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Harnessing Natural Resources for Accelerated Development

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Democratic Republic of Congo

KINSHASA INTERNATIONAL ECONOMIC FORUM ON ECONOMIC GROWTH AND GOVERNANCE



Challenge for 2013:

« Harnessing Natural Resources for Accelerated Human Development »

“Final Report”



« *July 2013* »

I. Introduction

1. The DRC Authorities hosted, with the support of the World Bank, the first edition of the Kinshasa International Economic Forum which took place on June 6-7, 2013 and focused on economic growth and governance. During this forum the Prime Minister, M. Augustin Matata Ponyo, reiterated to more than 450 guests including about 18 ministers the country's ambition to become an emerging country by 2030 and high-income country in 2050. Worldwide known development experts such as Paul Collier (Oxford University) and James Robinson (Harvard University) were invited to discuss how to harness natural resources for higher and inclusive growth in DRC.

2. This report describes the context of the forum, presents the main recommendations and discusses the roadmap for the next step. Translating various recommendations into the concrete action plan is the objective that be assigned to the Standing Working Group.

3.

II. Context

4. The DRC authorities have set ambitious targets for developing country: a Middle Income Country in 2015, an Emergent Country in 2030 and a High Income Country in 2050. Thus, they launched, in the cooperation with the World Bank, the first edition of the Kinshasa International Economic Forum on Economic Growth and Governance in order to create a platform for an effective exchange of ideas and practices. The Forum is envisaged as an annual event to discuss particular set of development issues brought forward by the government of the DRC to benefit from relevant international experiences and innovative thinking adapting these experiences to the DRC context.

5. The theme chosen for the 2013 edition was: "harnessing natural resources for accelerated human development". Around twenty interventions have been discussed in two days of the forum with ten keynote speakers and a dozen of commentators, including the participation of the audience. The first day focused on macroeconomic issues related to natural resources and the second one, on the effective management of natural resources based on the experiences of other countries. The participants expressed their satisfaction at the end of the meeting.

III. Key Recommendations

6. The major part of speeches and debates remained focused around the central concern of how to take advantage of natural resources to accelerate the development of the Democratic Republic of Congo. Participants also focused on the successful experiences of other developing countries rich in natural resources as well as their choice of policies to preserve and boost their level of economic growth in a sustainable way, creating jobs and reducing the level poverty. Examples of countries such as Botswana, Peru, Chile, Malaysia and Indonesia that have transformed the curse of natural resources into opportunities for development were very rewarding.

7. Major policy recommendations from the Forum include:

- consider natural resources not as a source of revenue, but rather as a development platform;
- improve accountability and transparency in the management of natural resources and use the revenues from these resources in an optimal and sustainable manner;
- building the country's negotiations capacities of contracts by setting up an inter-sectorial authority regulation of high-level for managing and coordinating these negotiations, and reflecting on the possibility of setting-up a stabilization fund and a fund for future generations.
- Establish an intersectoral high-level authority to coordinate negotiations and ensure that the management of natural resources aligned with national prospects for sustainable development;
- maintaining macroeconomic stability, accelerating the second generation of reforms (mainly governance reforms in the extractive industries),
- Promote the growth pools approach and build industrial parks to create an internal economic dynamics so as to raise the country on the path of sustainable development and emergence.

8. The completed list of these recommendations is in the annex 1.

IV. Feuille de route

9. In his closing remarks, the Prime Minister came back on some key recommendations and stressed the establishment of a structure for monitoring and evaluation of the recommendations. The Organizing Committee of the Forum was requested to submit to the attention of the his Excellency Prime Minister proposals for the establishment of a *Think Tank*, responsible for conducting reflections on current and future economic choices.

10. The Prime Minister also announced the creation of a Think Tank to stimulate the policy debate in DRC. The next Conference will be held on May 8/9, 2014 in Kinshasa.

1st Day:

The State of the DRC Economy and the Macroeconomic issues related to the Governance of Natural Resource

1. James A. Robinson (Professor)

“Governing Natural Resources for Shared Prosperity”

The evidence suggests that natural resource wealth is only a "curse" for countries with poor institutions. I make the distinction between "institutions in the large", relevant for the whole economy, such as the rule of law, or the extent of checks and balances, and "institutions in the small" surrounding the extraction of natural resources and the allocation of rents. Though all types of institutions are relevant, a focus on institutions in the small is the first step in moving away from the resource curse. I discuss ideas for how such institutions can be reformed taking into account the political realities and whether current policies such as the Extractive Industries Transparency Initiative (EITI) will achieve important goals. I focus on the potential role of the domestic private sector.

2. Celestin Monga (M.):

“Solving the Mystery of African Governance”

The dominant view of good governance as a pre-condition for economic success is theoretically compelling but empirically difficult to establish. Historical analyses tend to indicate a very strong correlation between institutional development and economic growth. Today's high-income and good-governance countries generally had bad-governance environments at low levels of income. Moreover, some of today's most successful economies still exhibit sub-optimal governance indicators. By focusing on the search for the determinants of some global governance standards that often reflect particular political, ideological and philosophical conceptions of power, the traditional literature on governance has so far failed to offer a set of actionable policies that poor countries could implement to foster inclusive growth in a pragmatic and incentives-compatible way. This presentation acknowledges that governance problems are indeed major impediments to economic growth. But contrary to conventional wisdom, it argues that the well-known governance problems in African countries are mainly the reflection of their low level of development, and the results of failed state interventions and distortions originating from erroneous economic development strategies. Instead of posing 'good' governance as the main prescription and a prerequisite for sustained growth, development economists should design policy frameworks that offer the maximum likelihood of success because they are consistent with comparative advantage while providing minimum opportunities for rent-seeking and state capture.

3. Matthias Cinyabuguma (Professor):

“Macroeconomic Context: Overview, Medium-term Fiscal and Monetary Policies, and Growth Strategies in the Democratic Republic of the Congo (DRC)”

This presentation seeks to demonstrate the linkages between the political and human dimensions of democracy on the one hand and a suggested agenda for macroeconomic stabilization, economic growth and poverty reduction, on the other hand. These steps are necessary measures in the DRC today where income inequality and poverty have become mass phenomena with the rate of poverty as high as 85%. The suggested policy agenda of economic and

political governance seeks to generate continuing and sustainable economic growth, macroeconomic stabilization and significant reduction in poverty.

Significant elements of the program include improving the business environment by reducing the state's footprint in the economy, reforming the fiscal and monetary systems, strengthening the social safety net by directing more resources to poverty-reducing programs, improving infrastructure and integrating the DRC as a market nationally, regionally and globally. To these ends three pillars, namely, state reconstruction and peace, macroeconomic stabilization for growth, and grassroots development for poverty reduction, will be articulated as the underpinnings or supports for our agenda.

4. Paul Collier (professor):

“Harnessing resource for transformative development: navigating the economics and politics”

The past decade of high commodity prices triggered sustained investment in prospecting for natural resources. Many of the world's poorest countries have been the new frontier for those investments and the beneficiaries of major resource discoveries.

Following this decade of discovery, the challenge now faced is to harness these resources, such as oil and minerals, for sustained economic development. The history of plunder in poor countries tells us that this is not easy. But countries like Botswana and Chile stand as beacons of how resource-rich countries can transform themselves through navigating the chain of decisions from extraction through to the investment of revenues for the benefits of the citizens.

This will be the decade of extraction. . In order to make the right decisions and to make these decisions robust, governments must navigate the politics as well as getting the economics right. Getting the economics right involves navigating key policy choices such as getting a good deal, managing volatile revenues and building the capacity for absorbing increased domestic investment in infrastructure and the private sector.

Navigating the politics requires a tripod of complementary tools. First, governments must define the rules necessary to enshrine the right decisions. Second, they must build the institutions to oversee and protect the integrity of the decisions. Finally, the country must build a critical mass of informed citizens. This will ensure the decisions, and the reasons behind them, are widely understood, and so voters become the vital backstop to ensure resources are used for the common good across the span of a generation.

5. Albert Zeufack (M) :

Natural Resources and Poverty Eradication –increasing the efficiency of investing natural resource revenues into human development

[to be completed]

2nd Day:

NATURAL RESOURCES FOR HUMAN DEVELOPMENT AND DRC ECONOMIC TRANSFORMATION

6. Stefaan Marysse (Professor):

“Revenue Capture and Management in the DRC: the case of the mining industry”

This contribution formulates some answers to the following research question: have the conditions of the mining production renaissance in the DRC combined to transform the mining rent into improved contract transparency, public investment and ultimately in improvement of the living conditions of the Congolese people? The second section of this article gives a brief overview of theories explaining the resource curse, and focuses on the political economy of mining rent. In the third section we will analyse more closely the development of mining production: from implosion to two-pronged transformation in the DRC. In the fourth section we endeavour to explain this renaissance in mining production. It is the result of the expropriation/privatisation of the major state-owned company (Gécamines) and the revival of the industry driven by investments of large foreign companies. Finally we will be equipped to answer our central research question: who benefits from the new mining rent and how to improve on current practices?

7. Vidar Ovesen (M):

“Transparent Management of Natural Resources”

Natural resources are a gift from Mother Nature and provide vast opportunities for economic development, if managed well. The resources in the ground can be transformed into financial or physical assets and support long-term economic development. They may provide lasting benefits for the citizens and contribute to rapid, sustained and broad-based economic and social development by financing crucial investments in infrastructure and human capital, which further increase the growth potential of the economy. However, the opportunities that natural resources provide are often missed. Many resource-rich countries have failed in managing their natural resources in a sound manner. In these countries, natural resources have become a curse rather than a blessing.

One key prerequisite for sound natural resource management is transparency and accountability. Citizens should have access to information about the way the resources, and the revenues thereof, are managed. Transparency has a disciplinary effect and minimizes the risk of bad governance, mismanagement, corruption and waste. Also, it holds the decision-makers accountable and builds trust and confidence to the management of the resources. Moreover, it enables stakeholder participation, which is important to achieve public support and legitimacy.

According to Revenue Watch' latest Resource Governance Index (May 2013), only 11 of 58 resource-rich countries have satisfactory standards of transparency and accountability. In the rest, the public lacks fundamental information about the oil, gas and mining sector. There is a major governance deficit in natural resources around the world, and the deficit is largest in the most resource-dependent countries. Revenue Watch concludes, however, that some developing countries show that satisfactory performance in resource governance is possible.

Sound management of natural resources requires transparency along the entire value chain, from extraction/production to spending/savings of natural resource revenues. Best international practice suggests

disclosure of all key information regarding the management of the resources and regular reporting about the operations and the management of the revenue streams and spending/savings. Regular audits by independent agencies are also key. International initiatives, such as Extractive Industries Transparency Initiative (EITI) and the Santiago principles are important benchmarks that can enhance the transparency in this area.

Experiences from some resource-rich developing countries, such as e.g. Ghana, Chile and Timor-Leste, suggest that good governance of natural resources is beneficial for the society at large. However, sound management of natural resources requires political commitment and will to design sound frameworks and legislation and adhere to the laws, rules and procedures once they are adopted.

8. Eric Parrado (M):

“The Role for a Natural Resource Fund – Does the DRC need a wealth management fund? – The case of Chile”

During the last decade, Chilean governments have followed a countercyclical fiscal policy that seeks to decouple government spending from the effects of economic and commodity-price cycles, and to ease business cycle fluctuations. This implies that the government saves during upswings, when it receives significant transitory revenues, and can avoid the need for a drastic tightening of fiscal spending during downturns, thereby stabilizing the growth of public expenditure over time. The fiscal rule was complemented by the introduction of a Fiscal Responsibility Law that created two sovereign wealth funds (SWFs) as vehicles for managing the surpluses resulting from the application of the structural policy rule. The Pension Reserve Fund (PRF) was designed to help fulfill fiscal obligations in the areas of pensions and social security. The Economic and Social Stabilization Fund (ESSF) was created to finance fiscal deficits that may occur during periods of weak growth or low copper prices; it can also be used to pay down public debt and finance the PRF. In this way, it helps to reduce cyclical variations in fiscal spending, ensuring long-term financing for social programs. The presentation will discuss details about the benefits of the Chilean framework and its applications to other countries.

9. Happy Fidzani (Dr):

“Experience of the Botswana Sovereign Fund: “do-s and don’ts” for DRC context”

At this conference Dr Fidzani will present on the Botswana Sovereign Fund, the Pula Fund. His presentation will discuss the origins of the Pula Fund and the reasons for its establishment and the processes through which it has been managed and the guiding principles that have been followed in its administration.

His presentations will argue that the required attributes of any sovereign fund is that there should be a substantial margin between the value of the extracted product compared to the extracting costs. When that value is substantial there is a need to establish a sovereign fund to benefit future generations.

Issues of optimum rate of exploitation of the natural resource normally arise and the country’s dominant position in the holding of the resource determines this optimum rate of exploitation. Worry about new competitors entering the scene affects this rate of exploitation. The presentation also raises issues about how Governments can mortgage the future of the country basing on this value of the natural resource. Furthermore, Issues of how much of this value Government be save and what saving vehicles can be used are also raised. The presentation draws heavily from the

Botswana Pula Fund and the Botswana experience to illustrate and answer some of these questions.

10. Deon Filmer (M)

“Harnessing Natural Resources for Social Assistance and Human Development – models that worked”

Countries in SSA have a poor track record when it comes to turning natural resource wealth into human capital outcomes—for example, under-5 mortality is systematically higher, and primary completion rates are systematically lower, in SSA’s oil rich countries given their national income levels. The session will focus in on three ways that countries could use the opportunity of natural resource wealth to make key investments in the human capital development of their populations—investments that will have significant payoffs for long-run economic development.

- (1) The rationale for, and experience with, using some of the income from natural resources to invest now in the foundations of human capital development—in particular in early child development and the foundations of basic education and health.
- (2) The rationale for, and experience with, using some of the income from natural resources to directly address extreme poverty—which undermines human capital development—by using social protection platforms such as cash-transfers to directly transfer a share of the natural wealth directly with populations.
- (3) The role of extractive industries themselves, in building the broader set of skills that could promote a diversified economy—as a foundation for increased productive employment, broad-based economic growth, and poverty reduction.
