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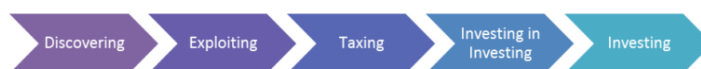
Research themes: Energy

Natural resources do not need to be a curse (Part 2 – Avoiding the resource curse)

The resource curse is both real and harmful. With the wrong policies in place, natural resources have in many places turned into a curse instead of a blessing. In our previous blog post, we explained the origins of the resource curse and claimed that countries could avoid it by implementing the right policies. In this post, we present the very policies that governments need to implement to ensure natural resources do benefit Africa. For further reference, see [Part 1](#) of our series on the natural resource curse.

Despite the recent fall in commodity prices, Sub-Saharan Africa's resource boom is continuing. During the past decade of high prices, many new discoveries were made, and these new resources will be extracted over the next few years. As Africa exploits more resources, it becomes ever more important that its governments put in place resource management systems that translate natural resources into improvements in African standards of living.

We have several recommendations for governments wishing to get the natural resource management policy chain right. We group them under five policy areas that, together, make up the natural resource policy chain. To ensure natural resources benefit the population, these five areas need to be tackled.



Discovering

Governments should invest in public surveys of mineral resource wealth.

Little of sub-Saharan Africa's resource wealth has been discovered, and more effort needs to be put into the discovery process. The information generated from the survey can be used to attract companies to bid for resource exploitation rights in a setting where both government and private parties have similar access to geological information, which is not usually the case. When private companies know more than the government, they tend to negotiate advantageous deals, often denying the government the proper value.

References

exploiting

Governments should insist that local populations benefit from the infrastructure private companies construct as part of the exploitation.

One of the most beneficial aspects of natural resource exploitation is the infrastructure it generates, such as transport links and healthcare facilities. Unfortunately, it is not a given that the infrastructure privately built as part of the exploitation process will be shared with public users, or will be built with public uses in mind. It is possible, at the contract negotiation stage, for the government to insist that the companies exploiting the resources ensure the infrastructure can be shared with the population.

Governments should prepare for environmental damage.

Environmental damage too often occurs as a result of resource exploitation. While everything possible should be done to prevent it, governments must also be ready to deal with it in a way that ensures fair and adequate compensation. Governments must ensure contracts clearly stipulate who is liable in the case of environmental damage, and set up a working system of public compensation for environmental damage.

Taxing

Governments should collect the share of revenues they deserve.

Resource exploitation revenues are difficult to monitor, and made harder with often-pervasive corruption. For these reasons, governments should adopt transparent negotiation processes, auction extraction rights, put strong transparency arrangements for revenue management in place, and set up proper procedures to allocate extraction rights and binding agreements about tax rates.

Investing in Investing

Governments should put in place policies that strengthen the private sector, thereby encouraging mineral investments and encouraging national investments.

Enhancing the private sector involves removing unnecessary bureaucratic hurdles, deepening financial markets, and trying to reduce the cost of various types of capital goods where they are more expensive than the world average. This will improve the investment climate in the country, and thereby support 'Investing in Investing', which includes both developing the public sector's ability to conduct large-scale investment projects, and removing impediments to private sector investment.

Investing

Governments need to save large shares (30-60%) of the resource income abroad, where returns are higher, while the country is improving its investment climate.

Those savings should be brought home as capacity to invest into worthwhile and profitable ventures improves. This large share of savings will support future generations, who might no longer benefit from a steady income flow from natural

longer benefit from a steady income flow from natural resources, thereby making current resource exploitation sustainable.

They should also invest large shares of their natural resource revenues into infrastructure and other forms of capital that support long-term growth.

Countries are effectively depleting assets in the ground. There is thus a powerful case to be made for those revenues to generate at least equally valuable assets above ground.

Implementing new policies

Avoiding the resource curse is difficult. It's a weakest link problem: if any link in the chain is broken, natural resources won't end up supporting inclusive growth. All the recommendations we listed above need to be implemented in order for the policy chain to be sustainable, but it's difficult to ensure they all happen simultaneously.

Getting these policies right is more important than in any other domain of policy. Exploiting natural resources are the most likely way Africa can sustain its growth. For that to happen, African governments must spend more time and resources building robust policy structures ensuring the resource curse is avoided.