



Briefing Note 2: Domestic natural resource mobilisation

Context

“It is often said that of g7+ countries that we are poor. This is not true. Our countries are endowed with great wealth and potential. The challenge is realising and managing this wealth to the benefit of all our people”

Dr Kaifal Marah, chair of g7+ & Minister of Finance and Economic Development, Sierra Leone

Many g7+ countries have sufficient natural resources to be able to finance their development needs. The DRC’s natural resource wealth alone is \$24 trillion. At least 80% of fragile and conflict affected states (FCAS) listed by OECD contain high value natural resources of strategic value to the global economy. Guinea has 30% of the world’s bauxite.

But the full potential benefit of these resources is not being realised. Revenue loss in Sub Saharan Africa relating to mispricing of natural resources in 2008-2010 was more than total ODA receipts.

Furthermore poorly managed extractive industries in several FCAS have underpinned grievances, incentivised rebellion and financed violence and conflict including in Sierra Leone, Liberia, Afghanistan and Solomon Islands. Land grabs in Haiti have caused challenges for local communities.

Key issues

The primary challenge for fragile countries is to sever the links that have so often bound extractive industries with violent conflict. The g7+ recognise that management of natural resources has an impact on all five peace and statebuilding goals. Well-managed extractive industries can promote more inclusive political settlements and greater security by reducing funding for non-state armed groups. Poorly managed extractive industries create further injustices. Transparent wealth sharing decisions can promote trust and cooperation.

The g7+ countries are also concerned to maximise the return from natural resources and avoid inadequate and inappropriate contracts due to the lack of capacity. Progress is being made with many g7+ countries having now moved to re-negotiate past contracts that are deemed unfair e.g. in DRC and Liberia. Guinea is reviewing mining permits. But as many g7+ countries already face a challenge in developing general revenue administrative capacity, there is an even more acute skills gap to effectively manage the highly technical discussions that are key to natural resource contracting. In addition to maximising revenue, there is growing interest in ensuring FCAS countries benefit from the whole value chain e.g. increasing local employment and revenue generation.

Developed countries have a key role to play as their own actions have significant impact. External parties often reinforce mismanagement through mispricing, tax evasion and other corrupt practices.

Recent papers released in UK showed mining assets on DRC were acquired by “shell” companies incorporated in the British Virgin Islands. These companies had no identifiable experience in the mining sector, obtained their shares at below market value before reselling to multinational firms at huge profits.

International benchmarking, such as the Extractive Industry Transparency Initiative, can play a key role. All g7+ countries with significant mineral resources are aiming to be EITI compliant.

Key solutions

The recent g7+ publication on Natural Resources described how each member is currently managing their resources. The publication also identified shared challenges and opportunities using the framework developed by the Natural Resource Charter. The Charter includes recommendations for three distinct group of actors – community, national and international. g7+ experience to date tends to confirm that action at all these levels is necessary. The following recommendations, drawing on both the Charter and g7+ experience, illustrate the kind of actions that are needed.

- a) **Provision of additional finance for supporting initiatives that help developing countries to better identify and manage their natural resources.** Particular attention needs to be given to potential for greater local employment generation by increasing the value added and transferring technology. As natural resource extraction tends to be capital intensive, complementary investment, such as labour intensive public works in the region to rebuild local infrastructure, may be needed.
- b) **Better support for g7+ countries in contract negotiations.** Support to date has been appreciated but this has tended to be short term, limited in scope and scale, fragmented and overly dependent on pro bono legal sources. Highly professional support is needed for sustained periods. Support is needed not just on final legal documents but also before and during the main contract negotiations and in the creation of overall policy frameworks (e.g. on use of national staff). g7+ experience is that directly contracting such support results in much better outcomes.
- c) **Developed countries playing a stronger role in advocating, supporting, monitoring and enforcing best practice.** Developed country actions to tackle tax evasion, tax avoidance and increasing global financial transparency are critical. Tackling the incentive structures that allow for money laundering of bribes through shell companies and reducing the potential for base erosion and profit shifting are particularly important.
- d) **Greater investment in simplifying laws and regulations.** This will facilitate the agreement of fair and sustainable contracts.
- e) **Identifying risks of development at the community level.** Communities need to be actively involved in setting standards based on their needs; financial responsibilities should be clearly defined and a transparent monitoring process should be established.

In all these aspects there is scope for much more fragile-to-fragile (F2F) cooperation.

Key sources/Further reading

“Natural resource management in g7+ countries”, g7+ secretariat Dili, 2014