Expert Group Meeting Report

The use of non-renewable resource revenues for sustainable local development: Challenges and opportunities for developing countries

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The speeches and discussions have been edited for reasons of space.

The presentations made by the speakers can be accessed on the meeting website, http://www.un.org/esa/sustdev/sdissues/institutional_arrangements/egm2007/index.htm

The opinions expressed in this report are those of he participants and do not reflect the position of the United Nations.

Contents

Conference Speakers and Panelists iv

Glossary v

Foreword 6

Lessons from the meeting 3

- 1 Prerequisites to an efficient use of revenues for local development 3
- 2 Evaluation of the use of revenues on the ground: some problem trends 5
- 3 Obstacles to an efficient use of the revenues for development at the local level 7
- 4 A tentative way forward 8

Opening remarks 11

The challenge of channelling extractive industries revenues towards local-level poverty reduction 12

The use of oil revenues for local development in Chad: local perspectives 13

Use of Natural Resource Revenues for Development in Peru 15

Efficiency of oil multinational-driven development projects in the Niger Delta 16

Use of oil revenues in the Niger Delta: Local community perspectives 17

Use of Non-renewable Resource Revenues for Sustainable Local Development in Ghana 18

Discussion 19

General roundtable: How can we progress towards a more efficient and equitable use of natural resource revenues for local development? 21

Contact list 23

Conference Speakers and Panelists

Gilbert Maoundonodji, Coordinator, Groupe de Recherches Alternatives et de Monitoring du Projet Pétrole Tchad-Cameroun (GRAMP/TC), N'Djaména, Chad. E-mail: gramptc@intnet.td, gilmagil66@yahoo.ca.

Ian Gary, Policy Advisor for Extractive Industries, Oxfam America, USA. E-mail: igary@oxfamamerica.org.

Isaac Osuoka, Director, Social Action, Port Harcourt, Nigeria. E-mail: asumeo@yahoo.co.uk.

Juana Kuramoto, Associate Researcher, GRADE-Grupo de Análisis para el Desarrollo, Lima, Peru. E-mail: kuramoto@grade.org.pe.

Kwabena Sarpong Manu, Executive Director, MIME Consult, Accra, Ghana. E-mail: mime@ghana.com.

Uwafiokun Idemudia, Associate Professor, York University, Canada. E-mail: idemudia@yorku.ca.

Glossary

CSR	Corporate Social Responsibility
EITI	Extractive Industries Transparency Initiative
MDF	Mineral Development Fund (Ghana)
MFI	Multilateral Financing Institution
MNC	Multinational Corporation
NGO	Non-Governmental Organization
PPP	Public-Private Partnership
PRSP	Poverty Reduction Strategy Paper
PWYP	Publish What You Pay campaign

Foreword

The recent but lasting boom in oil, gas and mineral prices has once again brought to the fore issues much debated during the last commodity booms regarding the use of revenues from non-renewable resources for sustainable development in developing countries. Given the importance of such revenues in many producing countries and their non-renewable character, it is of utmost importance to use these revenues wisely, and in a sustainable manner that will benefit future generations.

The ill fate of many resource-rich countries as far as development outcomes are concerned is well known. “Resource curse”, “Dutch disease”, and conflicts over natural resources have become buzzwords that exemplify the dangers facing states over-dependent on mineral resources.

In the recent years, the international development community has conducted unprecedented efforts to improve transparency and accountability over the revenues generated by mineral resources, through initiatives like the Extractive Industries Transparency Initiative (EITI), the Kimberley Process, and the Publish What You Pay (PWYP) campaign.

At the same time, the paradigm within which extractive activities are seen by national governments and donors has changed considerably. Oil, gas, and mining activities are now seen, not as a curse, but as a potential for growth and poverty alleviation. The recent involvement of international financing institutions like the World Bank in supporting extractive industries projects has been based on this premise. Understanding how revenues flowing from oil and minerals can contribute to sustainable development most effectively becomes all the more critical in this perspective.

However, much remains to be done in that domain. Much of the research related to extractive industries has put a heavy emphasis on macro-economic models and numbers, or has focused on the merits of the various institutional structures which have been put in place to manage resource rents. But development impacts of the use of oil and mineral revenues at the local level remain largely unknown.

There are a number of reasons for this relative lack of knowledge. First, issues of transparency improvements as promoted by international instruments often “stop at the border” and are not (cannot be) prescriptive about the use of revenues within signatory countries. Second, information is generally lacking about all the intermediate steps between revenue flows to the government budget and execution of projects on the ground. Evaluating the development impact of such projects is still another hurdle.

The Expert Group Meeting organized by the Division for Sustainable Development at the United Nations Headquarters on September 21, 2007 constituted an attempt to take a closer look at these issues, by reflecting on conditions for effective use of oil, gas and minerals revenues for local sustainable development. Speakers came primarily from NGO or local government backgrounds, in order to bring to the table a user perspective. Thus, the emphasis was put on “downstream” aspects of natural resources revenue management. Speakers from Chad, Ghana, Nigeria, and Peru discussed the performance and the impacts on the ground of development programmes, projects and activities financed by revenues from natural resources in their countries.

As reflected in this report, the meeting gave rise to a rich and fruitful dialogue. It is our hope that such dialogue may be continued, as there seems to be need for communication and exchange of experiences and practices in this domain. The Division for Sustainable Development is ready to contribute to such efforts.

David O’Connor
Chief, Policy Integration and Analysis Branch
Division for Sustainable Development

Lessons from the meeting

This chapter is based on the presentations delivered by the speakers, as well as on the interventions of various participants in the audience who contributed to the debate.

The focus of the meeting was on local development aspects and not on macroeconomic or international aspects of natural resource revenues. Inevitably, however, the links with other related topics were discussed, including international actions for increased transparency on oil revenues; macroeconomic management of oil rents; and Dutch disease. In short, it appeared important not to dissociate local development considerations from the broader issues relating to the generation and allocation of the revenues from natural resources. The first section of this chapter reflects those issues, as they were discussed during the meeting.

The second section focuses on the core questions which the meeting was supposed to address, viz., the efficiency of local development strategies, actions and projects financed with natural resources revenues. As will become apparent, in spite of differences in the institutional frameworks and the nature of revenues from natural resources (e.g. the relative importance of royalties and corporate tax in the total revenues generated from extractive activities), lessons from different countries show remarkable consistency in the outcomes they bring to the fore. In particular, robust findings seem to include the following:

- the environmental and social costs of oil or mining activities on local communities directly affected by them are not adequately taken into account;
- the selection of projects financed out of natural resource revenues often has no or only distant relation with local priorities;
- bricks and mortar tend to act as a substitute for a consistent local development strategy;
- budget execution (disbursement) rates are consistently low.

The main reasons for these outcomes are analyzed in section 3. Among the issues considered are: the struggle for control of natural resource revenues; capacity gaps; lack of information; the social and environmental costs of extractive activities; and the limits of Corporate Social Responsibility (CSR) as an answer to development concerns.

Section 4 provides a tentative sketch for a way forward. Using the arguments provided by meeting participants, it briefly tries to address the issues discussed in section 3.

1 Prerequisites to an efficient use of revenues for local development

1.1 The unfinished transparency agenda

Transparency over the revenues generated by extracting activities tends to be low. This can be due to a number of reasons. For example, in Mali, companies mining gold are subject to 25 different taxes. Another issue is the lack of transparency of exploitation contracts signed between governments and companies. The proliferation of project-specific investment agreements (in contrast with a general framework for sharing of revenues between companies and the government) reinforces the opacity of the revenues for the public.

This problem is also (if not more) visible at the local level. Lack of budget information within the country often generates uncertainties at the local level over how much should be received from the government, as well as in respect to what is required of companies, by contract, in terms of contribution to local development.

The Extractive Industries Transparency Initiative (EITI) has certainly contributed to improving the situation. Although many participants agreed on the limitations of EITI (see below) and other initiatives such as the Publish What You Pay campaign (PWYP), they also recognized that EITI represents an opportunity. First, as put by one of the speakers, EITI reduces the "enabling environment" for corruption: "at least with EITI, we know how much is missing". The value of EITI is measured by the quality of the debate it is able to generate in the country over transparency and accountability issues. In that sense, EITI represents a first stage, a platform on which further progress on transparency and accountability issues can be based.

Corruption is a two-sided affair. In Chad, it is estimated that an amount equivalent to the State budget before oil started to flow does not reach the Treasury. Figures for other countries are also high. Many participants mentioned that corruption is a two-sided business. Therefore, it has to be attacked from both sides. In particular, the issue of tax havens must be addressed if transparency at the macro level is to be increased.

Transparency over the allocation and use of revenues is even more difficult to achieve. Once revenues from natural resources enter the budget, their use is submitted to various regimes regarding the degree of scrutiny they are exposed to and the degree of control the public has over their use. The laws or regulations covering the use of the revenues may be flawed. For example, in Chad the main institution put in place for the transparency and control of the use of revenues (*Collège de Surveillance de l'Utilisation des Revenus Pétroliers*) only monitors a small fraction of total revenues. In Ghana, the law and the regulations governing the Mineral Development Fund did not include reporting and monitoring requirements, resulting in a lack of accountability and transparency. In that country, a new bill in preparation will try to correct this shortcoming.

Lack of or very limited access to information on budgets at all levels of society is also a major limiting factor in many countries. In such contexts, there is a long way to go towards transparency. The "Publish What You Spend" equivalent to the PWYP campaign would represent a further step in that direction.

The EITI does not help much in this respect, as it does not deal with budget and expenditures issues. The issue of country sovereignty is hard to bypass in the international context. It explains the reluctance of donors to discuss local level spending. The Chad-Cameroon pipeline project, financed by the World Bank, was an attempt to break "through the border" and explicitly address the issues related to the use of the revenues from oil. As addressed in the interventions of Ian Gary and Gilbert Maoundonodji, so far the results have been mixed. However, such attempts may constitute a promising avenue.[1]

1.2 Democracy and legitimacy as prerequisites for accountability

Governance quality is key to a good use of natural resource revenues for development. However, governance is not strictly a mining sector issue. Although the meeting was not focused on governance, many participants repeatedly mentioned that legitimacy of governments was a key issue. Accountability and responsibility begin with legitimacy, which is lacking in many countries. Leaders who are not democratically elected tend to care little about the people they should represent. But they also tend to be the

[1] During the meeting, some participants went so far as advocating conditionalities on grassroot involvement in revenue management in projects supported by MFIs such as the World Bank. Coming from grassroot organizations, and given the mixed feelings usually associated with conditionalities, this illustrates the lack of alternative levers on governments unwilling to increase transparency on their own.

most vehement about "sovereignty" issues, by which internal issues are not to be addressed by the international community. Because of lack of accountability, there is no link between revenues and development on the ground.

Overdependence on oil revenues (as in Nigeria) can further disconnect the State from the people it is supposed to represent, as argued by Isaac Osuoka. Exclusive reliance on revenues from oil and minerals extraction severs the link that exists in other countries between the government and the people in the form of taxes. Ultimately, as put by Osuoka, "the State does not need the people any more", eventually resulting in societal collapse and substitution of private/State interests over public good. Even in less extreme versions, it seems that the "easy money" represented by revenues from oil discourages tax collection. In Chad, tax collection has visibly deteriorated in only two years after hydrocarbon revenues first accrued to the budget. Resource rents also tend to imply inflationary spending (army, prestige expenditures).

The issue of legitimacy is also present at the level of local governments. Not enough attention has been directed to that level of government and how to ensure transparency and accountability of local governments. As exemplified by Nigeria, a crucial issue is to reconcile traditional local community leadership structures with local government structures appointed from the centre.

1.3 The distance between law and reality

Advancing on the accountability and transparency fronts through the legal angle has its limits. As mentioned by several participants, countries may well have ratified most of the international conventions or instruments relating to democracy, transparency, and human rights, but this does not mean that they are enforced. The same applies to national legislation. There is often a gap between the law and day-to-day practices. Therefore, the challenge is how to translate the law into practice.

The same issue arises in the domain of decentralization. Decentralization is often presented as a means to better manage resources, because proximity between citizens and their local governments is supposed to translate into better accountability. However, as mentioned by several participants, one needs to take a hard look at the situation on the ground. Very often, decentralization exists only on paper. Sometimes the institutions supposed to accompany it do not exist, like in Chad where decentralization is inscribed in the Constitution of 1996 but has never become a reality (see the intervention of Gilbert Maoundonodji). In other contexts, local governments may be no more accountable to people than the central government. In all cases, management capacity can be a problem, especially in newly created institutions.

2 Evaluation of the use of revenues on the ground: some problem trends

In spite of differences in their institutional structures and in the importance that revenues from non-renewable natural resources have for their economies, the four countries examined during the meeting exhibit common features in terms of the lessons which can be drawn from the evaluation of the use of revenues for local development. In short, while idiosyncratic contexts are important, a certain number of robust trends can be identified.

2.1 Bricks and mortar as a substitute for consistent local development strategies

Inconsistency between development plans and investments seems to be a general concern. Sometimes, investment plans for

development do not exist. In Peru, planning institutions able to elaborate such plans were dismantled and have not been replaced. In other contexts, development plans may be too general. According to one speaker from Nigeria, the Niger Delta Development Plan contains adequate development goals, but is not a real action plan with actions, timelines, implementation, etc. This obviously results in a waste of resources, because some of the investments undertaken are either not useful or redundant. Lack of information-sharing and cooperation between sectors and levels of government can reinforce these inconsistencies.

There also seems to exist a tendency to identify "development" with "cement", that is, a tendency to allocate most of the resources to infrastructure and construction projects. This seems to be linked to the high visibility of (and political rewards to) such projects; to the capacity of these sectors to disburse quickly; and to opportunities for relatively easy diversion of money in construction or infrastructure projects. This bias towards concrete can result in "white elephants", whereas projects with more development impact are not selected.

Many participants mentioned that in order to make a difference in development outcomes, revenues from natural resources need to be able to generate additional and sustainable income flows. Links of extractive industries with the local economy are very important. Given the capital-intensive nature of the former, achieving positive spillovers and interactions with the local economy can be a problem in countries or regions where the local economy is to a large extent based on agriculture, and/or (low-tech) labor intensive.

2.2 Projects financed by natural resources revenues do not reflect local priorities

In his intervention, Gilbert Maoundonodji described how GRAMP/TC had proceeded to local enquiries and surveys of the communities in the oil producing regions of Chad in order to collect their priorities for the use of the funds allocated to them. The projects which have been financed visibly do not correspond well to local priorities.

Priorities of people often differ from priorities of governments. For example, people in local communities may put access to potable water as their first priority, whereas politicians will favour more visible actions such as electrification, roads, etc. In Chad, small projects with direct impact seem to be favoured by communities, but projects financed so far are large ones with only distant or indirect impact on communities. By contrast, in Peru, the choice seems to be biased towards small projects, because of legal and regulatory issues. In Ghana, communities tend to favour projects that have a visible impact for them, as opposed to projects that benefit a broader public. There have been conflicts within districts over what projects should be financed and who the beneficiaries should be.

2.3 Execution rates remain desperately low

In Chad, execution rates for projects budgeted on the revenues from the royalties (those overseen by the *Collège*) have varied between 30 and 40% (see the presentation by Gilbert Maoundonodji). The same was observed for the funds coming from the 5% allocated to local communities, with only 6 out of 18 billion CFA francs accrued to the Fund between 2005 and 2007 disbursed so far. In Peru, execution rates have also been around 30-40% (see the presentation by Juana Kuramoto).

The inability of certain sectors to spend quickly has been used as a justification for shifting funds from priority sectors to others with higher capacity to disburse quickly, such as construction or roads. This reinforces incentives to finance white elephant projects.

2.4 Social and economic costs of extractive activities for host communities are not adequately dealt with

The social and economic costs of extractive activities on host communities are extremely high. For those communities, there is a net wealth and/or income depletion. Those are usually not accounted for, and thus tend to represent a hidden tax for the communities where those activities are located. The tax may be virtual, but its effects are real. Beyond immediately visible effects such as land erosion (Peru), oil spills and gas flaring (Nigeria), environmental costs are often not visible in the short run but can in effect destroy livelihoods.

A widely relayed idea was that those costs are still not adequately dealt with. As an illustration, Juana Kuramoto mentioned that in Peru, even though mining activities might represent an income opportunity, even in poor and only marginally productive agricultural areas communities are refusing to host new projects, for fear of environmental damages.

3 Obstacles to an efficient use of the revenues for development at the local level

3.1 The struggle for the control of the revenues

Conflicts of various levels of governments, between governments and companies, and between communities and governments over the control of the revenues seem widespread and appear under one form or another in the four countries covered in the meeting. In Ghana, there is a tension between the traditional rulers (who tend to spend based on private good criteria, or for prestige activities which are traditionally associated to their role) and district assemblies (which tend to spend for broader community development, e.g. schools or hospitals). In Chad, the central government has tried to regain control of the part of the revenues allocated to local communities. In Nigeria, revenue-sharing issues have been a subject of intense fights from the beginning. In Peru, there is a latent conflict between companies, government at all levels, and communities, over the control of the revenues.

Related to these conflicts is the politicization of project choices, which to some extent has also been observed in the four countries. This in turn relates to the absence of proper monitoring and control mechanisms.

3.2 Lack of capacity of local actors

An often mentioned problem is the structural imbalance between multinational companies (MNCs) and local communities. The latter do not have the financial, legal and technical means to deal on a fair basis with powerful companies. Moreover, very often the government is unable to provide support to local communities in their dealing with MNCs. This is reinforced by the fact that oil and mineral activities often take place in the most remote areas, where the government has little or no presence (e.g. Peruvian Amazon and Doba region in Chad).

But lack of capacity also affects local governments. Because of stalled or incomplete decentralization, local governments (when they exist) may not possess adequate structures and capacities to plan and execute budgets. Another important aspect that training and capacity-building could address is how to manage the conflict between the pressure to spend quickly versus the potential for corruption. Other deficiencies include lack of capacity to devise coherent strategies and action plans, and lack of education on environmental issues.

Local enterprises, which could in principle provide services to the oil and mining companies, often do not meet the standards that those require. Technical assistance

programs would be needed to bring them to a level where they can access deals with the MNCs, thereby allowing wider interactions and spillovers between the extractive activities and the local economy.

3.3 Information: the crucial missing link

Low budget transparency in general, and lack of adequate information channels and institutions for participatory decentralized government in particular, may result in total opacity of the amount of the revenues which should be received at the local level. Local officials (and even more so local communities and NGOs) often lack information on how much they are entitled to receive.

As mentioned above, lack of information starts with the provisions of the contracts signed between the government and the companies. But it also encompasses lack of communication mechanisms between institutions (e.g. central and local governments, government and the *Collège* in Chad, etc.).

Finally, there is often a lack of appropriate channels for conveying priorities and demands of local communities to the level where spending decisions are taken.

3.4 CSR is clearly not enough

CSR actions undertaken in the Niger delta have clearly shown limitations. There is a general agreement that development concerns cannot be left to private sector actions of this kind. A first problem is that CSR programmes are not subject to independent impact evaluations. The available evidence for Nigeria shows at best mixed results. More broadly, the evidence seems to show that in the best case CSR activities do not compensate for companies' failure to keep the environment clean or compensate those affected by negative environmental externalities.

4 A tentative way forward

4.1 Finishing the transparency agenda: The role of the international community

A first role for the international community is to facilitate the sharing of experiences between countries. Information exists, waiting to be shared. Even in countries where access to information is low, a lot can be learnt from available figures. Also, work on the ground by NGOs and other institutions has created a wealth of knowledge which would need to be disseminated in order to facilitate the drive towards transparency.

The main role of the international community is to facilitate progress on the transparency and accountability agenda. Eventually, it must succeed in going down to the question of how revenues are spent. Some participants mentioned that this issue can be seen from a human rights angle (right to education, health, etc.), and therefore could be addressed with some legitimacy. Although in an international discussion context the issue of sovereignty is hard to bypass, there is a range of actions the international community could contemplate:

- send a clear support message to EITI and other international initiatives on transparency;
- promote democracy, as a prerequisite for accountability;
- possible UN resolution calling for contract and revenue disclosure in resource projects and also for respect of human rights in project areas;
- provide assistance for implementation of effective decentralization on the ground, where decentralization can be used as a means to achieve better governance;
- provide capacity-building to implement projects effectively; and
- support/coordinate actions aimed at producing a binding code of conduct for multinational companies.

4.2 Increasing transparency from the bottom up

Lack of transparency in institutions is difficult to overcome. Given the limited ability of international instruments to go "beyond the border", alternative strategies have to be found to help governments move towards more transparency. In order to implement transparency and accountability in day-to-day action, the right institutional structures are needed (i.e. those which best correspond to local cultural practices). In addition, information sharing mechanisms must be put in place.

A role of the UN in that respect could be to contribute to widen the policy space whenever the opportunity arises. Simple actions which can make a difference include: supporting and reinforcing local radios in vernacular languages, both as a means to reinforce the voice of local communities (channels for conveying priorities / demands) and for education purposes (budget information); promoting a better dissemination of budget information, and promoting communication between institutions (e.g. by printing budget sheets and distributing them).

4.3 Delivering capacity building at the local level

Capacity-building is central to progressing towards a more efficient use of natural resource revenues for local development. Capacity building efforts should be directed at:

- local governments, in order to allow them to:
    - acquire basic training and education on environmental issues;
    - better articulate spending into coherent development plans; and
    - increase budget execution rates.
- NGOs and local communities, in order to allow them to negotiate with local government officials and private companies on a more equal basis.

In parallel, technical assistance programs should be targeted at small and medium-sized enterprises which could provide services to MNCs operating in the oil or mining fields, in order to bring them up to required standards.

More generally, there is a need for much more coordination between actors, both vertical (that is, between government levels) and horizontal (that is, between sector ministries and other institutions).

4.4 Better address the environmental and social costs of extracting activities in host communities

Two main ideas emerged from the discussion. First, **a greater part of the revenues needs to be directed to address the depletion of environmental wealth of directly affected communities** (e.g. projects need to consider not only building schools but tackling land degradation, oil spills, etc.). Environmental and social costs of extractive activities on the communities directly affected by them should be compensated for, independently of more general revenue distribution mechanisms.

Revenue-sharing schemes often tend to redistribute revenues over wider communities than those directly affected, which can lead to perceptions of unfairness if the environmental costs are not addressed by a separate mechanism. While there is scope for discussion on how revenues should be shared at the country level (and the outcome of such discussion depends on local perspectives on what constitutes an equitable deal), there is no arguing that persons displaced or directly affected by mining activities need compensation, because they lose their land and assets in the process. Part of the revenues should go to them in the first place in order to offset those costs, instead of coming back after a long circuit in the form of e.g. a share for local communities.

Second, **in order to make a difference in development outcomes, revenues from natural resources need to be able to generate additional and sustainable incomes**. In particular for communities directly affected by extractive activities, enabling alternative livelihoods is crucial. Projects which create links with the local economy are very important in that context.

4.5 Towards a binding code of conduct for MNCs?

The limits of CSR approaches in the extractive sector are clear. A possible role for the UN could be to support (conduct) a census of existing initiatives related to regulating the behavior of multinational companies (e.g. OECD guidelines, WB guidelines for the mining sector) in order to ultimately develop a **code of conduct of multinationals** that would be enforceable. The ultimate goal is to avoid double standards, as practiced today.

Opening remarks

By Mr. Jomo K. Sundaram
Assistant Secretary-General for Economic Development, DESA

The last years have witnessed a sustained increase in oil, gas and mineral prices. For many countries, this upward trend in prices has generated unexpected windfall revenues. Revenues from oil and gas exports, in particular, often represent an important proportion of GDP and government budgets in developing countries.

Resource-rich countries, however, have been shown, on average, to perform worse than resource-poor countries in terms of growth. "Dutch disease" effects are argued to be one of the causes of the "resource curse", but evidence suggests that commodity booms do not necessarily stall economic growth, provided rents are managed well. Examples of successful institutional arrangements that help generate long-term cash-flows and minimize macroeconomic distortions, as well as addressing intergenerational equity concerns, include different resource revenue management funds in Botswana, Kuwait and Norway.

On the other hand, adequate management of resource rents goes beyond the establishment of such funds. The experiences of several Asian countries, which had resource booms in the 1960s, and their different economic policy strategies to promote diversification into higher value added activities, can provide valuable lessons for countries experiencing resource booms today.

Originally imported from West Africa, palm oil started to grow in Malaysia from the 1920s. European tariffs discriminated against refined palm oil imports for several decades, which effectively created an incentive to export the raw material (crude oil). Following independence in 1957, the Malaysian government significantly increased its export duties on crude oil in the 1970s, creating incentives to refine locally. This induced aggressive competition among local producers, as well as increased overall efficiency in the palm oil refining industry, which soon became the most efficient in the world. This initially resulted in over-investment in refining capacity, which forced producers to look at export markets and gain efficiency quickly. Finding new barriers to market penetration in the United States, with an aggressive advertisement campaign favouring other oils, Malaysian producers focused on entering new markets, including India, former Soviet Union, Pakistan and China.

Hence, a combined strategy of value addition and market diversification contributed to generate the base for Malaysia's long-term growth, as revenues from various sources (including petroleum and gas) were invested in education, health, and infrastructure, laying the groundwork for economic diversification and industrialization. Similar strategies to upgrade production and create dynamic industries based on natural resource exports took place in Indonesia (plywood exports) and Thailand (gemstones) in the last two decades of the 20th century.

The same questions that Malaysia faced in the 1970s and 1980s are faced by the countries represented in the meeting – Peru, Chad, Nigeria and Ghana. It is thus timely to examine how both national and local governments, and also other actors, such as civil society groups, can ensure that the development opportunity afforded by the current resource revenue windfall is seized effectively and equitably.

Panel I

The challenge of channelling extractive industries revenues towards local-level poverty reduction

By Mr. Ian Gary
Senior Policy Advisor for Extractive Industries, Oxfam America, USA

There is an increasing recognition of the need to know how natural resource revenues are spent, rather than just to whom they are being disbursed. At the same time, one has to acknowledge the importance of initiatives such as the Publish What You Pay (PWYP) campaign and the Extractive Industries Transparency Initiative (EITI), which have helped to raise awareness and increase transparency regarding payments by companies to governments and related entities in countries reliant on natural resource industries, and government revenues in those countries.

A set of generic issues arising in many countries with respect to natural resource revenue use include:

- Complex formulas in contracts and multiple revenue streams paid to governments (e.g. in Mali, there are some 25 different taxes paid by gold mining companies to the government; in Chad, royalties are submitted to certain rules, but not revenues originating from corporate taxes, which accrue directly to the Treasury).
- Poor information of local officials as to how much they are entitled to receive.
- Ambiguity at the local level regarding which revenues are coming from government and which ones from companies in the form of philanthropy.
- Weak links between capital-based budget monitoring groups and local community groups, who in principle could act as the "eyes and ears" of an effective monitoring system.
- Mismatch between the timing of interventions, including local capacity building, and the timing of project investment.
- Extractive industries investments often located in remote or "frontier" areas where government capacity is weakest.
- Reluctance of donors to discuss local level expenditures, for fear of encroaching on country sovereignty.

In the case of the Camisea I and II gas project in the Peruvian Amazon, a forthcoming study undertaken jointly by Oxfam, the World Resources Institute, and the Bank Information Center has identified three main areas of concern, including limited ability to spend large revenue inflows at the municipal level in the Peruvian Amazon, given very low government capacity, inability of indigenous communities to influence spending, and negative environmental impacts affecting local livelihood sources that remain to be addressed.

"We need to know how natural resource revenues are spent, rather than just to whom they are being disbursed"

"At least with EITI, we know how much is missing"

In Chad, obstacles to an effective revenue use include:

- Low project execution rates in health and education sector.
- Heavy emphasis on road building to the neglect of other sectors (e.g. investment in human resources).
- Cyclicality of revenues due to fluctuation in commodity prices, causing projects to be suspended before completion.
- Difficulty of allocating revenues to cover recurrent expenditures, even though these are crucial to sustainability of projects, e.g., in education and health sectors.
- Low budget transparency.
- Lack of public participation in budgeting.
- Lack of regional development plans to guide investment of revenues.

In conclusion, there are a number of necessary ingredients for progress towards more effective management of resource revenues. First, mandatory disclosure regimes regarding royalty and other payments as well as revenue expenditures must be in place. Second, it is necessary to move beyond the EITI and extend requirements to local level expenditures. Third, support to capacity building efforts is required if projects are to be effectively implemented. Fourth, there should be better articulation between spending from natural resource revenues and development plans such as PRSPs, which often do not adequately incorporate local inputs and priorities. Finally, consideration should be given to the possibility of a UN resolution calling for contract and revenue disclosure in resource projects, especially in light of its human rights implications.

The use of oil revenues for local development in Chad: local perspectives

By Mr. Gilbert Maoundonodji
Coordinator, Group for Alternative Research and Monitoring of the Chad-Cameroon Petroleum Project (GRAMP/TC), Chad

There has been a change in paradigm among the international development community, from a focus on how to avoid the resource curse towards how to use oil revenues for development and poverty alleviation. The latter is now the paradigm used by multilateral finance institutions (MFIs) such as the World Bank to finance projects in the extractive industries sector, as in the case of Chad. Such projects are also used as a means for MFIs to promote public-private partnerships (PPPs) as a privileged instrument for development and poverty reduction.

The highly mediatised Chad project was supposed to set the standards for this new approach. However, three years after oil revenues started to flow, the experience has been mixed.

First, some revenues from oil do not show on official statistics. In 2007, with oil prices reaching peak levels, the Chadian government's budget doubled with respect to 2004, before the oil revenues started to accrue to the State. Still, there remains a significant gap between the payments declared by the companies and the revenues registered in the budget. The current gap (400

billion CFA Francs) is equivalent to the entire 2004 budget.

Moreover, from the portion that does get allocated to the budget, only approximately one-third is executed. Low execution rates, reflecting the inability of certain ministries to allocate revenues in a timely manner, have been used as a justification to withdraw resources from priority sectors (e.g. health) in favour of infrastructure. However, some of the infrastructure projects were inadequately built, particularly roads, and are now in poor condition.

In Chad, the main institution put in place to monitor the use of oil revenues, the *College de Surveillance de l'Utilisation des Revenus Pétroliers*, controls a mere 12.5% of total oil revenues, i.e. only the revenues coming from royalties, but not the revenues collected as corporate tax which accrue directly to the Treasury. In practice, the latter have been greater than the former, due to higher oil prices than anticipated when the law was drafted. This, so to speak, can be considered as the "original sin" embedded in the law.

Another major issue concerns the portion of oil revenues allocated to local communities in producing regions. According to the 1996 Constitution, exploitation of mineral resources must lead to a reallocation of 5% of the revenues to communities from the producing regions. Law #1 from 1999, which governs oil revenue management in the country, restates this principle. However, the decentralized structures are still not in place. Decentralization, although inscribed in the Constitution of 1996, has stalled, and no local government elections have taken place.

In order to address this issue, a Temporary Committee (*Comité Provisoire*) was created to manage the revenues, but problems remain. First, of the 18 billion CFA francs of revenues accrued from 2005 to 2007, only 6 billion have been spent. Second, the projects which have been financed mostly do not correspond to local priorities, according to local surveys and interviews carried out on the ground by GRAMP/TC. GRAMP/TC consolidated the results of this research and submitted them to the aforementioned Committee. However, in the meantime the Committee was requested by the highest levels of the central government to "reprogram" investments so as to align them with the presidential mandate's priorities. Since then, the temporary committee has been dissolved by the central government.

Some lessons may be drawn from the Chadian experience. Like in other countries, the sudden inflow of "easy" money from oil production has resulted in lax fiscal discipline and poor tax collection, with the latter visibly deteriorating in the space of two years. Funds have been diverted on a large scale and corruption and mismanagement are widespread, while the choice of investment projects has become highly politicized. In conclusion, while the current boom represents a tremendous opportunity to boost the economy, accountability and democracy are key to actually make this happen.

"Accountability and democracy are key. Without democracy, revenues will not make much difference for development"

Use of Natural Resource Revenues for Development in Peru

By Ms. Juana Kuramoto
Associate Researcher, Group of Analysis for Development (GRADE), Peru

The first part of the presentation provided an overview of the political/social situation in Peru. Emphasis was placed on the existence of latent conflicts between the main actors involved in the process (companies, local and central governments, local communities) which the central government is unable to manage, placing the country in a vulnerable situation for future deposit bids, and stalling much required investments. In fact, while mining companies represent income opportunities, even poor, marginally productive agricultural areas are refusing to host new projects, fearing environmental damage similar to that occurring elsewhere as a result of mining activities.

The second part of the presentation focused on the main mechanisms through which revenues are distributed, their magnitude and the type of activities financed. Execution rates have been low, and the selection of projects has been biased towards small projects with little development impact.

There is a tendency to identify "development" with "cement", that is, a tendency to allocate most of the resources to infrastructure and construction projects. This seems to be linked to the high visibility of such projects, and to the capacity of these sectors to disburse quickly, and to the fact that they offer the most opportunities for corruption. This bias towards concrete results in "white elephants", such as buildings that will not be staffed or maintained, resorts which will be vacant, etc., whereas projects with more development impact are not selected.

As a result, much needed investments in "soft" assets (such as capacity building to local government officials that support the management and accountability of disbursed funds) receive far less resources. This partly explains the inconsistency between development plans and proposed projects. Another contributing factor is the sluggish transfer of competencies to local governments (despite the existing decentralization process).

More broadly, funding of education of the general public on sustainable development issues has been poor. Public awareness (and thus the scope for political pressure) concerning the use of mineral resources is fairly low.

"Unfortunately, too often development has been synonymous with cement"

"Capacity building needs to target not only NGOs and communities, but also local governments"

Panel II

Efficiency of oil multinational-driven development projects in the Niger Delta

By Uwafiokun Idemudia
Associate Professor, York University, Toronto, Canada

This presentation focused on corporate social responsibility (CSR) in the oil and gas sector of Nigeria, in particular in the Niger Delta, where conflicts between companies and communities continue to grow. Mr Idemudia described the origins of the Niger Delta Development Corporation (NDDC), formed in 2000, which has been a partner to multinational companies in their CSR initiatives.

The limitations of a partnership approach, in relation to the impact of oil multinational-sponsored projects aimed at reducing material deprivation and poor health and education in host communities, are manifold. More specifically, such efforts are constrained by the fact that decades of government's and oil MNCs' neglect mean recent contributions have a limited impact as community needs outweigh current support and the fact that such efforts are still largely driven by a business case logic that often results in failed projects and uneven spread of developmental benefits. On the other hand, capacity building initiatives like micro-credit schemes and agricultural partnerships are constrained by poor corporate-community communication and uncritical adoption of the Grameen bank model. For instance, micro credit schemes have been adopted in areas where indebtedness is deemed unacceptable by local cultural/social standards.

Over-emphasis of affirmative duties to the detriment of negative injunction duties (e.g. the obligation to keep the environment clean or compensate those affected by negative externalities) and government failure to make sure that such duties are respected, are key to understanding the conflict in the Niger Delta. This is a result of the undue influence of oil multinationals over state policy (the Nigerian state depending almost entirely on the hydrocarbon sector's revenues for its budget). Repeated postponement of the phase-out of gas flaring – which has generated substantial community concern over health and environmental effects – was cited as an example.

"The economic and social costs of extraction industries on affected communities are an unpaid tax which is never accounted for"

Use of oil revenues in the Niger Delta: Local community perspectives

By Mr. Isaac Osuoka
Director, Social Action, Nigeria

The Royal Niger Company, which in the beginning of the twentieth century transferred the territories under its control to the British government, formed the basis for the modern state of Nigeria. Following independence, the history of Nigeria remained intrinsically linked to oil and oil multinationals.

In short, the Nigerian State has been from its very start a virtual entity that does not represent the people of Nigeria. Rather, the State represents itself. Oil has fuelled this dichotomy and allowed the State to survive irrespective of its lack of legitimacy and the lack of any other relevant income generating activities. In other countries, the State finances itself by taxing its citizens. This generates a certain degree of accountability. In Nigeria however, the sheer size of oil revenues allows the State to forego ordinary tax collection and still thrive. In fact, given the magnitude of oil revenues, the State does not "need" its citizens or the other sectors of the economy any more. The ultimate result is societal collapse and the prevalence of private and government elites' interests over the public interest.

"When the State is so dependent on oil revenues, it comes to a point where it does not need the people any more"

Furthermore, in a State reliant on oil, while citizens do not pay taxes, they do bear the social and environmental costs of oil extraction, and these can be seen as "untold (unpaid) taxes". This raises the important issue of bringing unaccounted for environmental and social costs into the discussion about revenue sharing, particularly as many of these effects are often not visible in the short run, but have important consequences in the long-run (oil spills and gas flaring are not the whole story; pipeline construction can destroy whole ecosystems with dire consequences for local livelihoods.

To summarize, the extraction cost of oil in Nigeria, estimated at 4 USD per barrel, does not correspond to the effective environmental and social costs borne by Nigeria. The significant revenues generated by these activities, ranging from 35-50 USD billion depending on the estimates, should be discounted of the cost of oil extraction to the Nigerian people, particularly in rural areas where agricultural productivity is dropping due to deteriorating environmental conditions.

With respect to the development impact of oil revenues, while the Niger Delta Development Plan does contain adequate development goals, it is not a plan with actions, timelines, and a budget. It is also clear that some resources allocated to the local level have been wasted in investments that are of little use to the local population and which have been decided by the central government.

There is a real issue of legitimacy of local governments. In Nigeria, corruption among elected community leaders is typically low. Communities are taxed and hold these leaders accountable for the resources they spend. However, there is a very high degree

of corruption in the local government bodies which manage oil revenue allocation, which are nominated by the central government and as a result are seen as alien institutions. A central question is thus: How to reconcile local government structures with existing community leadership systems which have more legitimacy?

"How to reconcile local government structures with existing community leadership systems which have more legitimacy?"

Use of Non-renewable Resource Revenues for Sustainable Local Development in Ghana

By Mr. Kwabena Sarpong Manu
Executive Director, MIME Consult, Ghana

Property rights over natural resources have a direct bearing on how revenues from these resources are shared. In Ghana, where mineral resources are owned by the state, and in contrast with other African countries (e.g. Chad), revenues from royalties are far greater than revenues from corporate taxes.

The Mineral Development Fund (MDF) was created "for use in communities which host mining operations in order to redress some of the harmful effects of mining and to undertake development projects". Twenty per cent of the royalties from mining operations are allocated to the MDF, of which half is distributed to District Assemblies, 20% to a Community Development Scheme account and the remaining 30% to support mining sector institutions and mining sector research. This scheme has contributed to a fairer sharing of natural resource revenues, but its implementation is not entirely satisfactory.

First, projects that have a visible impact in the short-run in a given community, as opposed to projects with long-term benefits that favour a wider set of communities in a district, tend to be favoured. As a result, there have been conflicts within districts over what projects should be financed and who the beneficiaries should be.

Another problem relates to conflict over revenue control between traditional rulers (who tend to base spending on private good criteria, or for prestige activities which are traditionally associated to their role) and district assemblies (which tend to allocate expenditures for broader community development projects). Nonetheless, even the latter have increasingly spent MDF resources in recurrent expenditures, rather than investments with longer term impacts.

A similar distinction can be made between people directly affected by mining activities through land expropriation vis-à-vis others. While there is wide scope for discussion on how revenues should be shared between citizens at the national level (and the outcome of such discussion depends on local perspectives on what an equitable arrangement should look like), there is no arguing that those displaced by mining activities should be compensated for the loss of the asset itself and future income streams. It was suggested that more attention should be given to this often neglected aspect of extractive industries' impact on local livelihoods. Part of the revenues from mining activities should go to people directly affected in the first place in order to offset those costs. Also, for communities directly affected by extractive activities, revenues from natural resources need to be able to generate additional and sustainable incomes.

"Not enough attention has been paid to the need for resource revenues to generate actual cash flows and support alternative livelihoods"

Finally, the MDF has suffered from lack of proper reporting and monitoring, as such was not explicitly required by law. A new bill on the MDF should partly offset these limitations as it will increase transparency and accountability requirements from all stakeholders and reinforce community participation.

Discussion

The morning discussion took off with the topic of decentralization, and how the process could be strengthened in order to contribute to more efficiency in the use of revenues. Stress was placed on building stronger local government capacities to manage these revenues. Regarding Chad, it was noted that decentralization is key to effective resource management, but that the central government may be afraid of ceding too much control to lower levels of government. It was suggested that the central government tends to favour high-visibility mega-projects (often with little direct impact on local well-being) over projects which more directly serve local needs.

One speaker agreed that central governments favour large investment projects, but was less convinced that small-scale projects have bigger impacts on development. Rather, there is a need to balance such projects focused on short-term community needs with bigger projects with longer term development impacts. For instance, communities will tend to favour expenditures on e.g. potable water, while politicians at the central government level will tend to favour more visible actions such as road construction. However, the lack of well-maintained roads has a direct bearing on long-term development opportunities. More broadly, in Peru smaller scale projects tend to be favoured because there are less constraints in obtaining approval below a given investment threshold, rather than because the local population necessarily favours such projects.

One participant referred to the importance of promoting investment in the non natural resource sectors of the economy, where most employment is located and which have greater linkages to the rest of the economy.

Various participants alluded to the fact that the weak presence of governments in remote areas, where often extractive industries' operations take place, causes an even greater power imbalance between companies and local communities.

It was further noted in the discussion that the proliferation of project-specific investment agreements, versus a general framework for sharing of revenues between companies and government, reinforces the opacity of revenue flows to the public. Given the amounts at stake, particularly in the current context of very high commodity prices, more attention should be given to the terms resulting from such agreements in order to ensure real benefits to the host country.

It was furthermore pointed out that the issue of revenue sharing between the host communities and the country as a whole is often biased since environmental and social costs – which are mostly borne at the local level – are not accounted for. In the cases where there is no redistribution of revenues to local communities, these bear in effect a net income loss from oil and mining investments.

"Governance is not a mining sector issue. Rather, it is a country-wide issue."

In the afternoon, a point was made of the apparent decentralization of corruption in Nigeria and Peru. Not enough attention has been directed to that level of government and how to ensure transparency and accountability of local government.

There was a discussion of EITI and, while its limitations were recognized (e.g., it does not require publication of budgetary allocations of resource revenues and it does not extend to local governments), one participant argued that, at least, for the first time "we know how much is missing". In this respect, it makes the environment less hospitable for corruption. Still, several participants noted that the main contribution of EITI reports has been to generate a fruitful debate on transparency and accountability in mineral and oil producing countries.

"Sometimes governments open the door to some transparency and accountability. The role of the United Nations should be to ensure that the door remains open."

General roundtable: How can we progress towards a more efficient and equitable use of natural resource revenues for local development?

Five questions guided the general discussion which concluded the meeting:

- Are there recurrent themes which could explain low efficiency in use of natural resource revenues for local development, or is each country highly specific?
- What is the nature of the main obstacles?
- Has "learning by doing" improved things (especially on the institutional side)? How long does it take?
- What complements to current initiatives (EITI, PWYP) are needed?
- What type of international support would represent the best use of money, given the local context?

A number of points were raised in this general discussion.

Governance: it was observed that bad governance is a problem which plagues more than the minerals sector and needs to be addressed more systemically.

A participant stated that although his country has ratified most of the international conventions relating to transparency, democracy, human rights, etc…, there is no ability to enforce compliance. The real challenge is hence to translate the law into practice. He further noted that responsibility and accountability follow from legitimacy. Countries claim that internal issues are not to be addressed by the international community. However, what is sovereignty without legitimacy? Democracy is an essential stepping stone for the transparent and equitable use of oil revenues and there is a clear role for the United Nations in this regard.

'Dutch disease': It was suggested that 'Dutch disease' can infect not just real exchange rates and the competitiveness of labour-intensive sectors but also the way in which the state conducts its business. Neglect of other productive sectors out of indifference to ensuring a productive tax base can result. The decline of a once-dynamic agricultural sector in Nigeria was cited as a case in point. Resource dependence gives rise to the rentier state, which rests on a very narrow but sizeable revenue base. The need to raise revenue from outside the resource sector is in inverse proportion to the predominance of that sector. When governments do not raise significant revenues from the broader economy, they do not feel particularly accountable to society.

An analogy was drawn by a participant from Sierra Leone between resource dependency and foreign aid dependence. In both cases, governments become complacent and disconnected from communities. Despite being rich in a number of minerals, including precious metals and gemstones, Sierra Leone scores very near the bottom of the Human Development Index.

Economic diversification: The importance of economic diversification for sustainable development was reinforced. Myopic governments see no particular urgency in diversification when resources provide such a generous revenue source. The current commodity price boom may in fact be dulling further any incentive for diversification.

The responsibility of government – and of companies – to ensure that those displaced by mining activities can pursue attractive alternative livelihoods was reiterated. A participant from India emphasized the need for prior informed consent from indigenous communities to develop mining projects on their customary lands.

Community participation: For communities to take a more active stake in monitoring revenue use and guarding against adverse

impacts of mining activities, education (including environmental education) is important. Very often extractive industries operate in poor, remote locations with little central government presence. One speaker noted that community radio can be an important medium for providing communities with valuable information needed for budget monitoring and with a channel to convey local priorities.

Communities' right to information needs to be reinforced, however, if they are to be informed stakeholders. Presently, in many cases, they never see contracts between companies and governments. Also, the rights of campaigners for disclosure and for effective monitoring of revenues need to be protected.

Corporate responsibility: Corporations have a responsibility to adhere to widely recognized international codes of conduct. Criteria are also needed for evaluating company-community partnerships' contribution to local development. It was argued that the terms of such partnerships need to be better defined, including timelines and measures of success.

Some meeting participants suggested that the UN could play a role in developing a code of conduct for multinationals to be adopted internationally along the lines of existing guidelines (e.g. OECD, World Bank). Some participants advocated for the World Bank and other financial institutions and donors to impose loan conditionalities covering grassroot involvement in revenues management, as a means to increase transparency and accountability in mineral and oil dependent countries.

Contact list

Abiola Afolabi, Women Advocates Research and Documentation Center, Nigeria. E-mail: abiolaak@yahoo.com.

Bess Rothenberg, Associate Director, Center for the Study of Human Rights, Columbia University. E-mail: br2163@columbia.edu.

Christian Mounzeo, President, Rencontre pour la Paix et les Droits de l'Homme, Republic of Congo. E-mail: cmounzeo@yahoo.fr.

Damian Winters, Foundation for Environmental Security and Sustainability, USA. E-mail: damian.m.winters@gmail.com.

Delgermaa Choijamts. Program Coordinator for Human Rights, Centre for Human Rights and Development, Mongolia. E-mail: dxotont@yahoo.com.

John Caulker, Executive Director, Forum of Conscience, Sierra Leone. E-mail: johncaulker@hotmail.com.

Lenny Baer, Lecturer in Human Geography, University of Lancaster, UK. E-mail: l.baer@lancaster.ac.uk.

Margaret Ladner, Director, Capacity Building Programs, Center for the Study of Human Rights, Columbia University. E-mail: mcl49@columbia.edu.

Nikki Reisch, Africa Program Manager, Bank Information Center, USA. E-mail: nreisch@bicusa.org

Nzene Durrel Halleson, Policy Officer, Global Village Cameroon, Cameroon. E-mail: hndurrel@yahoo.com.

Olaide Oladayo, Open Society Institute for West Africa, Nigeria. E-mail: oolaide@osiwa.org, olaide@yahoo.com.

Petra Christi Boyd-van Overbeeke, Cameroon Joining Hands Companionship Facilitator, Presbyterian Church, USA. E-mail: cjmsnboyd@yahoo.com.

Sandeepa Pattnaik, Research Associate, National Center for Advocacy Studies, India. E-mail: sandeepkumar.pattnaik@gmail.com.

Valery Nodem, Coordinator, RELUFA, Cameroon. E-mail: vnodem@yahoo.fr.

Monica Kjollerstrom, Sustainable Development Officer, Division for Sustainable Development, UN DESA. E-mail: kjollerstrom@un.org.

David Le Blanc, Senior Sustainable Development Officer, Division for Sustainable Development, UN DESA. E-mail: leblanc@un.org.