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Sustained Oil, Gas and Mineral windfalls mean that Africa could fund a substantial portion of its own MDG Financing Gap

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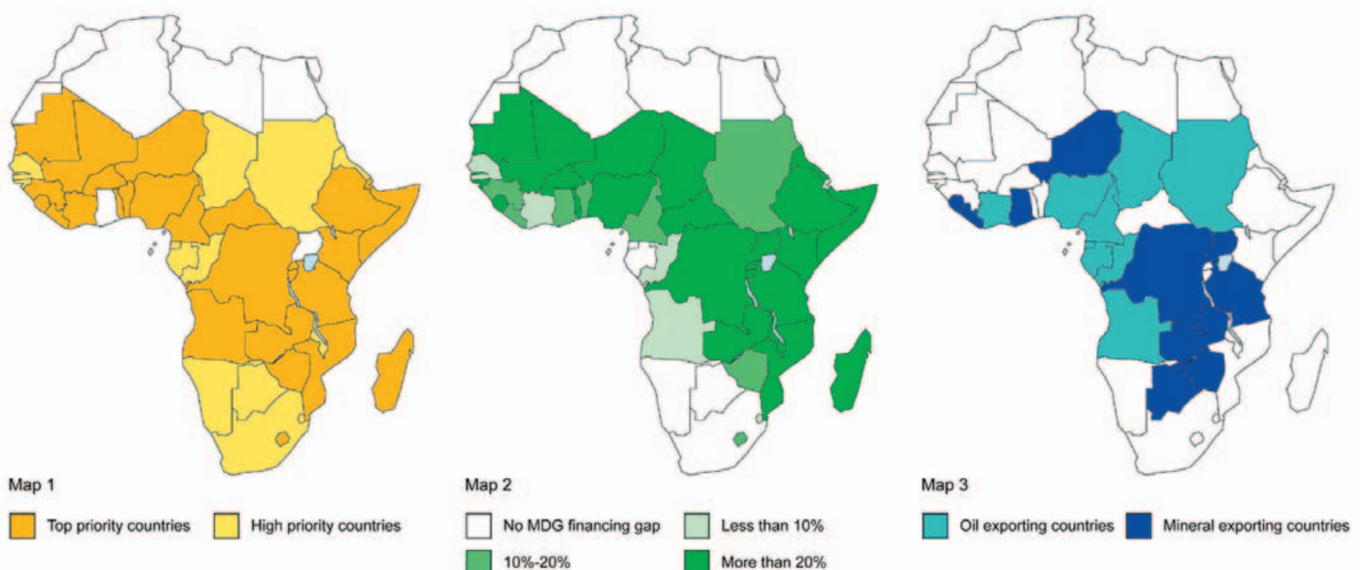
First, congratulations. The commitment by the G8 countries and other donors to increase official development assistance to sub-Saharan Africa by $25 billion a year is welcomed. Commitments to progress the cancellation of outstanding debt by Heavily Indebted Poor Countries to the IMF, IDA and African Development Fund are also applauded.

The MDG Financing Gap

This new aid is welcomed not least because the UN Millennium Project anticipates a substantial 'financing gap' for achieving the Millennium Development Goals (MDGs) in sub-Saharan Africa. The 'gap' (the difference between total investment needs and domestic resource mobilization) is calculated as $36bn in 2006, rising to $83bn in 2015 (see also Figure 1). It is anticipated that the $25 billion of new commitments on aid will go far towards plugging this gap. But will it?

Some aid is likely to be disbursed against the progress (or commitment to progress) of governments against criteria for sound public sector governance. A number of countries in sub-Saharan Africa with clear MDG financing needs may fail this test. Further, to fund MDG investments, governments need capital resource flows. But many of the new donor commitments do not release such flows, including unserviceable debt cancellation, emergency assistance and MDG target-specific initiatives. There is a danger then that despite a doubling of aid to Africa, the MDG financing gap will continue. Alternative sources of capital to support governments to invest in the MDGs are needed.

Figure 1 MDG Top and High Priority Countries, MDG Financing Gap (2015), and Oil, Gas and Mineral Exporting Countries



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Oil, Gas and Minerals 'Windfalls' and the MDG Financing Gap

Endorsing the conclusions of the UN Financing for Development agreements made in Monterrey in 2002, the 2005 G8 Communiqué suggests that a portion of the additional financing for development in Africa should come from developing countries' own domestic resources. By an historic coincidence, the quantum leap in financial support and political will from the international community for Africa, is concurrent with a significant, and more important sustained, global demand for metals, minerals, oil and gas. Crude oil, for example, at $20 per barrel in 2002, is currently around $64 per barrel, and is forecast to remain at over $60 per barrel. Many minerals are also at historically high levels, for example, Nickel is currently around $15,000 per tonne, whilst in 2002 it was $5,000. For twenty-one countries in the sub-Saharan African region (ie over half), domestic 'windfall' revenues from natural resources are either a reality now and a good prospect for the very near future.

Drawing on the work of the UN Millennium Project, we have arrived at estimates for the MDG investment needs of eight oil exporting states countries in sub-Saharan Africa: Nigeria, Equatorial Guinea, Cameroon, Angola, Congo (Brazzaville), Gabon, Sudan and Chad. Making assumptions around oil price and production capacity projections, government 'take' of revenues, population growth and 'windfall threshold' levels, we calculate that for the eight major oil exporters in sub-Saharan Africa, their combined financing surplus over and above their own MDG investment needs and recurrent public expenditure could be as high as $22bn in 2006 and $35bn in 2015, around half the total MDG financing gap for the region.

Re-Thinking Aid Policy in the Light of Sustained Natural Resource Revenue 'Windfalls'

Our calculations suggest that if current 'windfalls' in oil, gas and minerals continue, the MDG financing gap may be smaller for many sub-Saharan African countries than previously thought. We do not, however, conclude form this that the current commitments to double aid to Africa should be revisited, not least because many countries in the region are not sharing in these 'windfalls' - indeed are hurting from the elevated cost of oil imports. We argue instead for a strategic re-think of aid to mineral, gas and oil windfall countries, with the aim of using the new aid to mobilise internal domestic 'windfall' revenues as an alternative to direct budgetary support or regional investment by multi-lateral and bi-lateral development banks.

Aid Policy in Windfall Countries that also Receive General Budget Support

A small grouping of sub-Saharan African countries are both in receipt of natural resource 'windfall' revenues and currently (or likely in the near future) to receive general budget support from donors. This includes Tanzania, Ghana and Uganda. For such countries we suggest placing greater emphasis in the allocation of this new aid to ensuring that the fiscal prudence that comes with supporting budget management (Medium Term Expenditure Frameworks, budget execution etc.) is also brought to bear on the management of 'windfall' revenues. It fails to make sense for one part of government to be developing solutions to manage one substantial resource flow (natural resource 'windfalls'), whilst another is collaborating with the donor community to manage another resource flow (budgetary support). Specifically, budgetary support and its associated technical assistance needs to be more closely aligned with the efforts of governments to manage natural resource revenue volatility through state stabilisation and (long-term) savings funds, and with related changes to fiscal, public investment and industrial economic policy.

Aid Policy in other 'Windfall' Countries

Most oil exporters, and some mineral exporters in sub-Saharan Africa do not, understandably, receive budgetary support from donors. Our second strategy applies to these countries. Here we advocate that more technical assistance and project-based aid be directed to mobilising these domestic 'windfall' revenues such that they begin to act as though they were a form of general budget support for investment in the MDGs. This might include, but is not limited to the initiatives given in Box 1.

Re-Thinking Regional Aid Policy for Investment Across sub-Saharan Africa

For reasons of the Dutch Disease effects and institutional absorptive capacity, there are limits to the rates that natural revenues from 'windfalls' can be invested in either the domestic natural resource sector or in infrastructure relating to the MDGs. At the same time, across sub-Saharan Africa there are a number of established regional economic communities. Out third strategy is for the new aid to be used to incentivise resource-rich African governments to invest part of their 'windfall' surpluses in productive infrastructure across boarders in sub-Saharan Africa. Some of this investment could be for exploration and development of new oil, gas and minerals reserves, as promoted at the Gleneagles G8 conference. Other portions could be more directly related to achieving the MDGs, for example investing in power generation and distribution, roads and telecommunications. The UN Economic Commission for Africa recently made a similar proposal.

Box 1 Applications of Aid to Mobilise Domestic 'Windfall' Revenues for MDG Investment

- support for the formulation and finalization of natural resource revenue laws;
- support to Ministries of Finance and Central Banks to develop fiscal rules and trade or industrial diversification policies that link management of the 'Dutch Disease' effects arising from resource revenues with support for MDG infrastructure investment, eg in power, transport and water;
- assistance in interagency co-ordination among Central Bank, Ministry of Finance, Ministry of Energy/Petroleum, and national oil company;
- re-prioritisation of political and budgetary decentralisation programmes to target oil and mineral producing provinces, with programmes designed to improve local authorities' capabilities to manage re-distributed resource revenues, protect the non-oil/mineral local tax base, improve capacities in public sector procurement, and plan for long-term sustainable recurrent expenditure;
- support for human resource development in both public sector (eg oversight committees in Parliament) and civil society institutions (eg NGOs and the media) with the aim of delivering greater upward accountability in revenue management;
- facilitating greater local economic and development impacts from oil, gas and mineral operations, for example through joint company-donor supplier-based enterprise development programmes; and
- support for the creation of constitutional courts, which would have the ultimate say in case of conflict on natural resource matters.

Such a venture would need technical assistance, and some financial underpinning from the African Union and other donors. Essentially though this 'is about African capital, being managed by Africans for investment in Africa'. The NEPAD African Peer Review Mechanism could play a role here in investment decision-making and ensuring scrutiny and transparency of resource flows.

Conclusion

Relative to national income in the recent past, oil, gas and mineral revenues accruing to many sub-Saharan African governments are substantial, and will quite possibly be prolonged over of the period to 2015. At the same time there is an historic focus by the international donor community on financing the MDG investment gap in Africa. The question is what to do about this coincidence. How should we use the new commitments of aid for Africa to ensure that natural resource revenues have the enormous and positive impact on development across Africa that some believe it can.

This 'Opinion' is an extract from Briefing Note No. 6, 'Does the Sustained Global Demand for Oil, Gas and Minerals mean that Africa can now fund its Own MDG Financing Gap?' by Michael Warner and Kyle Alexander - http://www.odi.org.uk/PPPG/activities/country_level/odpci/index.html

The sources for Figure 1 are: Map 1 UNDP (2003) *Human Development Report 2003*, New York: United Nations Development Programme. Map 2 Calculations by the coordinators of the UN Millennium Projects in: *UN Millennium Project* (2005) *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*, New York: United Nations Development Programme, (p249). Map 3 Warner, M. and Alexander, K. (2005) *Does the Sustained Global Demand for Oil, Gas and Minerals Mean that Africa can Now Fund its Own MDG Financing Gap?*, Briefing Note 6, London: Overseas Development Institute.

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