Lessons learned in developing productive capacity in graduated and graduating countries

R. Hassan comments on: Case studies of natural resource exploiting countries (Botswana, Angola, Equatoria Guinea, Bhutan)

Expert Group Meeting, Geneva

November 30-December 1, 2016

- Good summary of the experiences
- The importance of absence of good development governance as well as low investment in human assets in Angola and Equatoria Guinea compared to Botswana and Bhutan is clearly made as the main factor for differences in achieving progress
- Few need more info & analysis for better understanding why
  - Fiscal stabilization through reserves has not been effective in Angola & Equatoria (success examples)
  - How social policy made effective for good governance in BOTS? What instruments & institutional innovation
  - Adopting the MDG for universal primary educ. has been a problem limiting diversification efforts in BOTS?
  - Orthodox macrecon. of liberalization vs. predominant state control in BOTS been behind the successes!

Sustainability rules for exploiting NR

- Recovery and reinvestment of the resource rent (RR) is particularly important for sustainable development
- RR is the value of the NR owned by citizens of the country (current and future generations)
- They need to be compensated for extracting these resources (like compensating labor and financial assets by paying wages and interest)

The RR

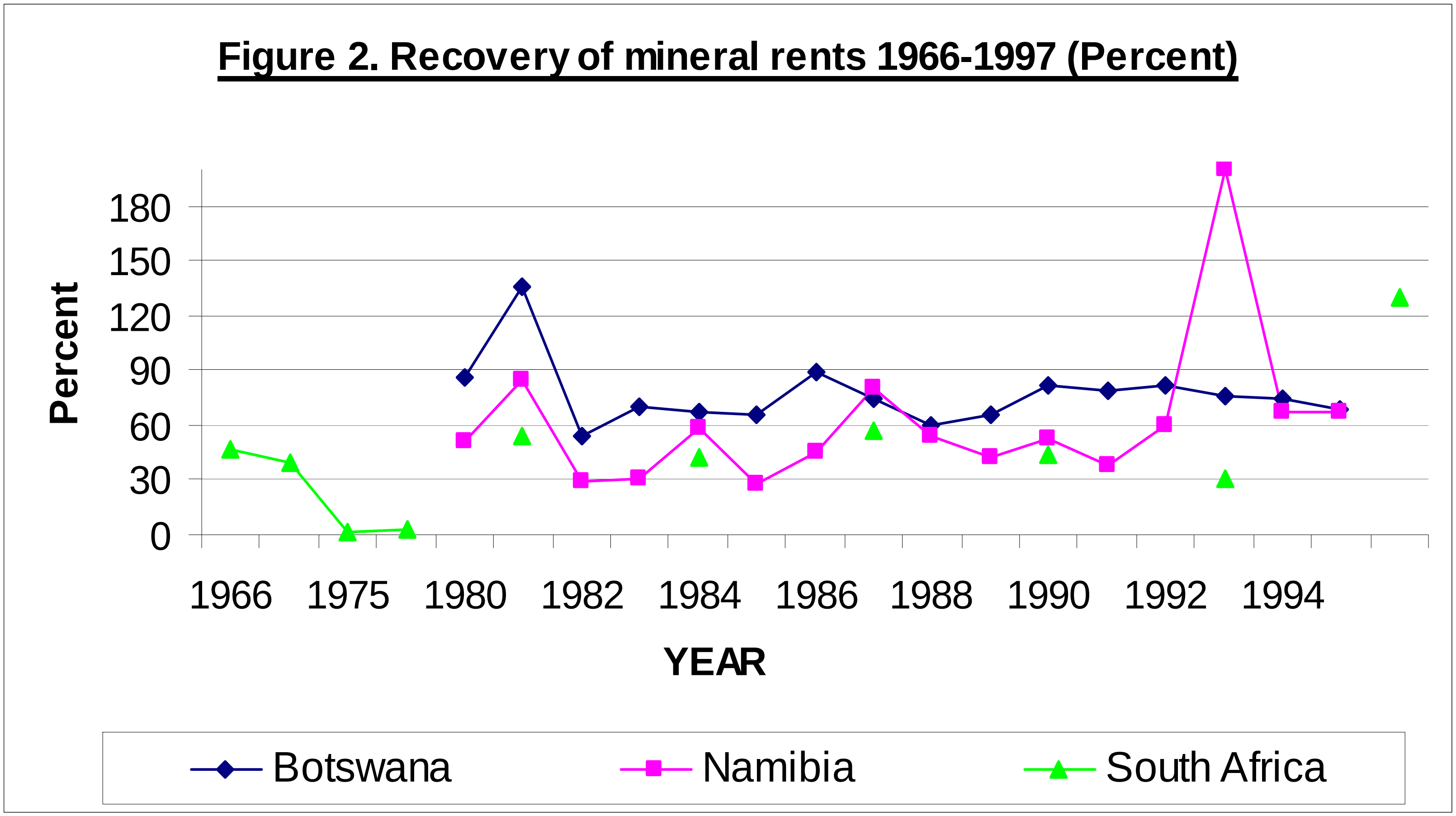
- Residual from the revenue from liquidating the NR after subtracting production costs and a “NORMAL” profit margin of 12% – 20% depending on ruling profit rates in economy
- RR recovered by state usually in taxes & royalties
- Reinvested in alternative forms of capital (human assets, science & technology, infrastructure, industrial growth, etc.) to provide at least same level of income and employment opportunities to compensate, especially future generations for liquidating NR now
- Also compensate for environmental damages caused by exploiting the NR (e.g. pollution, global warming from GHG emissions from coal and fossil fuels, etc.)

Recovery

- RR generally between 2% and 6 % of revenue
- Low now but has been improving in Angola & EG
- More info and analysis on recovery rates and mechanisms used to recover
- Done for some countries (minerals and other NR in Botswana, Namibia and RSA) – See Lange and Hassan books on NR Accounting in SSA

Recovery of minerals' rent

- Bots (76%), Namibia (50%), SA (45%)

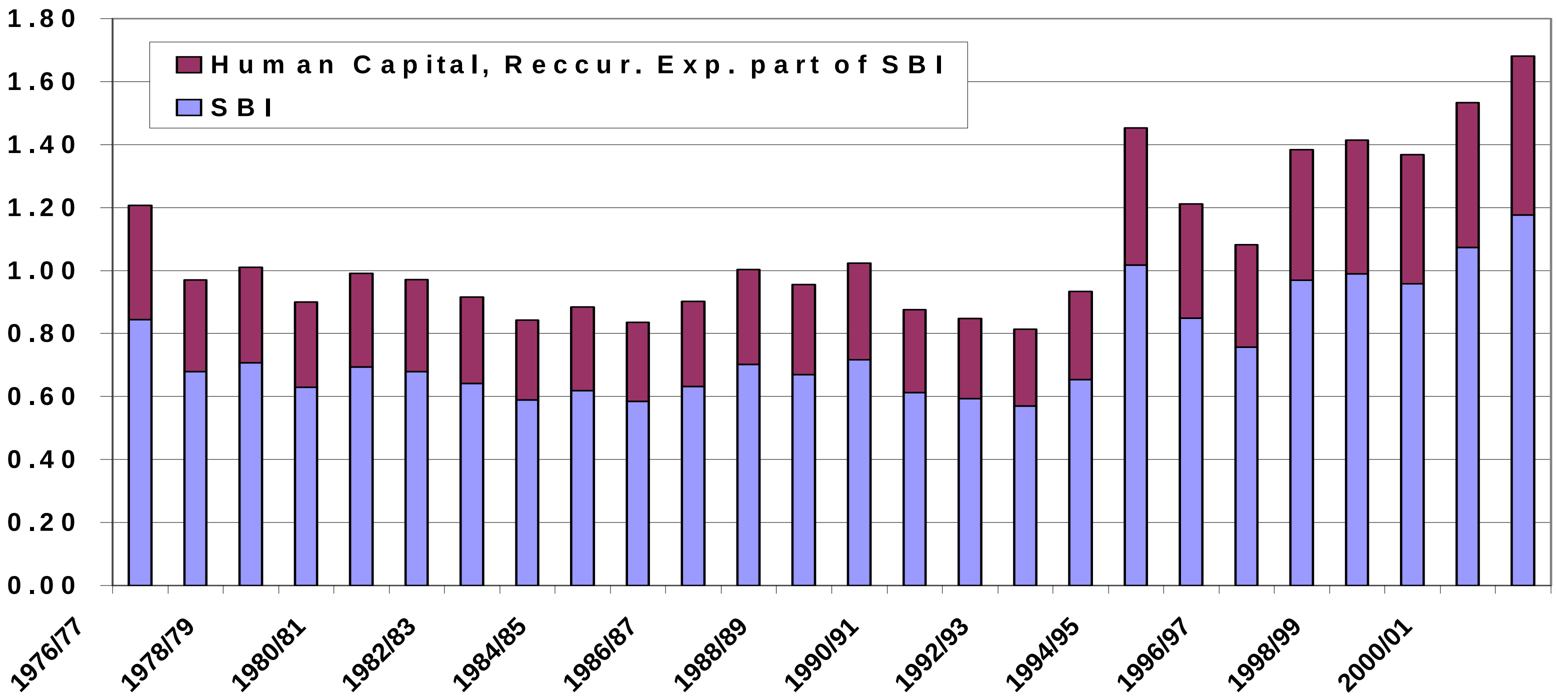


Key question: The state or private sector better manage the RR?

- State better provider of public goods (infrastructure, health, basic needs – water & sanitation, public schooling, etc.)
- Can waste RR on current consumption (financing security, arms & wars, huge government beaurocracy, etc.)
- Private sector more efficient investor for income and employment opportunities, BUT
  - No incentive for supplying public goods
  - Inequality in distribution
- Need designing appropriate economic incentives and policy instruments to encourage private sector investments in provision of such social services (social responsibility)

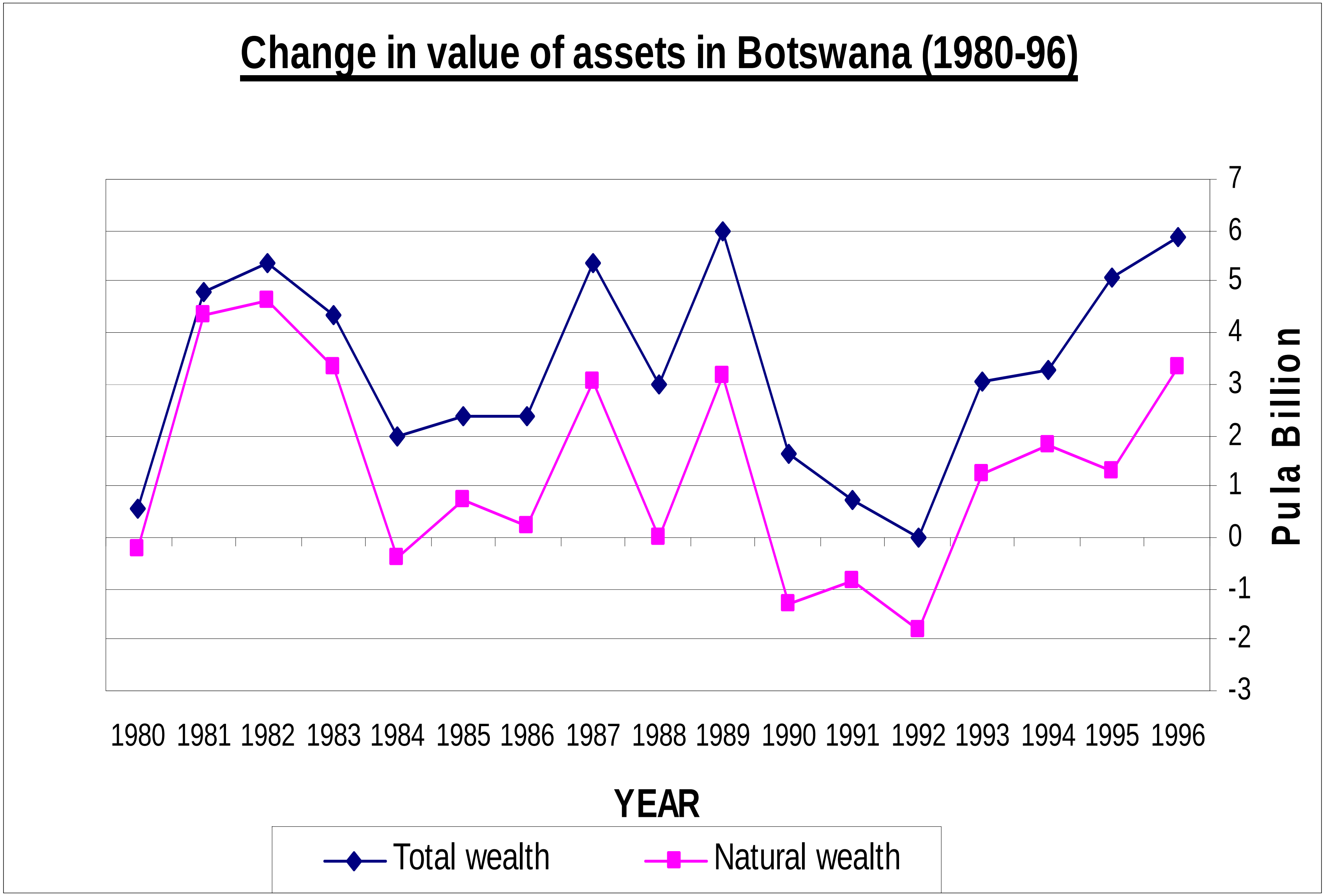
Spending minerals' rent: Botswana's good practice of the Sustainable Budget index (SBI)

- SBI = non-investment spending / non-mineral revenue
- SBI > 1 indicates unsustainable consumption (non-inv. exp. > non-min. rev., i.e. liquidation of minerals finances current consumption)



Spending minerals' rent: SA

- The Capital Component (CC) of the RR
  - El Serafy's user cost approach
  - Follows the Solow-Hartwick Rule that requires a component of the rent to be reinvested to maintain stock of assets intact
- The CC of minerals rent for the 1996-1993 period was compared to capital formation in the mining industry (total mining investments) of SA



Change in value of assets in Botswana (1980-96)
7
6
5
4
3
2
1
0
-1
-2
-3
Pula Billion
1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996
YEAR
Total wealth
Natural wealth