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2007

**NATURAL RESOURCES FOR SUSTAINABLE
DEVELOPMENT IN AFRICA**

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FOREWORD

The theme of the *African Development Report 2007 — Natural Resources for Sustainable Development in Africa* — is motivated by the need to deepen current understanding of natural resource management practices in Africa. The rekindled interest in Africa's resources is largely driven by global economic growth, especially in Asia, and the related demand for fossil fuels and minerals. This situation raises questions; how the continent can best leverage its resources for its own development given the complexities and trade-offs. Indeed, the market demand for Africa's natural resources is strong and growing; but Africa needs these resources too for its own development.

It is within this spirit that the African Development Bank and the United Nations Economic Commission for Africa (ECA) jointly organized the Big Table 2007 Forum to deliberate on the challenges and strategies for managing Africa's natural resources for growth and poverty reduction. The *African Development Report 2007* leverages and complements the knowledge generated by the Big Table 2007. The Report clearly sets the stage for a more proactive stakeholder engagement in the effective management of Africa's natural resource wealth. Indeed, collaborative efforts between key stakeholders — governments, companies, civil society organizations and local communities — is needed to ensure that

Africa's natural resource wealth translates into broad-based socio-economic development, taking into account the lessons and impact of past experience of commodity booms and busts. This is important, given the paradox of the so-called natural resource curse. It underscores the crucial need for synergies to be created and strengthened between the public, the private sector, civil society, and external development partners. Initiatives such as the Extractive Industries Transparency Initiative, the Kimberly Process, and the African Peer Review Mechanism, among others, need to be strengthened and vigorously supported.

The African Development Bank, in cooperation with other stakeholders and development partners, is scaling up financial assistance for governance and institutional reforms in the natural resources sector. It is providing technical assistance, capacity building, knowledge and advisory services for appropriate fiscal systems and regulatory institutions, among others. It is prepared to do more.

The *African Development Report 2007* sets the stage for a re-thinking of the role of natural resources in economic development and poverty reduction in Africa. It articulates the crucial issues behind this relatively untapped potential and offers a rich discussion on ways to reverse the current trends. We hope that the Report will serve as an important catalyst for change, and the

starting point of a broader process that will elicit action by all stakeholders to ensure efficient natural resource management for sustainable development in Africa.

A handwritten signature in blue ink, appearing to read 'Donald Kaberuka', is centered on the page.

Donald Kaberuka
President
African Development Bank

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ACRONYMS AND ABBREVIATIONS

ADF	African Development Fund
AEO	African Economic Outlook
AfDB (ADB)	African Development Bank
AMCOW	African Ministers Council On Water
AOAD	Arab Organization for Agricultural Development
APRM	African Peer Review Mechanism
ARWR	Annual Renewable Water Resources
AU	African Union
AWF	The African Water Facility
BGS	British Geological Survey
BIC	(1) Bushveld Igneous Complex; (2) Bank Information Center
BOP	Base Of the Pyramid
BP	British Petroleum
Btu	British thermal unit (energy content of fuels)
CBOs	Civil Based Organizations
CCD	Convention to Combat Desertification
CEC	Commission of the European Communities
CGD	Center for Global Development
CGS	Council for Geoscience
CO ₂	Carbon Dioxide
DFID	Department For International Development
DLA	Department of Land Affairs (South Africa)
DME	Department of Minerals and Energy (South Africa)
DRC	Democratic Republic of Congo
DTI	Department of Trade and Industry (South Africa)
ECA	Economic Commission for Africa (UN)
ECOWAS	Economic Community of West African States
EEA	European Environmental Agency
EEA/EEPRI	Ethiopian Economic Association / Ethiopian Economic Policy Research Institute
EI	Extractive Industry
EIA	(1) Energy Information Administration; (2) Environmental Impact Assessment
EITI	Extractive Industry Transparency Initiative
EPFIs	Equator Principles Financial Institutions
EU	European Union
FAO	Food and Agriculture Organization (United Nations)

FD	Fiscal Deficit
FDI	Foreign Direct Investment
FGF	Future Generations Fund
GBS	General Budget Support
GDP	Gross Domestic Product
GEF	Global Environment Facility
GHG	Green House Gases
GNI	Gross National Income
GNP	Gross National Product
Ha	Hectares
HDI	Human Development Index (UNDP)
HIPC	Heavily Indebted Poor Countries
IAI	International Aluminium Institute
ICMM	International Council on Mining and Metals
IFA	International Fertilizer Industry Association
IFC	International Finance Corporation
IFIs	International Financial Institutions
IISD	(1) International Iron and Steel Institute; (2) International Institute for Sustainable Development
ILRI	International Livestock Research Institute
ILZSG	International Lead Zinc Study Group
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IRLI	International Research Livestock Institute
IRR	Internal Renewable Resources (water)
ITCZ	Inter-Tropical Convergence Zone
IWRM	Integrated Water Resource Management
KP	Kimberly Process
KPCS	Kimberly Process Certification Scheme
LNG	Liquefied Natural Gas
LVEMP	Lake Victoria Environmental Management Program
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MECs	Multinational Extractive Companies
MFIs	Multilateral Financing Institutions
MII	Mineral Information Institute
MMSD	Mining, Minerals and Sustainable Development (Project)
MNCs	Multinational Corporations
NBI	Nile Basin Initiative
NDP	National Development Plan

NEITI	Nigerian Extractive Industries Transparency Initiative
NELSAP	Nile Equatorial Lakes Subsidiary Action Program
NEPAD	New Economic Partnership for Africa’s Development
NEPAD-WSP	NEPAD Water and Sanitation Program
NGOs	Non Governmental Organizations
NORAD	Norwegian Agency for Development Cooperation
NRM	Natural Resource Management
NSA	Nubian Sandstone Aquifer
OECD	Organization for Economic Co-operation and Development
OMVS	Senegal River Development Organizations
OPEC	Organization of Petroleum Exporting Countries
PES	Payment for Ecosystem Services
PGM	Platinum Group Metals
PPP	Public-Private Partnerships
PRSPs	Poverty Reduction Strategy Policies
PSOs	Private Security Organizations
PWYP	Publish What You Pay (Campaign)
RBOs	River Basin Organizations
RMC’s	Regional Member Countries (AfDB)
RWSSI	Rural Water Supply and Sanitation Initiative
SADC	Southern African Development Community
SANE	South Africa, Algeria, Nigeria and Egypt
SEA	Strategic Environmental Assessment
SSA	Sub-Saharan Africa
TFP	Total Factor Productivity
TWRM	Transboundary Water Resource Management
UAE	United Arab Emirates
UK	United Kingdom (of Britain)
UN	United Nations
UNCBD	United Nations Convention on Biological Diversity
UNCCD	United Nations Convention to Combat Desertification
UNCHR	United Nations Commission on Human Rights
UNCTAD	United Nations Conference on Trade and Development
UN COMTRADE	United Nations Commodity Trade (Online Database)
UNDP	United Nations Development Program
UNECA	UN Economic Commission for Africa
UNECE	UN Economic Commission for Europe
UNEP	United Nations Environmental Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change

UNICEF	United Nations International Children's Emergency Fund (now United Nations Children's Fund)
USAID	United States Agency for International Development
USD	United States Dollars (\$)
USGS	United States Geological Survey
WB	World Bank
WBO	Water Basin Organizations
WCED	World Commission on Environment and Development
WGC	World Gold Council
WHO	World Health Organization
WMO	World Meteorological Institute
WRI	World Resource Institute
WSSD	World Summit on Sustainable Development
WTO	World Trade Organization
WWC	World Water Council

EXECUTIVE SUMMARY

Africa's natural resources and the wealth they generate are more important than ever before as developing nations on the continent strive towards achieving the Millennium Development Goals (MDGs). Considering the continent's significant resources — and the decades of resource exploitation — economic growth has been disappointing. In other words, resource abundance has not translated into improved livelihoods and increased welfare. This is largely attributable to Africa's poor management of its natural resources — a recurring theme in recent debates on the 'natural resource curse' associated with many resource-rich countries. Yet, there is also strong evidence that natural resource wealth can make an important contribution to *economic growth* and *poverty reduction* in the continent. Such a scenario is contingent upon the fulfillment of critical conditions, chiefly, improving governance and transparency, eliminating corruption and strengthening the macroeconomic framework.

Natural resource management is a broad concept that involves the integration of efficient resource use and the prevention of adverse environmental impacts. It also concerns distribution for sustainable economic development, management of resource extraction and the resultant financial resources, wastes, and emissions. Given the broad scope of natural resources, the analyses in the 2007 African Development Report focus on a selection of natural resources: fossil

fuels, minerals, water, forestry, and land use. The main objectives of the Report are grouped around the following four areas:

1. Define, in operational terms, the contextual meaning of natural resources and how they relate to sustainable development and social outcomes.
2. Examine and analyze good and poor management practices with respect to Africa's natural resources.
3. Advance and analyze the thesis that better natural resource management, in particular, better use of natural resource wealth, is the most direct route to reversing Africa's poverty and economic malaise.
4. Propose concrete suggestions on how stakeholders involved in natural resource exploitation (at the local, national, and international levels) can help improve public policies and governance in natural resource-endowed countries in Africa.

Renewable Natural Resources

Water resources are a key component of Africa's natural resource endowments, but water is becoming increasingly scarce. By the year 2025, almost 50 percent of Africans will be living in areas of water scarcity or water stress. Consequently, one of the current challenges facing Africa is how to take comprehensive stock of its water resources, and how to use these resources optimally to sustain an acceptable standard of living.

Average annual rainfall in Africa is about 678 mm per year, albeit with high spatial and temporal variability. About 86 percent of water resources withdrawal is used for agriculture, 10 percent for domestic consumption, and 4 percent for industrial use. However, in Africa as a whole, the amount of water withdrawn for these three major uses amounts to only 5.5 percent of internal renewable resources, reflecting the low level of development and of water resource use on the continent. Altogether, very few African countries have at present developed all the available water reserves (mainly countries in Northern Africa) and for the majority, the main obstacle is lack of resources and means to exploit and develop the resources. Thus, the need for more investments in water resource development remains as critical as ever.

Forest ecosystems play multiple roles at global as well as local levels and provide a range of important economic, social, and environmental goods and services. Forests help regulate the climate, protect coastlines, preserve the land, and improve the environment. The acknowledgment of competing interests in reaping the benefits of forest resources and woodlands has led to more holistic thinking and approaches in achieving sustainable forest management.

Africa's total forest cover was estimated at nearly 650 million hectares in 2000, equivalent to 17 percent of global forest cover, and to approximately 22 percent of Africa's land area. Forest areas can change in terms of nature, extent (dimension), and bio-ecological characteristics, due to both human and natural causes. Recent estimates of forest extent, management, and character-

istics conclude that the situation in Africa is of particular concern, as very limited progress seems to have been made towards sustainable forest management over the past 10–15 years. Deforestation, forest degradation, and the associated loss of forest products and environmental services are some of the serious challenges facing African countries today. The most intensive pressures stem from deforestation for commercial timber sales, clearance for agricultural and urban developments, and over-harvesting of wood for fuel, medicinal products, and construction materials.

Land is a critical natural resource in Africa and the basis of survival for the majority of Africans. Land use concerns the products and benefits obtained from use of land and from land management actions (activities) carried out by humans to produce these products and benefits. With a total land area of more than 3,025.8 million hectares, Africa is the second largest continent in the world after Asia. If sustainably managed, the African landscape, a rich and dynamic mosaic of resources, holds vast opportunities for the development of human well-being. The economies of most African countries depend heavily on land-based activities such as agriculture, mining, and tourism. Agriculture is perhaps one of the most challenging factors that influence land use dynamics in Africa. It contributes about 40 percent to the regional gross domestic product and employs more than 60 percent of the labor force.

Access to land and the ability to exchange it with others and to use it effectively, including as collateral in access to finance, are of great importance for poverty

reduction, economic growth, and private sector investment as well as for empowering the poor. In Africa, land can either be purchased or inherited. This largely determines patterns of land accessibility and ownership. Land issues in Africa remain largely political and the challenge of addressing land access is largely embedded in ensuring good governance and continues to be a critical factor in the development of African economies, natural resources, and related policies.

Management of Renewable Natural Resources

Africa's renewable resources are fundamental to its commercial and subsistence-activities. The Report clearly indicates that the resources are fragile and susceptible to degradation. Consequently, proper management of the resources and of the wealth they generate is a key component of the future development of Africa.

In conformity with the global approach to **water resources management**, Africa manages its scarce water resources through various partnership arrangements among riparian countries (for example, water basin organizations). However, in spite of the formal steps taken to create relevant organizations, most of them have been ineffective. Furthermore, despite the fact that numerous water resources in Africa are shared by many countries, issues of water rights and ownership of international waters remain largely unresolved. As a result, national interests tend to prevail over shared interests. There is general consensus that integrated water resources management is a prerequisite for enhanced water resource development in

Africa. Also gaining recent popularity in several African countries are public-private partnerships (PPP) in water resources management and water supply programs.

Several African governments are currently shifting emphasis from passive to active involvement in **forestry** and are progressing, to varying degrees, towards sustainable utilization of forest and woodland resources. Overall, a more holistic approach is gaining traction, reflecting the recognition that effective resource conservation and management must involve strong local participation (the concept of integrated conservation and development).

Access to land remains critical for the survival of the population in most African countries where land is the primary means of generating a livelihood. Proponents of land reform typically argue that equity, poverty reduction, economic development, political stability, and land reforms are important contributors to human freedoms, civil liberties, and sustainable democracies. Owing to the diverse history and conditions in different African countries, land rights have evolved along different pathways and thus require different reform options. Many countries in Africa are clearly struggling to implement the laws and policies they have formulated in recent years. The reasons for these difficulties include over-ambition, lack of capacity, and scarcity of financial resources. Moreover, land has always been an object of policy intervention from colonial times to the present. Any new policy must therefore take into account previous policies and their effects, in addition to the socio-economic conditions of land tenure they aim to alter.

Climate Change is emerging as one of the most important international development challenges of the 21st Century. Africa has the lowest green house gas emissions of any continent, yet it is prone to be hardest hit by climate change. Africa is particularly vulnerable to climate change because of its overdependence on natural resources and rain-fed agriculture, land degradation, and the ongoing deforestation process — compounded by widespread poverty and weak capacity for planning, monitoring and adaptation to the changes.

Adaptation to climate change should be understood as a continuous process which addresses current climate variability and extremes and future climate risks. Consequently, natural resource management policies and strategies should adequately incorporate climate change issues — present and anticipated future risks. Adaptation approaches based on better management of natural resources, such as “no regrets” options, i.e., those measures that are expected to generate benefits even without long-term climate change, are an important avenue to pursue. Actions by local communities that are most directly affected play a very important role.

Non-Renewable Natural Resources

The Report includes a comprehensive analysis of Africa’s *non-renewable* natural resources: fossil fuels (coal, gas and oil) and other minerals (metals and non-metals).

Mineral exports contribute significantly to the economies of resource-rich African countries. In fact, Africa’s top five exports are mineral-related (crude oil, other

petroleum oils, natural gas, diamonds, and coal). Although Africa ranks high in terms of resources, its share of world base metal and mineral fuel *consumption* is very modest, a consequence of the continent’s low level of industrialization, economic status, and per capita consumption patterns.

The majority of Africa’s **coal resources** are located in southern and western Africa. By a large margin, South Africa holds the majority of the continent’s estimated recoverable coal reserves, being the sixth-largest holder of coal reserves in the world. The outlook for African coal exploration and production is relatively bright.

Africa’s major known deposits of **crude oil** are located towards the north of the continent in the states of Algeria, Chad, Egypt, Libya, Morocco and Tunisia; and in the countries of Nigeria and Angola in the south. Africa produces about 10 million barrels of oil per year, bringing its share of world crude petroleum production to about 12 percent. Nigeria accounts for more than a quarter of the continent’s production, which rose by nearly 18 percent from 2004 to 2007. Further expansion is expected in the future.

Africa’s largest deposits of **natural gas** are located in Algeria and Mozambique, with other significant deposits in Libya, Niger, Morocco, Nigeria, Rwanda, Ghana, Egypt, Tunisia, and off the coasts of South Africa, Tanzania, and Namibia. Liquefied Natural Gas (LNG) accounted for 79 percent of natural gas production, giving Africa an 18 percent share in world LNG trade. From 2004 to 2007, African natural gas production rose nearly 28 percent; it is expected to rise by an additional 5 percent from 2007 to 2011.

The African continent is endowed with a diverse mix of precious, ferrous, non-ferrous, and industrial minerals (metals and non-metals). For example, it is the top producer of platinum and gold and has very large shares of world reserves. This notwithstanding, its production of minerals is comparatively small and the trend has been negative for some minerals.

Management of Non-renewable Natural Resources

To create and sustain wealth in the long term, mineral resources have to be converted into other forms of capital and into more sustainable livelihood opportunities. Between 2000 and 2005, the world trade value of minerals grew 17 percent per year, while production rose 2.5 percent. The growing interest in African resources is largely about its non-renewable resources.

Fiscal Regimes for fossil fuels and other minerals in Africa are by no means uniform, as is the case in the rest of the world. A multitude of royalties, taxes, resource rents, incentives, state equity levels, and so on, have been developed to foster interest in exploration and investments, on the one hand, and capture some of the benefits for the state and the public, on the other hand. A review of key issues and analysis of selected case countries reveals that most countries in Africa have taken important steps to formulate policies and legislation and to adopt fiscal terms for extraction of minerals. However, more coherent principles, structures and, above all, due diligence in enforcement would considerably increase the benefits and sustainability for all countries.

Some concrete sustainable development issues need to be improved — for instance, incorporating environmental concerns into the full extraction cycle, including rehabilitation and mine closures. The natural resource management track record of African countries certainly varies a lot, and policy- and decision-makers need to learn from both good (for instance Botswana) and bad experiences. Implementation of formulated principles and legislation is often insufficient since the key constraints are more related to lack of enforcement, weak capacity and institutions, and poor governance.

The Paradox of Plenty — The Natural Resource Curse

The resource curse refers to a situation in which a country has an export-driven natural resources sector that generates large revenues for the state but leads, paradoxically, to economic stagnation and political instability. It is commonly used to describe the negative development outcomes associated with non-renewable extractive resources (petroleum and other minerals).

However, historical accounts indicate that natural resource booms do not always worsen economic performance and can indeed catalyze economic transformation. A resource boom can therefore lead to growth expansion, and the so-called natural resource curse can be avoided with the right knowledge, institutions, capacity, and policies.

This Report includes a comprehensive analysis of the key features of resource wealth in Africa. In this light, it categorizes African countries into the following groups: (1) Resource-rich (oil and mineral exporters);

- (2) Resource-scarce countries;
- (3) Land-locked (resource-rich and resource-scarce) countries;
- (4) Coastal (resource-rich and resource-scarce) countries, and
- (5) The SANE group (Africa's four largest economies: South Africa, Algeria, Nigeria and Egypt).

The following trends and conclusions emerge from the data, tables and figures presented in the Report:

- Resource-rich African countries are richer (in terms of revenues, GDP, and GDP per capita) than their resource-scarce peers. The gap narrowed during the 1980-2000 period but is widening again on account of the recent resource boom.
- Cumulatively, resource-rich countries only experienced an average growth rate of 2.4 percent from 1981-2006, considerably lower than the 3.8 percent average for resource-scarce countries.
- Resource-scarce coastal countries, where almost a quarter of Africa's population is found, have experienced an average growth rate of 4.1 percent, much higher than the 2.3 percent recorded by resource-rich coastal countries.
- These findings indicate that being resource-rich does *not* make a significant difference for coastal countries. Indeed, resource-scarce coastal countries have a somewhat higher GDP per capita.
- The four SANE countries are by far the wealthiest in terms of GDP and have sustained a significant growth rate since 1995.
- Land-locked resource-scarce countries are the poorest — they are five times

poorer than resource-rich countries and almost six times poorer than resource-scarce coastal countries. Furthermore, from 1981-2006 the growth rate in this group of countries averaged only 2.5 percent. In other words, the most important determinant of poverty is whether a country is land-locked or not. This is even more important than being resource-rich or resource-scarce or any other aspect reviewed in the analysis.

- Over the long-term, both accumulation and factor productivity are significantly higher in resource-scarce countries than in resource-rich countries.

A common feature of many countries endowed with abundant natural resources is that, despite the rents obtained from extracting and selling natural resources, they generally save less than what is expected. The analysis in the Report shows that most resource-rich countries in Africa indeed have negative genuine savings. These countries are therefore using their natural resource wealth at the expense of future generations, without investing sufficiently in other forms of intangible or productive wealth.

One of the dilemmas of natural resource abundance is that it *may* pervasively cause a country to neglect human capital development. High levels of natural resource revenues can divert attention from the diversification of the revenue base and wealth creation, and from institutional and human development. In this regard, Africa ranks low on the UNDP's Human Development Index: 29 of the 31 countries in the world considered to have a low

human development index are African. A detailed analysis of the HDI data indicates that the primary determinant of human development status seems to be *geography* and not resource abundance — that is, whether a country is landlocked or not — as landlocked countries as a group score very low on this index.

This Report offers a comprehensive analysis of the role of the state in natural resource management. It reviews policy failure aspects, including poor decision-making by governments, enhanced corruption and rent seeking, revenue misallocation, and poor investment decisions. In particular, the Report focuses on the critical link between resource abundance, institutional capacity, and governance, as there is a clear relationship between weak or fragile states, non-performing institutions, poor governance, and insufficient transparency. Furthermore, there is strong evidence that resource abundance, especially in the context of poor institutional environment increases the incidence of civil conflicts and wars and also stimulates violence, theft, looting, and fighting between rival groups. However, it is not a linear relationship. Indeed, the root causes of civil wars in Africa are complex and lie in a combination of factors, whether in resource-rich or in resource-poor countries.

Analysis of the management of petroleum and mineral resources in fragile states reveals that it has largely been molded by four interrelated conditions that are defined by the interplay of state power, contest, and conflict over the control of mineral resources. These factors are: public policy failures; state predation or ‘shadow state’, where rent-seeking substitutes rent creation;

rebel-dominated war (shadow) economies; and, vested interests of regional and international actors.

The last decade has seen a rapid increase in trade and investment flows between Africa and Asia, especially with China and India. It is important to note, however, that Africa and Asia have a long history of trade and foreign direct investment. The new stage of competing forces on the African continent has resulted in a plethora of recent analyses dealing mainly, if not exclusively, with the Chinese impact and practices. In general, the analyses are critical of China’s presence in Africa, largely seen as another example of predatory capitalism and considered to be non-transparent and supportive of autocratic regimes. However, recent studies and analyses also highlight the positive aspects, underlining how China and India’s growing trade with and investment in Africa present excellent opportunities for growth and international integration of Africa into the global economy. Both African and Asian policy makers need to devise appropriate policy responses to further enhance the quality of these relationships, which should encompass “at-the-border, between-the-border and behind-the border reforms”. These new South-South economic relations present real opportunities — as well as challenges — to African countries.

In conclusion, the analysis of the so-called resource curse in Africa illustrates that resource-rich African countries have *not* fully exploited the true (potential) benefits of their significant natural resource wealth. Overall, the performance of these resource-rich countries has been disappointing,

especially during the 20-year period from 1980 to 2000. In contrast, several countries in Africa have also demonstrated that it is possible to benefit from resource wealth — also in the medium-to-long term. There is thus reason to be cautiously optimistic that more countries have learned the hard lessons from past resource booms and will pursue sound strategies and policies to reap the full benefits of natural resource abundance. The on-going reforms in many of these countries demonstrate the importance of those lessons.

Making Natural Wealth Work for the Poor

In Africa, the **environment** (nature), **economic growth** (wealth), and **governance** (power) are inextricably linked and are the essential elements of poverty reduction. Experience in Africa — and elsewhere — has demonstrated that investments that recognize and integrate these three elements yield positive development outcomes, nowhere more so than in rural areas where the majority of Africans live. Implementing a **nature-wealth-power framework** for development in Africa requires new strategies and instruments. A common feature is acknowledgement that sound natural resource management requires attention not only to environmental and natural resource laws and institutions, but also to the broad range of legislation, organizations, decisions, procedures and actions that influence and otherwise affect the environment. Other key aspects include securing intergenerational benefits, sustained growth, and fiscal allocation that give preference to pro-poor expenditures. Strategies and instruments

must furthermore adjust to changing local circumstances, including changing local perceptions, interests, and priorities.

In most of Africa, **environmental policies** are inadequate and the institutions that implement them are weak and understaffed. While several environmental policy issues demand urgent attention, the two that are critical for sustainable development are strengthening environmental policy and law, and regulating the private sector.

Economic growth is essential for poverty reduction. In recent times, government and donor attention has focused on promoting pro-poor economic growth — creating opportunities that enable the poor to work their way out of poverty. This focuses on opportunities that target the assets of the poor, specifically: labor, land and local natural resources. Pro-poor growth calls for investments that improve the prospects for poor people to share in the opportunities created by economic growth — including building local capacities and providing the infrastructure that the poor need to capitalize on new opportunities. Even with strong economic growth, poverty reduction — especially for the poorest — can be greatly enhanced by investing goods and services targeted at poor people and regions. Yet, inequality is on the rise in many African countries, most noticeably in resource-rich countries

Two types of environmental benefits are particularly important for poverty and inequality reduction as well as sound environmental management: (1) market shares and profit margins of commercially exploited natural resource commodities,

and (2) public revenues from the use of ecosystems and extraction of natural resources.

Other economic instruments that have also proven to be effective policy tools for changing behavior and achieving desired outcomes include securing property rights, identifying new markets, and, servicing the unmet needs of the poor. Infrastructure is another essential public good that is a precondition for economic growth and equitable development. The intersection of infrastructure, natural resources and the environment is multi-dimensional.

Good governance is a virtuous relation between active citizens and strong, legitimate government based on the representation of people's needs and aspirations in policy-making and implementation processes. The link between good governance and natural resources management is obvious. In an environment of weak institutions, exploitation of natural resources may become a key component for competition for power. The best approach to natural resources governance comprises three components: (1) project-based management and public participation, (2) environmental governance, and, (3) good institutional governance.

Sound natural resource management requires paying attention to the range of institutions with roles, responsibilities, and powers over matters that affect natural resources. In Africa, this is underpinned by three fundamental institutional governance-related issues that should be addressed at the central government level: (1) decentralization and the distribution of power; (2) responsibilities and roles with power;

and, (3) accountability and the limits of power.

Resource Governance Policy Initiatives

The last decade has seen a growing recognition that improved transparency and accountability for the huge revenues generated by oil, gas and mineral industries is vital to the avoidance of the resource curse and extension of the benefits of natural resource abundance to poverty reduction. Several international policy initiatives, mechanisms, and standards have been launched to address these dilemmas.

The **Extractive Industries Transparency Initiative** (EITI) was launched in 2002 against the backdrop of general failure to transform resource wealth into sustainable development and of associated governance problems in the extractive industries. The EITI aims to intervene in the middle of the value chain — collection of taxes and royalties stage — but neither upstream nor downstream. The EITI has grown into a worldwide initiative and more than 20 countries have committed to its principles and criteria, the majority of them in Africa. However, an assessment of the status of the initiative shows that it is very much focused on the oil and gas sectors, and that its scope and mandate could be expanded, revenue transparency strengthened, and the initiative extended to upstream and downstream issues and to environmental stewardship. The success of the EITI as a concept is increasingly threatened by the lack of clarity about what it means in practice. These problems and issues must be addressed, and EITI is only a first step in the right direction.

The **Kimberley Process Certification Scheme** (KPCS) is the only significant international response to conflict resource issues. KPCS is an international, government-led scheme that was set up to prevent trade in conflict diamonds. It was negotiated by engaging relevant governments, civil-society organizations, and the diamond trade industry and it provides a rare example of co-operation between such stakeholders on a global scale. At present, 15 diamond-producing African countries are Kimberley Process participants. The KPCS has been relatively successful, but it also has its limitations. Nevertheless, this unprecedented scheme has imposed tough controls on all gem exports and imports (related to the flow of rough diamonds).

The **African Peer Review Mechanism** (APRM) is an innovative tool aimed at peer review of governance benchmarks and design of action plans for improvement. Participation in the system is voluntary and a panel appointed by the APRM Secretariat oversees implementation throughout Africa. At present, 27 countries have signed up for the APRM and 13 of them have had reviews launched. However, implementation has posed some challenges: for instance, the establishment of an appropriate national structure, the financing of the process, and the organization of a participatory and all-inclusive self-assessment system. Voluntary participation in the APRM assessment has resulted in very high expectations, and it is imperative that the 'dividends' from the APRM be seen in terms of enhanced governance and improved living standards. The APRM is a cornerstone of the African Union's New Partnership for Africa's

Development (NEPAD), the first African-initiated and -led instrument to take full ownership of the continent's future by addressing key governance challenges that constitute major constraints to development.

The Way Forward

The continent's natural resource endowments have a huge potential to stimulate growth and generate multiplier effects on a massive scale, but management bottlenecks have to be addressed. This hinges on:

- ensuring Africa's ownership of the development process;
- strengthening initiatives to monitor resource revenues;
- achieving a higher level of transparency;
- enhancing governance systems;
- reinforcing institutional capacity;
- investing natural resources wealth in the creation of knowledge for economic innovation;
- negotiating better terms with external partners; and
- integrating the natural resources sector into national development frameworks.

Given the finite nature of non-renewable natural resources and the limitations on sustainable use of renewable resources, it is imperative that the wealth they generate be invested in other forms of capital, particularly human capital, social services, and physical capital.

Since streams of natural resource revenues do not last forever and may fluctuate considerably, it is a sound practice, for intergenerational benefits, to put aside a share of the export revenues from natural resources into stabilization funds. However,

a crucial drawback is that in regimes characterized by weak institutional capacity and low transparency and accountability, such funds may be raided. In applying the concept of stabilization or of future funds, African countries need to consider the lessons learned from both Africa itself and from countries outside Africa that have successfully managed mineral rents for the benefit of future generations.

Implications

The question of how resource windfalls can be successfully harnessed to significantly contribute to Africa's economic growth and development has become a central concern for all stakeholders and major donors in Africa. The analyses presented in the Report reveal unique opportunities for donors and multilateral financial institutions to influence the use of resource wealth to address Africa's development challenges. The following issues are critical in defining donor focus:

- enhancing the development impact of Africa's natural resources;
- policy dialogue and budget support;
- support to fragile states;
- institutional issues and governance
- Africa-Asia trade partnership; and
- environment and climate change.

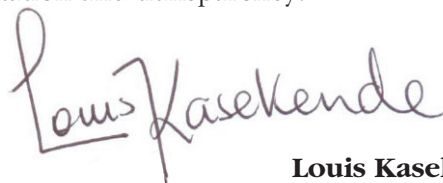
Overall Conclusion

Experience from Africa reveals that endowment with natural resources, especially with non-renewable resources, comes with opportunities but also with substantial risks. The key challenge for harnessing natural resource opportunities is making the right strategic choices in resource and economic policies, and synchronizing their implemen-

tation in a context that supports fiscal prudence and eliminates macroeconomic distortions. This should be backed by adequate institutional capacity and national and local level participation in natural resource management. Getting the policies wrong, disregarding their sequencing and alignment with the rest of the economy, or ignoring absorptive capacity and good governance issues may transform a natural resource boom into a curse that could effectively stall economic growth, worsen the poverty situation, and become a recipe for social and political instability.

Sound environmental management and, not least, effective governance, have to be high on the agenda to ensure that Africa's natural resource wealth generates more rapid development and poverty reduction. Pro-poor governance, or governance that supports rural development and poverty reduction, should define the focus of development orientation and the needs of the poor should be consistently reflected in development planning and in the use of natural resources. This will build a sound basis for economic growth, social equity, and stability.

This Report identifies the fundamental elements that should underpin the use of natural resource wealth to foster development and economic growth in Africa. Essentially, this involves securing fundamental democratic principles that ensure accountability, public participation, representation and transparency.



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