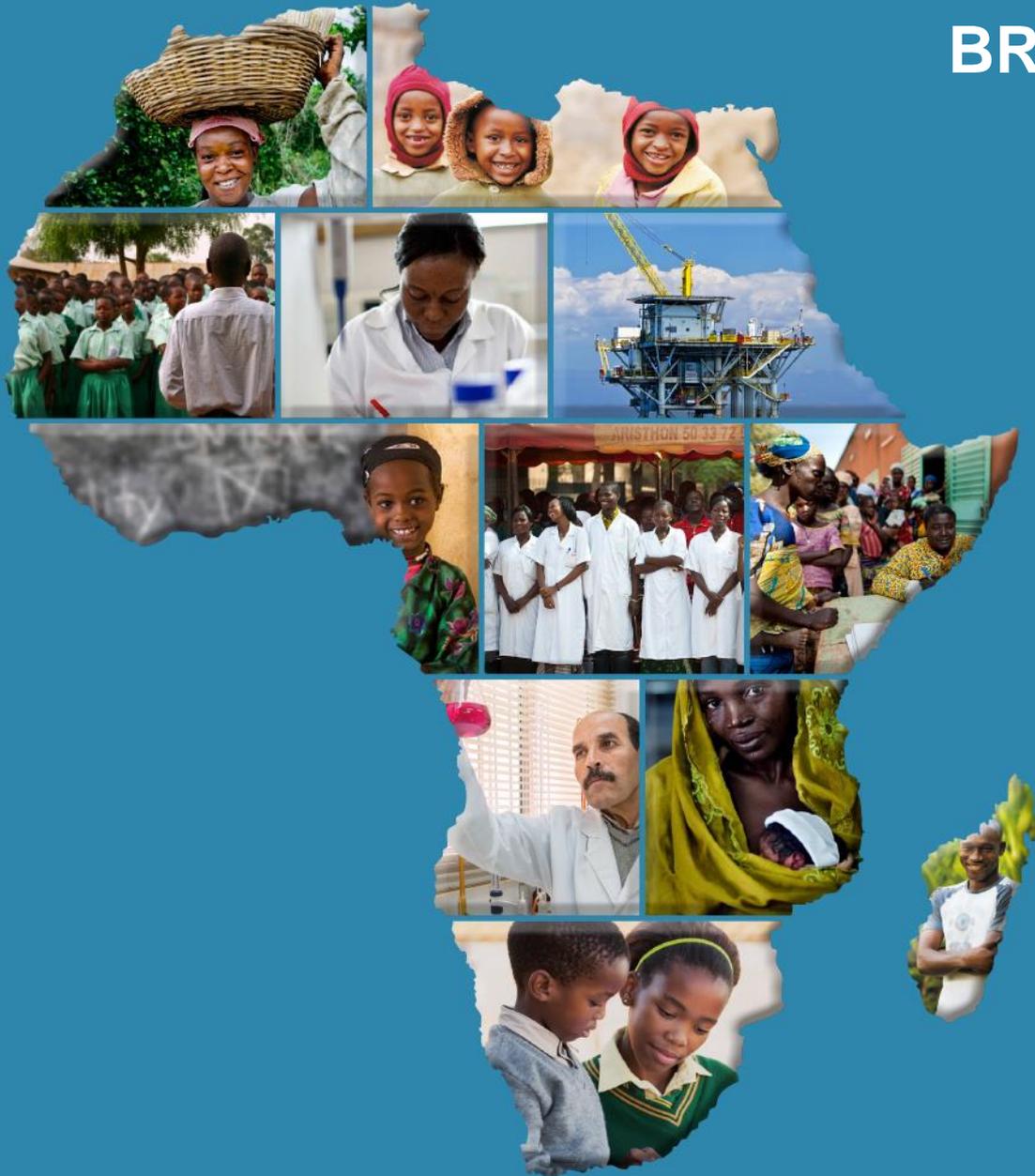


Delivering on the promise

Leveraging natural resources to accelerate human development in Africa

BRIEF



AFRICAN DEVELOPMENT BANK GROUP

BILL & MELINDA
GATES *foundation*

Summary

There are pressing human development needs across Africa and domestic resources have a critical role to play in financing those needs. New natural resource discoveries provide a substantial opportunity to fast track human development progress. Yet many countries in Africa have not yet managed to reap the full development benefits of their natural resource wealth. The limited results in terms of human development outcomes across the continent suggests that the contribution of the oil, minerals and gas sectors to Africa's socio-economic development will remain uncertain unless deliberate steps are taken for these major assets to become a significant part of country development agendas.

Many African governments have expressed commitment to turn new revenues from natural resources into the type of outcomes that matter for their citizens, including better health, better education, and increased access to quality social services. They also want to make sure the discovery of extractives translates into more and better jobs and business opportunities. Yet, policy makers are well aware that delivering on those commitments will demand tough and often complex policy choices: balancing the need for social investments with that of other sectors across the economy; being transparent and carefully managing citizen expectations; and adequately distributing benefits between extractives and non-extractives communities and between current and future generations.

In the light of these challenges, the African Development Bank and the Bill and Melinda Gates Foundation came together to produce a joint flagship report to illustrate the various ways in which extractives can be managed to maximize impact. The report makes three fresh contributions on how to leverage oil, minerals and gas resources to accelerate human development progress in Africa.

First, it provides a broad estimate of the magnitude and timing of new extractives revenues in Ghana, Liberia, Mozambique, Sierra Leone, Tanzania, and Uganda – six countries that have all recently discovered significant reserves of oil, gas or mineral resources. Showing that despite recent drops in commodity prices, revenues from recent oil, gas and mineral discoveries and reserves to be developed in these countries could add between 9 per cent and 31 per cent to existing government revenues. For example, if smoothed, Mozambique's projected natural resource revenues could fund around half of the country's need for financing in health over the next decade. In Ghana they could potentially meet about a third of the country's combined health and education funding needs over the same period.

Second, it presents a practical policy framework for helping governments to better link their revenue management decisions to their human development agendas. Specifically it examines how governments can manage spending choices to meet development priorities in a robust manner while accommodating absorption and stabilization concerns, and how they can create the kind of fiscal rules and revenue management mechanisms needed to deliver this aim. In addition to those macro considerations, the report also surveys specific spending programs and shows ways in which countries can leverage industry spending to advance health, education and social progress.

Third, it highlights ways to leverage extractives companies' direct spending, such as procurement, skills transfer and social investment by companies throughout the lifecycle of extractives projects, to ensure businesses and individuals are ready to harness the benefits to ultimately support improved human development outcomes.

The following key policy messages have emerged from the research, policy dialogues and individual consultations that shaped this work.

Policy Messages:

- 1. Define – and commit to – clear human development goals linked to natural resources.** In most cases, countries facing new oil, gas and/or mineral discoveries have already articulated – and costed – the human development ambitions included in their national plans. Regardless of whether they are new or existent, a sustained focus on concrete and achievable goals is crucial for keeping policy-makers on track as they work through the sequence of policy decisions involved in natural resources management.
- 2. Make use of the multiple channels to convert extractives resources into human development outcomes.** Revenues received from natural resources allow for increased public spending in areas directly related to human development, including health, education, and social protection, but can also support growth and diversification for sustained spending over the long term. Industry activities – employment, procurement, infrastructure spending, and social investment – offer additional opportunities that governments can leverage to fast-track their national development goals.
- 3. Have realistic expectations on the timing and magnitude of the new revenues and communicate them properly.** Although potentially significant, projections for our focus countries show that new revenues will not be transformational and will cover only part of the significant gaps in human development financing. This means governments will have to manage and adjust their own expectations and those of their citizens in order to avoid public pressure for early spending and other risky policy choices.
- 4. Define what human development interventions are best (and possible) given your priorities and revenue projections.** Both capital investment (e.g. building schools and hospitals, etc.) and recurrent spending (e.g. cash transfers, salaries for doctors and teachers, etc.) are desperately needed across sub-Saharan Africa. However, they have different spending profiles and require tailored revenue management tools. Understanding the characteristics of natural resource revenues and priorities in country plans can help with prioritization of spending.
- 5. Manage macroeconomic risks and resist spending revenues before they arrive.** Development needs are urgent and the political pressure to spend is real, yet natural resource revenues take time to come on line. Bringing forward anticipated revenues through borrowing is a common temptation, but it is risky due to volatility in prices and unexpected challenges when projects are starting up.
- 6. Leverage private sector investments at project sites.** In mining projects – and to a lesser extent in oil and gas ones – the size of company spending compares with and may even surpass that of government revenues. By building on industry spending on employment training, procurement and infrastructure, and partnering with companies to align social investment spending, governments can make further progress on human development outcomes.
- 7. Engage with companies in the broader economy.** It is common practice to impose mandatory ‘local content’ requirements on extractives firms. However, this may be less productive than creating enabling environments and improving local business capacity to take advantage of industry needs, such as by meeting international certification standards and supplying goods and services at competitive quality and cost.

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