



Governing Extractive Industries: Major Challenges

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- Extractive industry – snapshot and trends
- Impacts and governance challenges
- Role of research
- Main policy initiatives

Extractive Industries

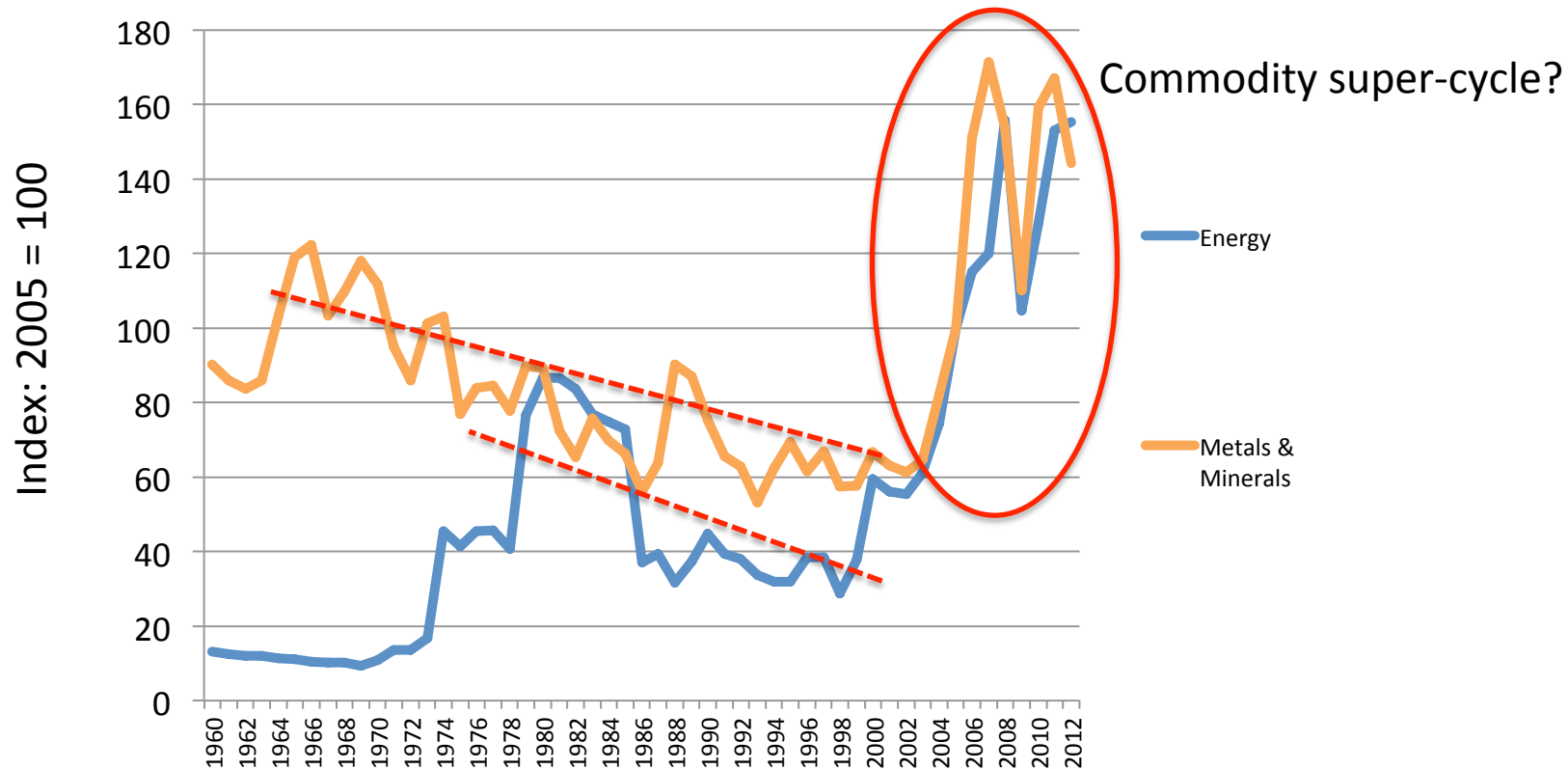
- \$3.5 trillion/year
- 5% global GDP – 11% GDP developing countries
- 87% hydrocarbons (65% oil, 11% natural gas, 11% coal)
13% non-fuel minerals ... timber





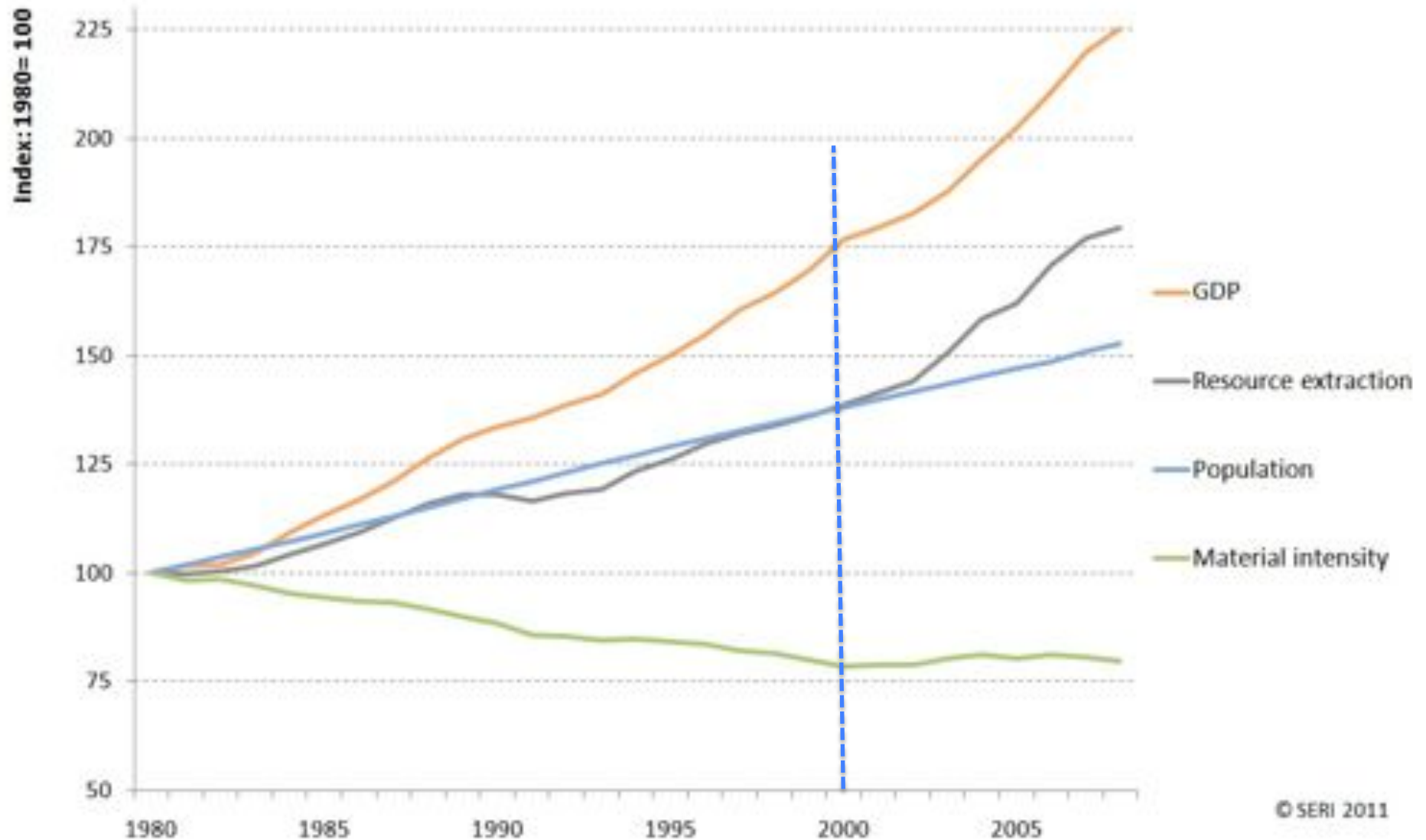
Extractive industries - trends

Extractive commodity prices



World Bank Commodity Price Data, real 2005 dollar

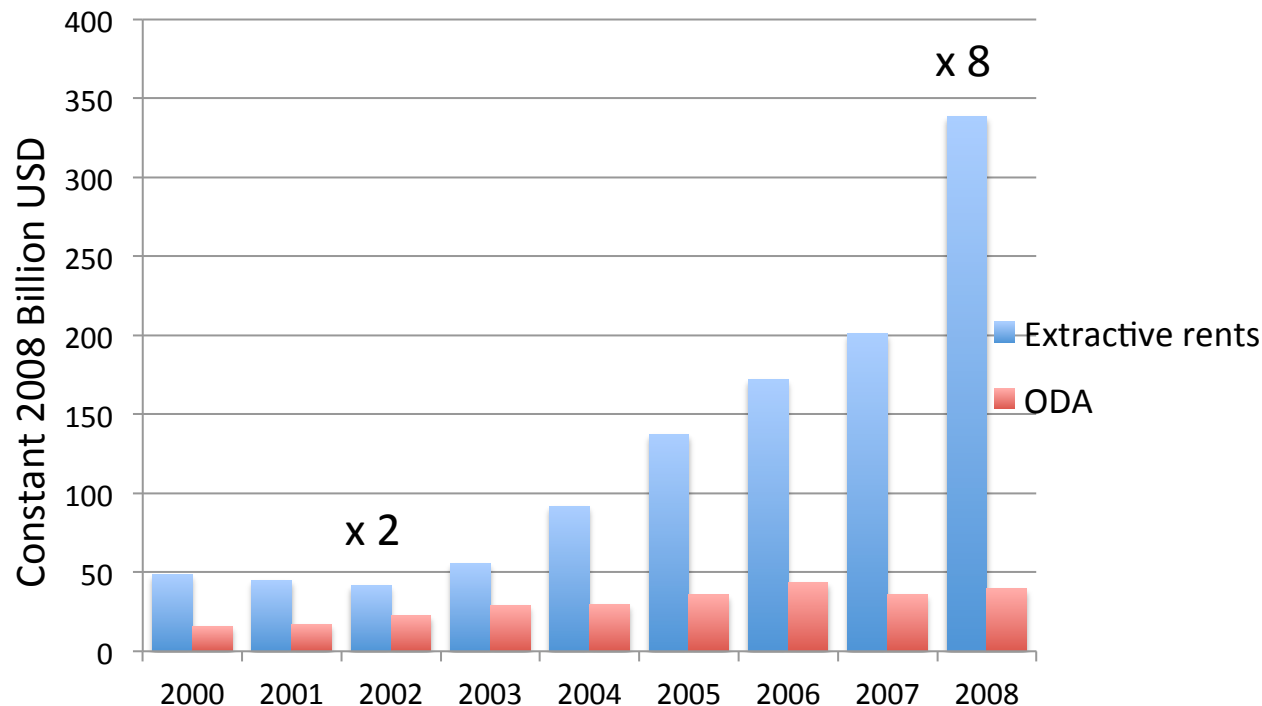
Extractive industries - trends



Resource-led development opportunity

- Foreign Direct Investment
- Fiscal income
- Economic linkages and multiplier effects

=> Natural asset base to grow and diversify economy



Potential resource rents vs. ODA – Sub-Saharan Africa - World Bank 'Wealth of Nations'

Contemporary context of resource governance

- Liberalization of extractive sectors
- Emerging economies 'Good governance' agenda
- Renewed scarcity narratives

Main functions of extractive sector governance

- Provide raw materials for the world's economy
=> Investment and trade focus
- Maximize socio-economic development in host countries
=> Revenue capture and allocation focus
- Minimize socio-environmental impacts locally and globally
=> Environment and human rights focus

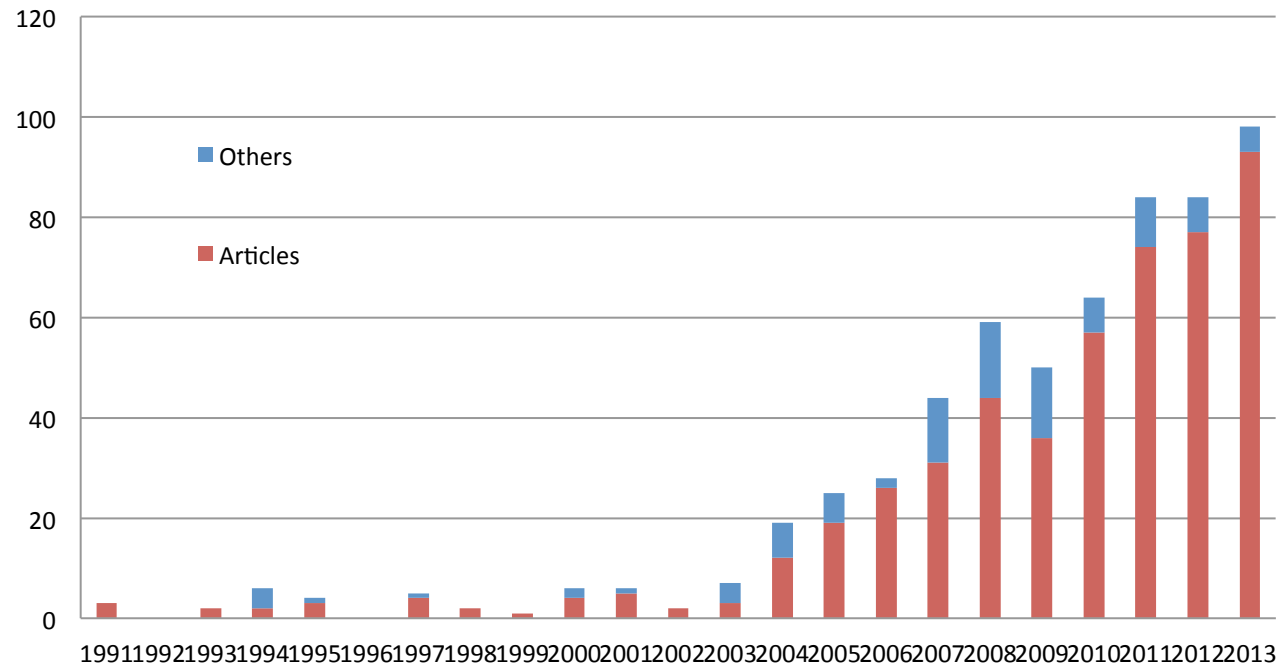
Main governance challenges

- Highly politicized sector with strong macro-economic implications, massive windfalls and long-term horizons
- Lengthy chain of responsibility to ensure positive developmental outcome
- Institutional capacity of host governments often lagging behind complexity of requirements and skills of companies
- State fiscal autonomy reducing representation and accountability
- Low price elasticity and limited consumer exposure
- Institutional robustness tested by revenue flows

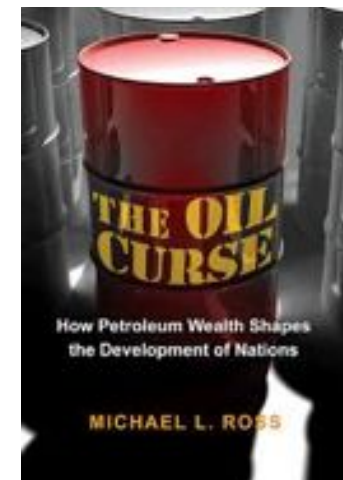
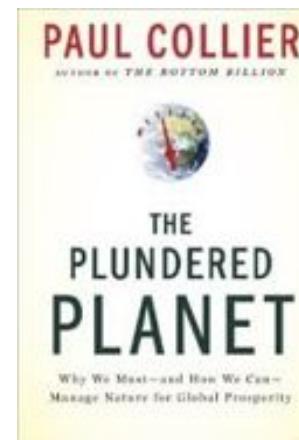
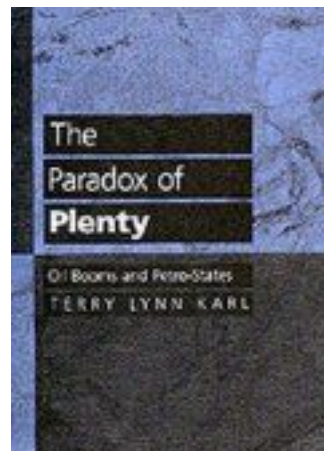
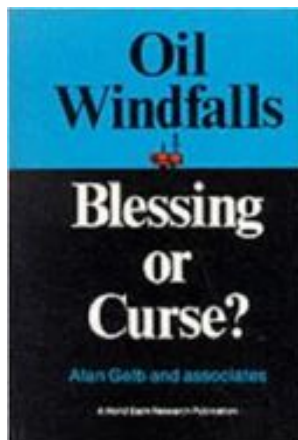
Does resource wealth undermines ‘good governance’?



Research on the 'Resource Curse'



Articles containing the terms 'resource curse' and 'Dutch disease' in the academic literature (1991-2014). Source: Web of Science



Major research findings

- **Economic underperformance** (Ross 2012, Wiens 2013, Amundsen 2014)
 - Shocks and crowding out effect
 - Institution dependent: (un)democratic and (un) accountable; self-reinforcing; esp. for SOE
 - Efficiency of extraction versus redistribution
 - Limited poverty reduction, greater inequalities
- **Institutional effects** (Leite and Weidmann 2002, Ross 2012)
 - Authoritarianism, esp. after 1970s and authoritarian regime in place
 - Rent-seeking, esp. in non-democracies
 - Patriarchy and educational underinvestment
- **Armed conflicts** (Lujala 2010, Ross 2012, Colgan 2013, Basedau & al. 2013)
 - Civil wars, esp. high dependence/low abundance, onshore, conflict/oil area overlap, ethnic/oil representation
 - Inter-state wars, when revolutionary regime

Challenges to governance interventions

- Governing domestic resource sectors/
Respecting host government sovereignty
- Maintaining international leverage/
Aid-dependence declines & int'l competition increases
- Reducing poverty in producing countries /
Increasing profits for home corporations
- Maintaining political stability for investments /
Promoting democracy & benefiting from instability
- Reducing environmental impacts /
Promoting resource sector growth

Major resource governance initiatives

- Conflict diamonds => Kimberley Process
- Revenue secrecy => EITI
- Revenue governance => NRC

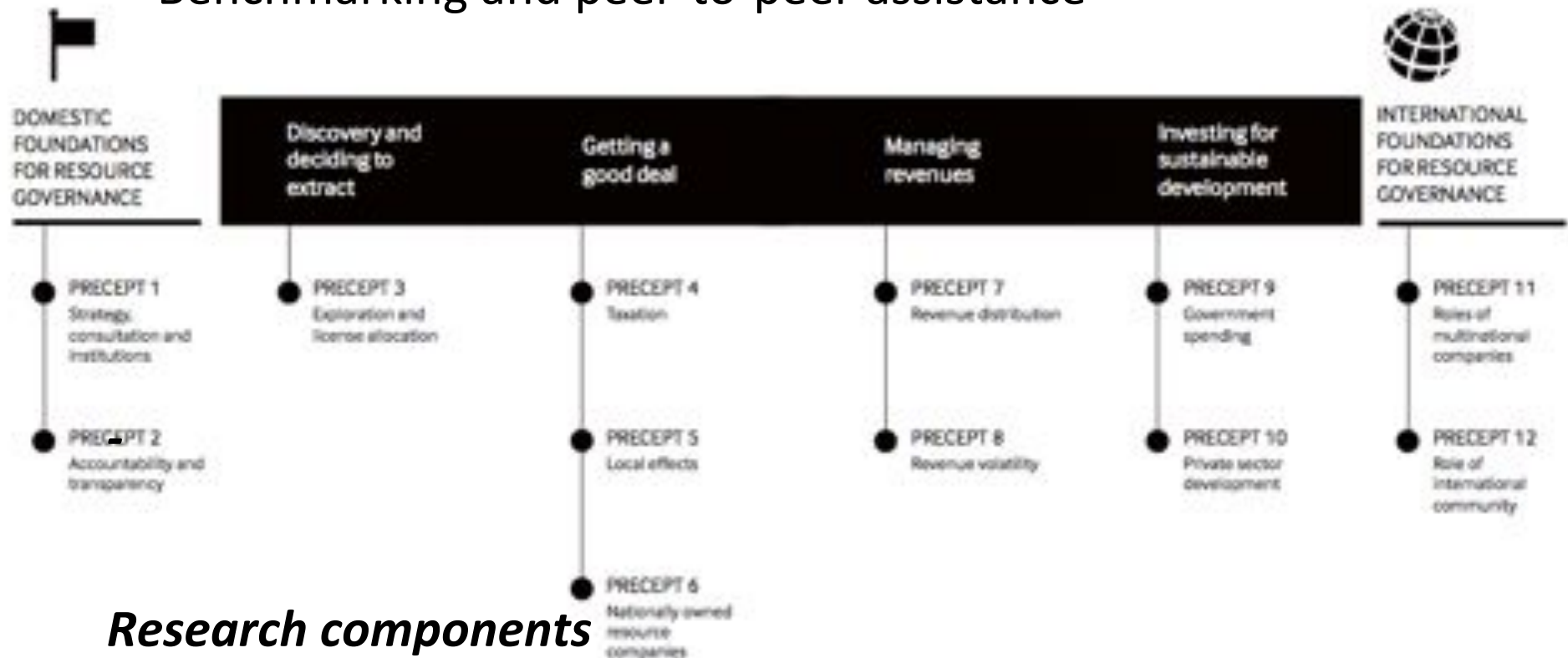


- Kimberley Process Certification Scheme (KPCS)
 - Prevent laundering of ‘conflict diamonds’
 - Institutional innovations
 - ***Research components***
 - ⇒ Identification and tracking of minerals
 - ⇒ Conflict-minerals legislation (e.g. Dodd-Frank 1502)
 - ⇒ Yet fell short of *extended* expectations



- Extractive Industries Transparency Initiative (EITI)
 - Transparent payments to governments
 - Formalization of revenue discussions
 - *Research components*
 - ⇒ Reconciled but not always audited
 - ⇒ Accountability limited (PWYP)
 - ⇒ Participation voluntary and exclusions frequent
 - ⇒ Revenue transparency legislation (Dodd-Frank 1504, EU Accounting and Disclosure)

- Natural Resource Charter (NRC)
 - Precepts of resource governance along decision-chain
 - Benchmarking and peer-to-peer assistance



Research components

⇒ Broad-picture but limited participation

⇒ NRC + Revenue Watch Institute = Natural Resource Governance Institute

Conclusion

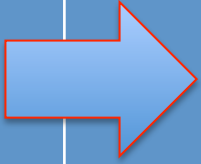
- Major opportunity over past decade, incl. for new producers
- Multi-scale & tri-partite governance:
 - Local / National / International
 - Civil Society / Companies / Governments
- Policy recommendations designed, promoted but rarely demonstrated
- Research-intensive domain requiring more collaboration and case-specific application

Role of research

- Identifying resource opportunities
- Testing resource-development hypotheses
- Tracking commodity chains and revenue flows
- Assessing socio-environmental impacts
- Evaluating and recommending policies

⇒ Evolution of policy-driven agenda

Role of research

Conventional resource management	 Sustainable resource governance
Command & control management (state/firm-centric)	Participative & adaptive governance (multi-stakeholders)
Goal: Commodity production	Goal: Sustainability
Concern for current generation and human well-being	Concern for future generations and non-humans
Limits arise from need to conserve/replace resource stocks	Ecological limits and social consent to resource production
Resources studied in isolation	Resources embedded in socio-ecosystems

Thank you!

