# CHAPTER 2 – www.eisourcebook.org

## 2.5 Conclusions

The discovery and development of hydrocarbons and other minerals offers the prospect of considerable economic and social benefits for the country concerned, but requires an appreciation of the pitfalls into which a number of states have spectacularly fallen. Recent research confirms that there is nothing inevitable about a resource curse, that resources themselves are not to blame for negative outcomes and that rent flows do not automatically undermine accountability in societies or institutions, particularly if they have been robust at the outset. Indeed, in Botswana's case, resource taxes provided the fiscal revenues which allowed the country to recruit, train and retain a high quality civil service resource taxes provided the fiscal revenues which allowed the country to recruit, train and retain a high quality civil service[1]. This positive view is supported by some recent empirical trends: natural resource exporters have recently been growing faster than their non-resource-rich counterparts. In the first decade of the 21st century GDP per capita and real GDP growth have been higher in the former group, largely due to the combination of the commodity price boom in the first decade of the 21st century and new discoveries, particularly in sub-Saharan Africa[2].

CEPMLP
Centre for Energy, Petroleum and Mineral Law and Policy

Rents from minerals and petroleum can create wealth for a state; but the extent to which the wealth contributes to broad-based development outcomes – or is captured by the political elite or other vested interests – depends on a combination of political, cultural, legal, and institutional factors. Wealth can be captured through bribes for licenses or mineral rights, and through the diversion of funds from national resource companies (NRCs) and national accounts. Good governance can help prevent the illicit capture of wealth by putting in place a modern, legal, regulatory, and contractual framework in line with international good practice, and by states enacting their own anti-corruption laws.

The technical reasons for negative outcomes are now reasonably well understood, and there is a growing understanding of the appropriate remedies that policy makers need to take in order to address them. Remedies include: (1) policies to smooth the expenditure of volatile revenues, (2) introduction of resource funds for saving and stabilization, (3) improvements in macroeconomic planning, and (4) forecasting and expenditure policies directed at improving

[1] A Gelb, Should Canada Worry about a Resource Curse?, University of Calgary School of Public Policy, SPP Research Papers (2014) p.4.
[2] IMF (2012) Macroeconomic Policy Frameworks for Resource-Rich Developing Countries-Background Paper 1; Sub-Saharan Africa Regional Economic Outlook April 2012. Institutions have also been improving in this region at a faster rate than their counterparts which may go some way to explaining the robust growth.

the framework for investment and promotion of economic diversification (see **Chapter 5** and **Chapter 8** of the *Source Book)*.

The political reasons for negative outcomes are also well understood and have attracted diverse comments. The cooperation of governments in international initiatives has been sought as is discussed in Chapter 8 of the *Source Book*. The cooperation of foreign investors has also been sought, as is evident in Chapters 8 and 4 of the *Source Book*. Above all, there is a general awareness of the potential contribution of education about EI operations and development in the countries concerned.

The wider socio-political context of a country can have an impact upon matters examined in **Chapters 4 to 9** that may – at first sight - be thought of in purely technocratic terms such as the choice of contract between government and foreign investor, the award of rights, approach to revenue sharing and design of an NOC, for example. However, it is important to stress that such issues are often the setting for conflicts between a country's interest groups including communities and elites and their place in the society that is being or is about to be transformed by the development of resource wealth. Controversy over the content of a proposed petroleum law, for example, is often rooted in such country-specific factors.

CEPMLP
Centre for Energy, Petroleum and Mineral Law and Policy

**In order to be effective, Good Practice always has to 'fit' the particular cultural, legal and economic context, which will usually be well established before hydrocarbons or mining development occurs.**

In summary, recent empirical work in political economy finds little or no negative relationship between natural resources and economic growth or democracy, but strongly supports (implicitly at least) programs of transparency and long-term stability of the policy and contract environment. This should not give rise to naïve optimism about extractive resource development. One long-standing observer has cautioned: "The problem is not the resources themselves. For countries that can manage, the curse is a myth. But this is not the case for poor, low-capacity countries – for them the curse can be real"[3].

[3] A Gelb (2014), *Should Canada Worry about a Resource Curse?* University of Calgary School of Public Policy, SPP Research Papers p.11.