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Published on: 5 Mar 2014

Countries: International

Research themes: State

If we want the full benefit from resources; this is what we need

A previous [blog post](#) wrote about how natural resource revenues should be managed for Africa's future. In this post, we want to take a step back and address another aspect of the natural resource challenge in Africa: institution-building.

The natural resource discovery currently taking place in Africa represents a formidable opportunity, albeit one that carries big risks. As a matter of fact, while natural resources have the potential to lead to dramatic improvements in the standards of living in Africa, a certain set of actions needs to be taken or the continent will soon be facing resource depletion without a long-term wealth increase.

Certainly, one of the most important actions that resource-rich developing countries will need to take is to build the institutions appropriate to their development path. It is important to note that those institutions will be very different from those built by now-industrialised countries. Those institutions were designed to meet those countries' specific needs. However, developing countries are on a different development path, and old-world institutions are not necessarily appropriate to tackle the new challenges they face, in particular the prospect of depleting natural resources over the next twenty-five years. It will indeed be a priority for resource-rich countries to build a set of institutions and rules that, together, help society and its decision-makers make long-term inter-temporal resource allocation decisions. If this isn't done, I fear the continent might be left with no more natural resources, and nothing to show for it.

Needing to be set up are both new rules – guidelines defining the ways in which natural resource funds will be managed – and institutions – teams with the capacity and the mandate to enforce those rules. Rules are necessary to guide decision-makers' actions, but also to enable citizens to monitor their leaders and keep them accountable. However, rules are just words on paper unless they are backed up by something else, and that is why they need to be supplemented by strong institutions.

Specifically, we believe there are five different sets of rules – to be supported by institutions- that will be key to enabling African nations to sustainably benefit from their natural resource endowments. The first one, transparency, is quite straightforward and widely publicised. It is an absolute must for citizens to be able to keep their government even minimally accountable to using natural resource revenues appropriately. *Second, and this was the subject of my previous posts*

second, and this was the subject of my previous posts, governments will need to define the proportion of asset revenues they devote to asset accumulation. Third, governments will need to put in place a rainy day rule to ensure government expenditure and consumption smoothing. Such a rule is currently applied in Chile, and despite being unpopular during prosperous times, had a tremendous during the copper crisis. However, such a rule can only be successful if a country starts off by saving for the rainy days, which takes a very strong political will.

The fourth rule we recommend is one related to the quality of investment; this is to ensure that national investments will productively contribute to furthering economic growth and development in the long run. One of the biggest obstacles to achieving this is lacking capacity to design, select and implement investment projects. Building that capacity, which we call 'investing in investing', should be high on the list of national development priorities. Fifth, and finally, countries will have to refrain from borrowing and concentrate on saving – net savings will need to go up for the 'rainy day' rule to work, and governments will need to resist the temptation to expedite investment by using up future revenues.

As a concluding note, we would like to stress how important it will be for resource-rich nations not simply to mimic old-world institutions, but to design rules and institutions that will be truly suitable to meeting their own development challenges. Simultaneously, it will be essential for those nations to develop a critical mass of citizens who understand those institutions and who will defend them. Those are undoubtedly necessary, albeit not sufficient, conditions for a sustainable use of natural resource revenues on the continent.

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