

»» Resource wealth: from curse to blessing?

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Author: Dr Anja Hanisch
Editor: Dr Julia Sattelberger

The number of least developed countries (LDC) where large reserves of natural resources like oil or minerals are being found is rising around the world (e.g. Chad, Côte d'Ivoire, Central African Republic). Proceeds from the commercial use of natural resources can make a significant contribution to the local financing of development. At the same time there are many examples of abundant resources benefiting just a small elite at most, instead of supporting development processes for broad swathes of the population.

Development research highlights the following factors which can impact adversely on development processes in connection with resource wealth:

- crowding out of domestic production
- volatile commodity prices, government wastefulness and excessive debt
- favouring poor governance
- increased potential for domestic conflict

Dutch Disease: crowding out of domestic production

High commodity exports often go hand-in-hand with an appreciation of the local currency in real terms. This makes imports cheaper. Yet domestic manufacturers thus find it more difficult to produce goods at competitive prices and sell them either at home or on international markets. This can be a significant hindrance for the development of domestic production ("Dutch Disease").

Volatile commodity prices, government wastefulness and excessive debt

Many raw materials are subject to sharp price fluctuations on the global markets (e.g. oil, gas, gold, etc.). Since the national revenues of countries rich in natural resources tend to be heavily reliant on commodity prices, this volatility can have a negative impact on the state budget in many ways: in times of high commodity prices there are barely any incentives for governments to save and invest sustainably. We often see economically unproductive spending to a

greater degree (on prestigious buildings for example). However, falling commodity prices and therefore falling revenues are often not countered with cost cutting; loans are taken out instead which can result in significant debts over time.

Little accountability and transparency, but high corruption

In countries rich in natural resources, the majority of national revenue is typically generated by direct levies on raw material producers and by customs duties, while the general tax rate remains low. Yet taxes are an important way for citizens to demand accountability from their governments. If they are low, governments perceive little public pressure to make their actions transparent and for the public good, and to improve the quality of their institutions. If conditions are unfavourable, this effect can be intensified by governments investing parts of the proceeds from natural resources into their national security apparatus to suppress political or social demands from the population and the formation of groups.

Governments in countries that are rich in resources can delay economic, political and social modernisation processes, whether intended or not. Crowding out a broadly-based domestic manufacturing sector as described above often makes it harder for influential trade unions to develop, which advocate and call for political reform. What is more, since there is not a great need for skilled workers to obtain natural resources, countries that export commodities also invest less in education or vocational training programmes. A lower level of education, in turn, can result in the population becoming less politically involved and not as able to formulate demands effectively.

Increased risk of violent conflict?

Wealth in resources is often also associated with a higher risk of conflicts, e.g. disputes regarding the control over natural resources: if the raw material resources are strongly

concentrated in one area, this can rather encourage independence movements in sub-regions for example, in comparison to raw material resources that are scattered widely and easy to plunder. The latter, however, are harder for governments to control. By contrast, other players, such as rebel groups, find it easier to gain control over these resources in such cases. The precise correlations between wealth of resources and the risk of conflict are a source of controversial debate among researchers.

Approaches for international Development Cooperation

In order to make better use of resource wealth as a source of financing for widespread development, international development cooperation can provide effective support for countries with such reserves in the following areas for instance:

- Identifying raw material resources and their efficient use
- Promoting transparency (EITI), accountability ("publish what you pay") and combating corruption
- Establishing sustainable resource management (e.g. through advice on concessions as well as setting up efficient and transparent state funds)
- Promoting diversification and in-depth domestic value chains (processing of raw materials)
- Promoting anti-cyclical fiscal policy and sustainable debt management

If risks are effectively controlled (also with the help of international development cooperation), wealth in resources can make a significant contribution to easing the financing of development for broad swathes of the population. ■