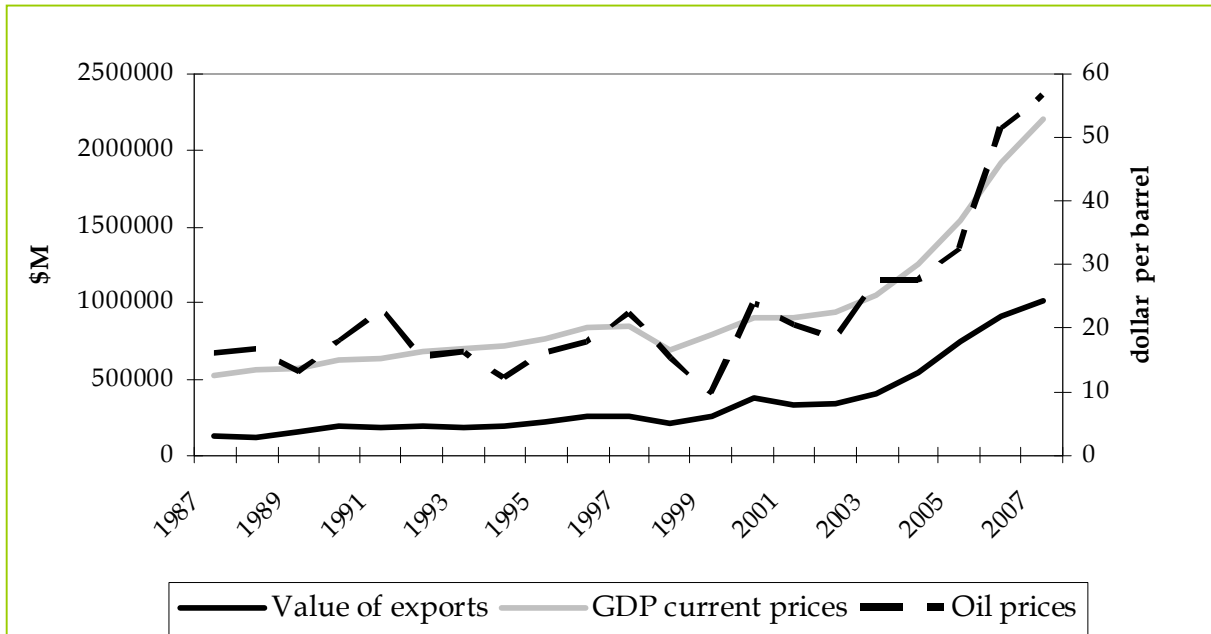
- The World Bank should support the development of strategies aimed at gradually reducing the economic dependence of developing countries on extractive industries. It should further develop policy measures regarding common requirements for such countries, in order to ensure that national resources are properly targeted towards sustainable social investment.
- The World Bank and the IMF should promote policies conducive to achieving the MDGs, including through fair taxes on extractive industries and improved public management.
- The World Bank and the IMF should not accept extractive projects as 'the model of development' and should only encourage and support poor countries' extractive projects if there is clear evidence for a positive and sustainable impact on poverty alleviation and no relevant environmental damages.
- The World Bank should make poverty reduction a priority over the interests of producing countries, large corporations, and developed countries when dealing with potential conflicts of interest which may arise in future.
- Regional development banks should establish payment disclosure mechanisms for projects, as the International Finance Corporation (IFC) currently does.
- IFIs should have in place policies requiring FPIC, disclosure of payments and contracts, independent monitoring of projects, and the assurance of minimum governance conditions before financing projects.

### **Other institutions:**

- Regional economic blocks could have a key role to play in ensuring fair deals for individual countries, providing negotiating strength.
- In particular, Pan African institutions like the African Union Commission and the Pan African Parliament can play a relevant role in terms of accountability through peer-review mechanisms, helping to ensure that national governments are held accountable.

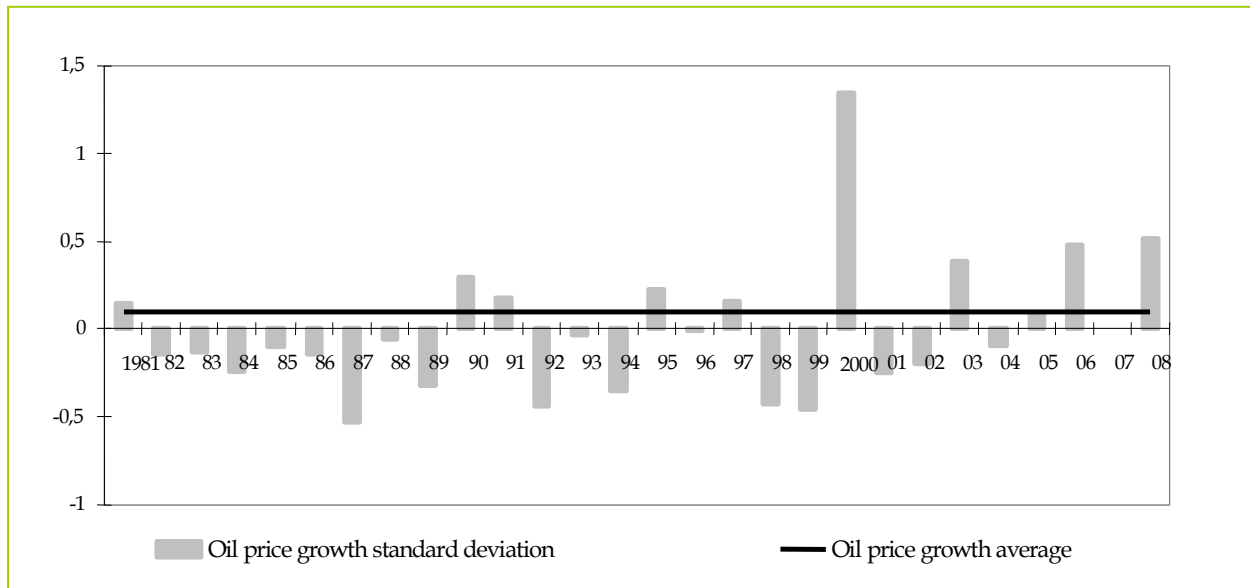
# Annex 1

Figure 1: Value of exports, GDP at current prices, and oil prices in OPEC countries



Sources: EIA data

Figure 2: Oil price growth volatility in OPEC



Sources: EIA data

Note:

Oil price growth standard deviation: difference between the annual price value and the average of the period.

**Table 1: Employees per activity sector, unemployment rates, and dependence in selected countries**

	Employees per sector (2000–05)					Survey year	Unemployment rate	Dependence (%) mining sector/ GDP current prices)	Dependence (%) Mining or hydrocarbon exports/Total Exports	
	Agriculture %	Industry			Services %		Last year %	(2005–06)	Fuels	Minerals
		Mining %	Manufactures %	Total industry %					2006	2006
<b>Algeria</b>	21	2	10	25	51	2000–04	14	45.9	98	
<b>Botswana</b>	21	3	10	23	51	2003	18	38		90
<b>Ecuador</b>	9	0	15	22	64	2000–07	8	19 (2002)	59	
<b>Iran</b>	24	1	18	31	45	2005–07	11	27.7	83	
<b>Jamaica</b>	19	0	7	18	63	2000–06	10	4.6 (2001)		63
<b>Kazakhstan</b>	35	3	7	17	47	2001–04	8	16 (2004)	69	
<b>Mali</b>	42	0	11	16	38	2004	9	7.2		74
<b>Namibia</b>	31	1	6	18	50	2000–04	22	11.7		54
<b>Peru</b>	2	16	0	46	53	2002–07	7	6 (2001)		64
<b>Trinidad and Tobago</b>	6	3	10	29	64	2000–05	8	4.5	77	
<b>Tanzania</b>	82	0	1	3	15	2001		1.9 (2003)		48
<b>Zambia</b>	72	1	3	6	23	2000	13	4.1		82

Sources: ILO data, UN Handbook statistics 2008 and IMF Statistical Appendix

**Table 2: Dependence in selected countries**

	<b>Product</b>	<b>Dependence of GDP (2005–06 estimate)<sup>1</sup></b> %	<b>Dependence of exports 2006<sup>2</sup></b> %	<b>Dependence of public expenditure (2006 estimate)<sup>3</sup></b> %	<b>Human Development Index<sup>4</sup></b>
<b>Angola</b>	Hydrocarbons	61.7	97.5	80.2	0.446
<b>Bolivia</b>	Hydrocarbons and minerals		73.8		0.695
<b>Bostwana</b>	Minerals	38.0	89.8	18.7	0.654
<b>Cameroon</b>	Hydrocarbons	9.9	61.6	35.5	0.532
<b>Congo (Brazzaville)</b>	Hydrocarbons	60.4	93.3	82.3	0.548
<b>Chad</b>	Hydrocarbons	44.5	94.6	45.0	0.388
<b>Ecuador</b>	Hydrocarbons	19 (2002)	53.3	17.86 (2002)	0.772
<b>Gabon</b>	Hydrocarbons	85.5	85.6	53.8	0.677
<b>Equatorial Guinea</b>	Hydrocarbons	79.9	94.5	85.1	0.642
<b>Indonesia</b>	Hydrocarbons and minerals		37.9		0.728
<b>Iran</b>	Hydrocarbons	27.7		74.5	0.759
<b>Kazakhstan</b>	Hydrocarbons	16 (2004)		28.46 (2004)	0.794
<b>Malí</b>	Minerals	7.2	74.2		0.38
<b>Mauritania</b>	Minerals	14.2	64.7		0.55
<b>Mozambique</b>	Minerals	1.8	60.0		0.384
<b>Namibia</b>	Minerals	11.7		4.6	0.65
<b>Níger</b>	Minerals	5.8	60.1		0.374
<b>Nigeria</b>	Hydrocarbons	44.6	95.0	79.0	0.470
<b>Peru</b>	Minerals	6 (2001)	64.3		0.773
<b>DRC (Congo)</b>	Minerals	8.1	73.0		0.411
<b>Sudan</b>	Hydrocarbons		87.5		0.526
<b>Tanzania</b>	Minerals	1.9 (2003)			0.467
<b>Trinidad and Tobago</b>	Hydrocarbons	4.5		52.7	0.814
<b>Uganda</b>	Minerals	0.7	15.0		0.505
<b>Zambia</b>	Minerals	4.1	29.5		0.434

Source: Human Development Report 2007, IMF Statistical Appendix, and UNCTAD Handbook Statistics 2008

**Notes:**

1. % mineral or hydrocarbons sector/GDP current prices
2. % mineral or hydrocarbons exports/total exports
3. % public revenues from minerals or hydrocarbons
4. The HDI is a synoptic measure of human development. It measures the average progress achieved by a country in three basic areas of human development: enjoying a long and healthy life, measured on the basis of life expectancy at birth; having an education, measured on the basis of adult literacy rates and the gross combined rate of registration in primary, secondary, and tertiary education; and leading a life of dignity, measured on the basis of GDP per capita in parity purchasing power in US dollars (UNDP).

## Annex 2

This annex shows the potential sources of domestic financing from the export of oil and directed to meet the provision of essential services in some countries. According to our estimates, some oil countries have the opportunity to substantially increase their expenditure per capita on education and health from 2009 to 2015, if (a) the share of extractive revenue is between 45% and 51% for producer governments and if (b) 20% and 16% of that revenue is going to education and health respectively as public expenditure.

**Table 3: Potential improvement in public investment in education and health in 2015, Scenario A**

		Year 2015 (million barrels per year)								
		Production (2)	Domestic consumption (3)	Available exports (4)=(2)-(3)	Reinvestments (\$m) (5)	Operatives costs (\$m) (6)	Price (\$/b) (7)	Rents (\$m) (8)=(4)*price-(5)-(6)	Split public sector % (9)	Revenues public sector (\$m) (10)=(7)*(9)
<b>Oil (1)</b>										
<b>Africa:</b>										
Angola	985.5	23.08	962.42	3942	6701.4	70	56726.0	45	25526.7	
Chad	73.0	0.68	72.32	292	496.4	70	4274.3	45	1923.4	
Nigeria	1131.5	145.13	986.37	4526	7694.2	70	56825.5	45	25571.4	
<b>South America:</b>										
Ecuador	182.5	68.76	113.74	730	1241.0	70	5990.8	51	3055.3	
Venezuela	620.5	251.55	368.95	2482	4219.4	70	19125.1	51	9753.8	

		Desirable public expenditure on education (\$m) (11)=(10)*20%	Desirable public expenditure on health (\$m) (12)=(10)*16%	Population 2015 (millions) (13)	Public expenditure on education 2015 (\$/pc) (14)=(11)/(13)	Public expenditure on education (\$/pc) (15)	Potential improvement public investment in education (16)=(14)/(15) %	Public expenditure on health 2015 (\$/pc) (17)=(12)/(13)	Public expenditure on health (\$/pc) (18)	Potential improvement public investment in health (19)=(17)/(18) %
<b>Oil (1)</b>										
<b>Africa:</b>										
Angola	5105.3	4084.2	21.2	240.82	45.4	530	192.7	19.0	1013	
Chad	384.6	307.7	13.4	28.71	11.18	257	23.0	6.8	340	
Nigeria	5114.2	4091.4	175.7	29.11	Na	-	23.3	7.3	319	
<b>South America:</b>										
Ecuador	611.0	488.8	14.6	41.85	28.4	147	33.48	55.67	60	
Venezuela	1950.7	1560.6	10.9	178.97	57.99	308.6	143.18	39.97	358.2	

**Table 3 (continued): Potential improvement in public investment in education and health in 2015, Scenario B (0)**

	Year 2015 (million barrels per year)								
	Production (2)	Domestic consumption (3)	Available exports (4)=(2)-(3)	Reinvestments (\$m) (5)	Operatives costs (\$m) (6)	Price (\$/b) (7)	Rents (\$m) (8)=(4)*price-(5)-(6)	Split public sector % (9)	Revenues public sector (\$m) (10)=(7)*(9)
<b>Oil (1)</b>									
<b>Africa:</b>									
Angola	985.5	23.08	962.42	5913	16556.4	70	44900.0	45	20205
Chad	73.0	0.68	72.32	438	1226.4	70	3398.0	45	1529
Nigeria	1131.5	145.13	986.37	6789	19009.2	70	43247.0	45	19461
<b>South America:</b>									
Ecuador	182.5	68.76	113.74	1095	3066.0	70	3800.0	51	1938
Venezuela	620.5	251.55	368.95	3723	10424.4	70	11679.0	51	5956

	Desirable public expenditure on education (\$m) (11)=(10)*20%	Desirable public expenditure on health (\$m) (12)=(10)*16%	Population 2015 (millions) (13)	Public expenditure on education 2015 (\$/pc) (14)=(11)/(13)	Public expenditure on education (\$/pc) (15)	Potential improvement public investment in education (16)=(14)/(15) %	Public expenditure on health 2015 (\$/pc) (17)=(12)/(13)	Public expenditure on health (\$/pc) (18)	Potential improvement public investment in health (19)=(17)/(18) %
<b>Oil (1)</b>									
<b>Africa:</b>									
Angola	4041	3232.0	21.2	190.61	45.4	420	152.5	19.0	802
Chad	305	244.6	13.4	22.82	11.18	204	18.3	6.8	270
Nigeria	3892	3113.8	175.7	22.15	Na	-	17.7	7.3	242
<b>South America:</b>									
Ecuador	387	310.0	14.6	26.55	28.4	94	21.24	55.67	38
Venezuela	1191	953.0	10.9	109.29	57.99	188.5	87.43	39.97	218.8

Source: EIA, International Energy Outlook 2008 (IEO2008 reference case)

### Notes to Table 3:

General Note: Production and investment costs with respect to Scenario A have been increased in order to calculate estimates in a more conservative context.

1. Liquid fuels and other petroleum products (also referred to as liquids) include petroleum-derived fuels and non-petroleum-derived fuels such as ethanol and bio-diesel, coal-to-liquids, and gas-to-liquids. Petroleum coke, which is a solid, is also included, as are natural gas liquids, crude oil consumed as a fuel, and liquid hydrogen.
2. The IEO2008 reference case reflects a scenario in which current laws and policies remain unchanged throughout the projection period. Demand in the reference case: liquids are expected to remain the world's dominant energy source throughout the IEO2008 reference case projection, given their importance in the transport and industrial end-use sectors. Supply in the reference case: to meet the increment in world demand for liquids in the IEO2008 reference case, total supply in 2030 is projected to be 28.2m barrels per day higher than the 2005 level of 84.3m barrels per day.
3. The proportion of domestic consumption for these countries in 2015 remains the same with respect to worldwide consumption in 2006.
4. Available oil production after deducing internal consumption.
5. According to calculations by Intermón Oxfam (2008) in the report 'Small Print Spells Raw Deal' on oil contracts in Latin America (based on various production scenarios for several companies for a theoretical field yielding 50m barrels of oil over 17 years): an investment of approximately \$200m, or \$4 per barrel, is required. Considering that the geology of an oilfield represents an 'average' risk, the same figures are here applied to Africa. In the case of Scenario B, the figures have been increased by \$100m for the investment required to produce 50m barrels of oil.
6. According to calculations by Intermón Oxfam (2008) *op. cit.*, operating costs in South America were estimated at about \$6.8 per barrel for an oilfield yielding around 50 million barrels. Considering that the geology of an oilfield represents an 'average' risk, the same figures are here applied to Africa. It should be pointed out, however, that the ODI, in its 2006 report 'Does the Sustained Global Demand for Oil, Gas and Minerals Mean That Africa Can Now Fund Its Own MDG Financing Gap?' mentions the case of Nigeria, with operating costs of close to \$6.8 per barrel in an oil contract between the Nigerian government and Shell in 2004. However, the costs of production per barrel have been estimated at \$10 per barrel in the case of Scenario B.
7. Prices: the reference case reflects a price path that departs significantly from prices prevailing in the first eight months of 2008, i.e., relatively high prices. Average world oil prices in every year since 2003 have been higher than the average for the previous year. Prices in 2007 were nearly double 2003 prices, in real terms. Prices rose further in the third quarter of 2008, reaching \$147 per barrel in mid-July; well above the historical inflation-adjusted record price for a barrel of oil set in the early 1980s. In nominal terms, world oil prices in the IEO2008 reference case decline from the current high levels to around \$70 per barrel in 2015, then rise steadily to \$113 per barrel in 2030 (\$70 per barrel in inflation-adjusted 2006 dollars).
8. Gross revenue (rents) corresponds to the following definition of revenue: income from exports, minus investment and operating costs.
9. Proportion of the gross revenue (rents) that could go to the government, according to figures from the *Country Analysis Brief* of the EIA.
10. The Global Campaign for Education demands that 20% of public spending should go for education.
11. 16% of public spending for investment in health (one percentage point more than the Abuja commitment of African governments signed in 2006).
12. UNDP, Human Development Report 2007.
13. (15) and (18) As per figures from UNESCO (for the period 2003–06), UNDP (for the period 2001–05), and the World Bank (years 2004 and 2005).

# Notes

- <sup>1</sup> It has also been shown that the inverse relationship between abundant natural resources and economic development is linked to worsening poverty indicators, fragile health systems, child mortality, and low levels of education (Karl 2007).
- <sup>2</sup> Between 1970 and 1993, economic and social development in countries lacking natural resources was four times more rapid than in countries rich in such resources and with twice the public income (Auty, 1997). The International Monetary Fund and World Bank conclude from their own experiences that countries which rely most on extractive industries show the worst results in development and economic growth (Gary, 2003).
- <sup>3</sup> Generally in economic literature, the term 'resource curse' is used to talk about the negative effect on development and economic growth that results from economic dependence on natural resources.
- <sup>4</sup> 'Only large and powerful global and state actors can get into the oil game. Only those who control political power can grant the opportunity to make money from oil, and only those who receive this opportunity can provide the revenues to keep regimes in power.' (Gary and Lynn 2003)
- <sup>5</sup> Action for South Africa (ACTSA), Christian Aid, and Scottish Catholic International Aid Fund (SCIAF) (2007) 'Undermining development? Copper mining in Zambia', [www.actsa.org/Pictures/Uplimages/pdf/Undermining development report.pdf](http://www.actsa.org/Pictures/Uplimages/pdf/Undermining%20development%20report.pdf)
- <sup>6</sup> UNDP (2008), *Human Development Report 2008*.
- <sup>7</sup> Human Rights Watch (2004) 'Some Transparency, No Accountability: The Use of Oil Revenue in Angola and Its Impact on Human Rights', [www.hrw.org/en/reports/2004/01/12/some-transparency-no-accountability](http://www.hrw.org/en/reports/2004/01/12/some-transparency-no-accountability)
- <sup>8</sup> For purposes of this report, a country depends economically on oil or minerals (extractive industries), when it receives as a main source of public income the product of the sale of these resources on the internal market. According to the World Bank, a country depends on oil or minerals when the share of the extractive industries in the total exports of a country exceeds 35%.
- <sup>9</sup> Calculations are based on projected tax revenues for 2015 from the sale of oil and oil derivatives on the international market. Fiscal revenues are calculated as the product of a percentage of export revenues, after deducting internal domestic consumption (international sales price times amount produced, minus amounts of oil and derivatives for domestic consumption).
- <sup>10</sup> Source: CEDLA, based on official numbers from the 'Unidad de Política Fiscal' of the Bolivian government, [www.cedla.org](http://www.cedla.org)
- <sup>11</sup> The Extractive Industries Transparency Disclosure (EITD) Act (S. 3389) in the USA. [www.publishwhatyoupay.org/en/resources/senate-hearings-natural-resources-highlight-need-extractive-industries-transparency-legisl](http://www.publishwhatyoupay.org/en/resources/senate-hearings-natural-resources-highlight-need-extractive-industries-transparency-legisl)
- <sup>12</sup> For example, the United Nations Declaration on the Rights of Indigenous Peoples of September 2007 and ILO Convention 169.
- <sup>13</sup> International commitment on aid effectiveness. Donor countries and members signing the agreement set objectives for 12 indicators. Indicator 5-A states that donors shall use and therefore contribute to strengthening the public finance management structures in the beneficiary country to channel international aid flows.
- <sup>14</sup> Oil Watch Mesoamérica (2008). [www.oilwatchmesoamerica.org/index.php?option=com\\_content&task=view&id=2183&Itemid=78](http://www.oilwatchmesoamerica.org/index.php?option=com_content&task=view&id=2183&Itemid=78)
- <sup>15</sup> ODI (2006a).
- <sup>16</sup> Calculations are based on projected tax revenues for 2015 from the sale of oil and oil derivatives on the international market. Fiscal revenues are calculated as the product of a percentage of export revenues, after deducting internal domestic consumption (international sales price times amount produced minus amounts of oil and derivatives for domestic consumption).
- <sup>17</sup> According to the World Bank a country depends on oil or minerals when the share of the extractive industries in the total of exports of that country surpasses 35%.

- <sup>18</sup> J. Di John (2007), R. Auty (2008).
- <sup>19</sup> J.D. Sachs and A. Warner (1995).
- <sup>20</sup> Speech by Laudatio von Daniel Owusu-Koranteng, Executive Director of the Wassa Association of Communities Affected by Mining (WACAM), the Public Eye Global Award 2009. [www.evb.ch/cm\\_data/Laudatio\\_Newmont\\_e.pdf](http://www.evb.ch/cm_data/Laudatio_Newmont_e.pdf)
- <sup>21</sup> Oxfam America – West Africa Regional Office Extractive Industries Program Strategic Paper 2007 – 2016.
- <sup>22</sup> Inter-American Commission on Human Rights (2009). <http://www.cidh.org/Comunicados/English/2009/35-09eng.htm>
- <sup>23</sup> Specifically articles 8, 10, 20, 26, 29, 32, and 38. <http://www.un.org/esa/socdev/unpfii/es/drip.html>
- <sup>24</sup> New York Times (2003) 'Texaco Goes on Trial in Ecuador Pollution Case', <http://www.nytimes.com/2003/10/23/business/texaco-goes-on-trial-in-ecuador-pollution-case.html?pagewanted=1>; Business and Human Rights Resource Center (2009) 'Case profile: Texaco/Chevron lawsuits (re Ecuador)'. <http://www.business-humanrights.org/Categories/Lawlawsuits/Lawsuitsregulatoryaction/LawsuitsSelectedcases/TexacoChevronlawsuitsreEcuador>
- <sup>25</sup> El Universo (2009) 'Conflicto en Ecuador caldea reunión anual de Chevron', <http://www.eluniverso.com/2009/05/27/1/1356/CA0D7584555D44998A58B1EDA11AC20D.html>
- <sup>26</sup> <http://www.texaco.com/sitelets/ecuador/es/default.aspx>
- <sup>27</sup> A. Gelb and S. Grasmann (2008). These authors also show that oil-exporting countries did not meet expectations, with growth for the period estimated at 0.97 per cent.
- <sup>28</sup> In the case of oil, for example, effective production relative to exploitation of an oilfield fluctuates over the years.
- <sup>29</sup> M. Ross (2001b).
- <sup>30</sup> Strategic actors or elites are those who have enough power resources to hinder or disturb the rules or mechanisms for decision making and conflict resolution i.e. they have the power to veto specific policies. Their power may stem from a certain position or public office; from control over the means of production or over information and ideas (mainly social media); from their capacity to create social unrest through mobilisation of people; or from a claimed moral authority (religious groups).
- <sup>31</sup> See Ascher (1999); Auty (2001); Baland and Francois (2000); Gelb (1988); Gylfason (2001); Tornell and Lane (1998, 1999); Torvik (2002).
- <sup>32</sup> See Isham, Woolcock, Pritchett, and Busby; Woolcock, Pritchett, and Isham; Boschini, Pettersson, and Roine.
- <sup>33</sup> A relationship of patronage is one that politically and/or financially favours individuals or groups from whom benefits have been obtained in the past or who can help to secure a specific objective. Patronage relationships are usually seen in the form of networks.
- <sup>34</sup> The use of public resources for personal gain.
- <sup>35</sup> 'Populism' in its most common definition is the use of 'populist government measures' to obtain public support. As such, the main aim of those practising populism is to hold on to power and political superiority through mass popularity, rather than to bring about a transformation of social, financial, and political structures and relationships. On a financial level, this is usually embodied in large and visible investment projects which in practice are inefficient or virtually useless.
- <sup>36</sup> A situation which arises when economic actors lack incentives for paying taxes, or when the state lacks the incentive to collect taxes, given that the bulk of public revenues are obtained from other sources.
- <sup>37</sup> See Robinson, Torvik, and Verdier (2006). These authors present evidence of an incumbent politician seeking to secure re-election through patronage, i.e. the allocation of state funds (which come from extraction of natural resources) and positions to clients to buy their votes and support.
- <sup>38</sup> See Mehlum, Moene, and Torvik (2006). These authors propose a model in which entrepreneurs choose between rent-seeking activities and productive ones. The relative profitability of productive activities depends on institutions such as the rule of law and bureaucratic efficiency.
- <sup>39</sup> See Birdsall, Pinckney, and Sabot (2000), Gylfason (2001).

- <sup>40</sup> See Morrisson (2006).
- <sup>41</sup> See Acemoglu, Johnson, and Robinson (2004), Collier and Hoeffler (1998, 2002), Dalgaard and Olsson (2008), Karl, (2007).
- <sup>42</sup> In 2007, Botswana's GDP per capita on parity purchasing power was \$12,387, almost four times the average of the African continent.
- <sup>43</sup> See Hillbom (2008); Dunning (2005).
- <sup>44</sup> Hillbom (2008). The Gini coefficient is defined as a ratio, ranging between 0 and 1 (0 per cent to 100 per cent). A low Gini coefficient indicates more equal income or wealth distribution, with 0 corresponding to perfect equality (everyone having exactly the same income), while higher Gini coefficients indicate more unequal distribution, with 1 corresponding to perfect inequality (i.e. a situation with more than one individual, where one person has all the income).
- <sup>45</sup> UN News Centre (2009) 'Indigenous groups in Botswana still lacking services, opportunities – UN expert', 27 March 2009. <http://www.un.org/apps/news/story.asp?NewsID=30320&Cr=indigenous&Cr1=>.
- <sup>46</sup> Bank Information Center (BIC) and Global Witness (2008).
- <sup>47</sup> K. Slack (2008).
- <sup>48</sup> Documents which set out the World Bank's overall approach to promoting development in a given country. <http://go.worldbank.org/YDGQIZ9GP0>
- <sup>49</sup> Documents which are prepared at the behest of the World Bank and the International Monetary Fund and which set out a country's plans for reducing poverty over a three-year period. <http://go.worldbank.org/FXXJK3VEW0>
- <sup>50</sup> 'IFC provides loans, equity, structured finance and risk management products, and advisory services to build the private sector in developing countries (...) IFC fosters sustainable economic growth in developing countries by financing private sector investment ...'. [www.ifc.org/ifcext/about.nsf/Content/WhatWeDo](http://www.ifc.org/ifcext/about.nsf/Content/WhatWeDo)
- <sup>51</sup> K. Slack (2008).
- <sup>52</sup> We consider that contracts with damaging revenue distributions are considered to be those that have an unfair distribution of the profits from natural resource exploitation and/or that do not take exploitation costs, such as environmental damage or compensation to people affected, into account.
- <sup>53</sup> Atienza and Itriago (2008).
- <sup>54</sup> Ibid.
- <sup>55</sup> Repsol-YPF is an international oil and gas company which operates principally in Latin America.
- <sup>56</sup> Calculations have been carried out in regard to what could be considered 'sustainable' profits as per the financial analysis methods used in the sector. An internal rate of return on investment has been set at between 15 per cent and 25 per cent. Anything above 25 per cent, though perhaps legal (in respect of contract conditions) is considered disproportionate in terms of profits to the company and damage to the country. This 'disproportionate' amount is what is considered 'extraordinary profits'.
- <sup>57</sup> ACTSA (Action for South Africa), Christian Aid, and SCIAF (2007).
- <sup>58</sup> *International Herald Tribune* (2008).
- <sup>59</sup> UNDP, 2007–08.
- <sup>60</sup> *Financial Times* (2009). [www.ft.com/cms/s/0/0e37c274-ec12-11dd-8838-0000779fd2ac.html?nclick\\_check=1](http://www.ft.com/cms/s/0/0e37c274-ec12-11dd-8838-0000779fd2ac.html?nclick_check=1); <http://zambianchronicle.com/?m=20090130>
- <sup>61</sup> Pre-Budget Report Statement to the House of Commons by the Rt. Hon. Gordon Brown MP, Chancellor of the Exchequer, 5 December 2005: '(...) Returns in the North Sea are now nearly 40 per cent on capital, compared with ordinary returns on capital of 13 per cent (...), in order to strike the right balance between producers and consumers, I will raise the supplementary North Sea charge from 10 per cent to 20 per cent (...)'.
- <sup>62</sup> Oxfam America (2006).
- <sup>63</sup> Hart Group audit. <http://www.neiti.org.ng/Press%20Releases/pr260406.pdf>
- <sup>64</sup> NEITI spokesperson, Wasiri Adio, Reuters/*International Herald Tribune*, 25 February 2008.
- <sup>65</sup> Hart Group audit. <http://www.neiti.org.ng/Press%20Releases/pr260406.pdf>

- <sup>66</sup> International Monetary Fund (2005).  
<http://www.imf.org/external/pubs/ft/grrt/eng/060705.pdf>.
- <sup>67</sup> BBC (2004a) 'Halliburton corta nexos con jefe de KBR', 20 June 2004.  
[http://news.bbc.co.uk/1/hi/spanish/international/newsid\\_3822000/3822951.stm](http://news.bbc.co.uk/1/hi/spanish/international/newsid_3822000/3822951.stm); BBC (2004b) 'Halliburton: gigante en apuros', 18 October 2004.  
[http://news.bbc.co.uk/1/hi/spanish/international/newsid\\_3747000/3747910.stm](http://news.bbc.co.uk/1/hi/spanish/international/newsid_3747000/3747910.stm)
- <sup>68</sup> According to Consejo Nacional Electoral de Bolivia, [www.cne.org.bo](http://www.cne.org.bo)
- <sup>69</sup> G.G. Molina (2007) 'El reto postneoliberal en Bolivia'. In *Revista Nueva Sociedad*, n° 209, [http://www.nuso.org/upload/articulos/3433\\_1.pdf](http://www.nuso.org/upload/articulos/3433_1.pdf)
- <sup>70</sup> The distribution of this new hydrocarbon income has sparked political controversy between the central government and some provincial governments. Towards the end of 2007, the central government decreed that provincial governments should receive a smaller share of resources, in order to allocate 30 per cent of the IDH income every year to a so-called 'dignity income', a bonus for pensioners. This led to a wave of protests from the regions and fuelled confrontation between the provinces and the central government. [http://www.laprensa.com.bo/noticias/23-03-09/23\\_03\\_09\\_nego1.php](http://www.laprensa.com.bo/noticias/23-03-09/23_03_09_nego1.php)
- <sup>71</sup> During interviews with CSOs in Bolivia, the following were mentioned as important issues still to be addressed: strengthening the capacity of the national company YPF; ensuring greater public access to information to promote oversight of income and expenditure by social organisations and parliaments; and encouraging economic diversification to reduce the country's reliance on gas in the medium and long terms.
- <sup>72</sup> Human Rights Watch 2004
- <sup>73</sup> M. Ross (2001b).
- <sup>74</sup> Data from the Energy Information Administration (EIA).
- <sup>75</sup> UNCTAD.
- <sup>76</sup> Auty (2004).
- <sup>77</sup> Dunning (2005), pp.452–3.
- <sup>78</sup> Vanguard (2008), "Nigeria: N300 Million Unspent Budget Was Shared in Perm Sec's Office – Director", <http://allafrica.com/stories/200804150233.html>
- <sup>79</sup> National Bureau of Statistics, Nigeria (2005).
- <sup>80</sup> Oxfam's calculations are based on an estimate of the monthly salary of a qualified midwife/nurse in the public sector (an average of Naira 28,500 per month).
- <sup>81</sup> UNDP, Human Development Report 2007/2008.
- <sup>82</sup> M. Ross (2001b).
- <sup>83</sup> Human Rights Watch (2007). <http://hrw.org/reports/2007/nigeria1007/>
- <sup>84</sup> Nigeria Federal Ministry of Finance (2008).
- <sup>85</sup> IMF statistics.
- <sup>86</sup> M. Ross (2001b).
- <sup>87</sup> Brent prices for oil, Energy Information Administration (EIA).
- <sup>88</sup> IRIN (2009). [www.irinnews.org/Report.aspx?ReportId=82648](http://www.irinnews.org/Report.aspx?ReportId=82648)
- <sup>89</sup> In M. Humphreys, J.D. Sachs, and J. E. Stiglitz (2007), analysing spending as a response to avoid favouring political opponents.
- <sup>90</sup> In a weak institutional environment, it is very likely that services provided by civil servants will also be inadequate.
- <sup>91</sup> CELIAF (2006) 'Analyse des priorités en matière de politiques sociales et de santé au Tchad'. Avec la collaboration des ministères De l'Action sociale et de la Famille, de la Santé Publique et du Plan, de l'Economie et des Finances. October 2006.
- <sup>92</sup> Karl (1997).
- <sup>93</sup> BBC (2008).
- <sup>94</sup> In the case of Mexico this amount is minimal.
- <sup>95</sup> The extent of this effect may be determined by four factors: (a) initial income in the extractive region: if the region is poor, mineral wealth could help to reduce the gap with the rest of the country, while if the region is relatively rich, differences may be

exacerbated; (b) difference in growth between extractive and non-extractive sectors; (c) strengthening links between the extractive sector and other financial activities; (d) the capacity of the sub-national government to capture income (Ross, 2007).

- <sup>96</sup> See Olsson (2007) for an explanation.
- <sup>97</sup> CRS (2003).
- <sup>98</sup> Olsson (2007).
- <sup>99</sup> UNDP, various Human Development Reports.
- <sup>100</sup> Public financial management includes all phases of the budget cycle, including the preparation of the budget, internal control and audit, procurement, monitoring and reporting arrangements, and external audit. The broad objectives of public financial management are to achieve overall fiscal discipline, allocation of resources to priority needs, and efficient and effective allocation of public services. See 'Harmonizing Donor Practices for Effective Aid Delivery – Good Practice Papers – A DAC Reference Document', OECD (2003).
- <sup>101</sup> In general, such tools save tax revenues from boom years to ensure sustainable spending once prices fall again.
- <sup>102</sup> <http://www.gtz.de/en/weltweit/afrika/ghana/15228.htm>
- <sup>103</sup> Such as the IMF Guide on Resource Revenue Transparency, <http://www.imf.org/external/pubs/ft/grrt/eng/060705.pdf>; and the proposed 'American Law', The Extractive Industries Transparency Disclosure (EITD) Act (S. 3389) in the USA. [www.publishwhatyoupay.org/en/resources/senate-hearings-natural-resources-highlight-need-extractive-industries-transparency-legisl](http://www.publishwhatyoupay.org/en/resources/senate-hearings-natural-resources-highlight-need-extractive-industries-transparency-legisl)
- <sup>104</sup> EITI, <http://eitransparency.org/eiti/principles>
- <sup>105</sup> To date (March 2009), there are 25 EITI candidate countries and one compliant country.
- <sup>106</sup> In 2006, an investigation commissioned by the EITI secretariat (ODI 2006b) found that 17 of the 56 resource-rich countries analysed had a legal mandate or applied a policy for transferring part of their extractive revenues to the sub-national level. In other words, if extractive revenues are to be targeted towards pro-development public spending, the EITI must be implemented at sub-national level.
- <sup>107</sup> [http://siteresources.worldbank.org/EXTOGMC/Resources/336929-1207671596377/ANNEX-H-NEITI-Act-\(Reproduction\)-Nigeria.pdf](http://siteresources.worldbank.org/EXTOGMC/Resources/336929-1207671596377/ANNEX-H-NEITI-Act-(Reproduction)-Nigeria.pdf)
- <sup>108</sup> Article 2(d), NEITI Act (2007).
- <sup>109</sup> Personal communication from the NEITI Communications Manager (8 April 2008). Access to the audit report carried out by the Hart Group is referenced in various sources as [www.neiti.org](http://www.neiti.org). The NEITI Secretariat in Abuja provided researchers with a digital copy of the final audit report issued in December (after 'reconciliation' of information). It states: 'Audit work was hindered by the passage of time and by inadequate record keeping, systems and procedures. This meant that the process of reconciliation was demanding and time consuming.' However, in April 2008 it proved impossible to obtain a copy of the previous report published in April 2006.
- <sup>110</sup> Government of Nigeria, press release by His Excellency, President Umaru Musa Yar'Adua, at the Inauguration of the National Stakeholders Working Group of the Nigeria Extractive Industries Transparency Initiative (NEITI), Abuja, 29 January 2008. [www.neiti.org.ng/speeches/PresidentYaradua/sInauguralSpeech-Jan29.pdf](http://www.neiti.org.ng/speeches/PresidentYaradua/sInauguralSpeech-Jan29.pdf)
- <sup>111</sup> ODI (2006b).
- <sup>112</sup> Ibeanu and Luckham (2006).
- <sup>113</sup> State Government of Nigeria (2007) Ministry of Planning, Delta State, Nigeria.
- <sup>114</sup> Assessment carried out using figures from June 2003 (when the countries signed up to the EITI) to April 2008.
- <sup>115</sup> Bank Information Center (BIC) and Global Witness (2008).
- <sup>116</sup> UNDP, Human Development Report for various years.
- <sup>117</sup> Collège de Contrôle et de Surveillance des Ressources Pétrolières (CCSRP), 2003, 2004, 2005. [www.ccsr.org/accueil.htm](http://www.ccsr.org/accueil.htm)
- <sup>118</sup> Reuters, 28 February 2008. [www.alertnet.org/thenews/newsdesk/L28883018.htm](http://www.alertnet.org/thenews/newsdesk/L28883018.htm)
- <sup>119</sup> Budget tracking guides: 'Follow the Money', <http://oilmoney.priceoil.org/> 'Drilling down', <http://www.jimnovo.com/>
- <sup>120</sup> Ingeniería Sin Fronteras and Intermón Oxfam (2009),

[http://socios.ingenieriasinfronteras.org/menu\\_otros/noticias.php?pageNum\\_r\\_noticias=20&totalRows\\_r\\_noticias=176&\\$sesion\\_idioma=1&\\$codigo=4279](http://socios.ingenieriasinfronteras.org/menu_otros/noticias.php?pageNum_r_noticias=20&totalRows_r_noticias=176&$sesion_idioma=1&$codigo=4279); and Revenue Watch Institute (2009), <http://www.revenuewatch.org/news/011609.php>

<sup>121</sup> *The Guardian* (2008).

<sup>122</sup> Reuters, 31 March 2008. [www.mg.co.za/article/2008-03-31-africa-needs-stronger-parliaments-to-monitor-aid](http://www.mg.co.za/article/2008-03-31-africa-needs-stronger-parliaments-to-monitor-aid)

<sup>123</sup> The Extractive Industries Transparency Disclosure (EITD) Act (S. 3389) in the USA. [www.publishwhatyoupay.org/en/resources/senate-hearings-natural-resources-highlight-need-extractive-industries-transparency-legisl](http://www.publishwhatyoupay.org/en/resources/senate-hearings-natural-resources-highlight-need-extractive-industries-transparency-legisl)

<sup>124</sup> For example, the United Nations Declaration on the Rights of Indigenous Peoples of September 2007 and ILO Convention 169.

<sup>125</sup> International commitment regarding effectiveness of aid. Donor countries and members signing the agreement set objectives for 12 indicators. Indicator 5-A states that donors shall use and therefore contribute to strengthening the public finance management structures in the beneficiary country to channel international aid flows.

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