

AFRICAN DEVELOPMENT BANK GROUP



“NATURAL RESOURCES FOR DEVELOPMENT”

**REMARKS BY
VICE PRESIDENT EL BAKRI**

**PLENARY SESSION MODERATED BY FORMER
PRESIDENT OF BOTSWANA, FESTUS MOGAE**

THE RITZ-CARLTON, DOHA

FEBRUARY 18, 2009

NATURAL RESOURCES FOR DEVELOPMENT

1. I welcome the opportunity to address the plenary session today on Natural Resources for Development. As you are well aware, the African Development Bank is striving to mainstream standards of good governance in all its operations; especially in those supporting natural resource exploitation. The dire consequences of poor corporate, sector, and political governance in developing and emerging economies are known to all of us.
2. The opportunity that EITI represents shall not be missed to improve transparency in these sectors and harness their potential to support broad-based economic and social development.

The current financial crisis

3. The financial crisis that spurred the recent crash in commodity prices is a major concern for Africa and most emerging economies dependent on commodity exports. After years of growth supported by high commodity prices, low inflation, and increased foreign investments, recession now looms over these economies. To accommodate the volatile nature of the sector, resource rich countries must develop a set of tools to manage both in times of booms and busts.
4. Concerns for Africa are also high within the international community. Former Secretary General Kofi Annan's recently expressed worries reflect the general consensus that the crisis is now affecting *all countries* and may hit Africa especially hard through reduced financial flows and investments, reduced remittances, and waning public interest in the continent's plight.

5. In particular, reduced investment and financial flows are likely to affect resource rich countries' capacity to harness extractive industries' revenues in favour of social and economic development. To ensure that the financial crisis does not wipe out recent progress, Africa needs to increase its reliance on domestic sources of revenue and growth: this means diversifying the economic base while continuing to improve the management of its natural resource revenues through a sound public financial management system.

6. Moreover, resource-rich countries need to promote diversification by reinvesting revenues for the benefit of future generations, e.g., in human development, economic innovation, and infrastructure. Such investments open opportunities for future generations, providing an intergenerational transfer rather than creating a legacy of unmanaged public expenditures, heavy reliance on a dominant sector, and potential conflicts.

Rebuilding trust among stakeholders

7. To improve the contribution of natural resources for development, there is a need to rebuild trust among all key stakeholders. Greater emphasis should be put on the principles of mutual accountability and the roles and responsibilities of developed countries (anti-bribery laws) and multinational companies (corporate social responsibility) in the fight against corruption in natural resource management. This lays the foundation for long term economic growth with the lowest social cost and lowest price volatility; while also ensuring a sustainable availability of natural resources.

Global standards of good financial governance

8. The financial crisis presents key challenges, including the risk of macroeconomic instability and reversals of prior reforms, but also underscores the need to build stronger institutions. The crash has considerably increased public recognition of the importance of international cooperation in the regulation of asset markets. Globally shared norms and standards can help underscore partnerships to make them last. In this regard, we need to improve oversight of the financial sector and strengthen public financial management (especially domestic resource mobilisation) and corporate governance practices in Africa.

9. Building strong and capable institutions by enhancing country governance systems and adhering to initiatives as EITI and APRM, remain critical to ensure that Africa will escape the natural resource curse. Botswana and others are telling examples of where the government has used its mineral wealth to build capable and accountable institutions for the benefit of all citizens.

10. A country's public financial management system is concerned with collection of revenues, custody of public funds and other financial assets, and management of public expenditures. It is the prime instrument to systematically address issues such as corruption, embezzlement, and mismanagement. Strengthening a country's public financial management system should be a priority to (i) better forecast and collect revenues from natural resources; (ii) ensure competition for accessing natural resources with a fair and equitable treatment of all economic agents; and (iii) allocate resources on the basis of agreed public policies. Advertising bids for

concessions is only one measure taken by countries to derive the optimum benefit from their resources.

11. In this context, EITI is seen by an increasing number of stakeholder as a useful tool for providing these norms and standards. It is a key initiative in a larger movement toward transparency in business and government and has emerged as a global standard of good financial governance in the management of extractive resources.

AfDB support for EITI

12. The African Development Bank is committed to support country's efforts at managing their public resources efficiently for development. The overall aim of the Bank's Governance Strategic Directions and Action Plan (GAP 2008-2012), is to strengthen transparency and accountability in the management of public resources at the country, sector, and regional levels, including through the support of regional norms and standards of good financial governance.

- Special attention is paid to improving the governance of natural resources and, in particular, the extractive industries through the Bank's support for the EITI. The Bank holds the view that transparency and accountability in the extractive sector should be integrated into the overall public financial management reform dialogue in member countries to increase its efficiency.
- In connection with building institutions, the Bank has endorsed the concept for the establishment of the African Legal Support Facility with a double objective. The first objective is to assist African

countries address issues relating to the sustainability of debt levels gained from HIPC and MDRI by combating the litigious conduct of vulture funds that purchase distressed debt at huge discounts, refuse to participate in voluntary restructurings and sue to recover the debt's full value. The second objective, about which we are meeting here today, is to remove the imbalances in negotiating power by training negotiators of African countries and enabling them to negotiate complex commercial and extractive industries contracts in such a manner that the playing field will be leveled and the process of mineral extraction will be beneficial to both investors and resource endowed nations.

13. At the country level, the Bank has achieved important results, e.g., by providing support for Liberia and Madagascar in their efforts to implement EITI. With support from the Bank, Liberia has developed its EITI work plan and completed a study on the application of EITI to the forestry sector. Since December 2007, the Bank has provided Madagascar with technical and financial support to achieve candidacy status and implement the work plan. Good governance of the extractive resources is further supported by the Bank through ongoing budget support operations.

14. Promoting advocacy, outreach, and training activities, the Bank is encouraging additional African countries to join the EITI. We recently co-hosted an EITI outreach roundtable for Northern African countries as well as a regional training seminar on the negotiation and implementation of oil and gas contracts.

15. The Bank is also mainstreaming EITI principles in its own natural

resource and extractive industries operations, through the development of a natural resource policy and operational guidance for the Bank's engagement in natural resource governance.

Looking forward

16. Going beyond the issue of transparency, the long term challenge is to manage the finite natural resource extraction for the benefit of both current and future generations. People's expectations are high and they need to be managed well; demands are pressing for the benefits of resource wealth to trickle down to the poor. Greater transparency in the revenues generated from extractive industries is an important first step. The broader challenge is to ensure that natural resources contribute to the development of societies and the reduction of poverty. This requires looking at challenges "upstream", such as licensing, concessions or fiscal regimes, as well as "downstream" in terms of the effective use of those resources.