

Promoting Good Governance in Natural Resources Management for Sustainable Development: Towards a Framework for Transparency and Accountability

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1. Introduction

Distinguished Guests, Ladies and Gentlemen. Good evening. Let me start by thanking Nazarbayev University Graduate School of Public Policy (GSPP), and especially its Dean, Dr Weng Tat Hui, the Vice-Dean for Academic Affairs, Associate Professor Riccardo Pelizzo, and Prof Colin Knox the Chair of the GSPP Conference Local Organizing Committee, for inviting me to give this keynote address at the opening ceremony of the School's first annual conference. I feel truly honoured to have been asked to do so, particularly as I consider the theme of the conference: '**Good governance and economic diversification in resource-rich economies**' - to encompass important public policy issues that underscore efforts and prospects to achieve sustainable development and raise the quality of life for millions of people in developing, transition and emerging economies.

As is well known among policy analysts and observers engaged and interested in natural resources management, some resource-rich countries have not been able to avoid the scourge of the so-called 'resource curse', or the 'paradox of plenty', whereby abundance of natural resources has had little positive impact on human and physical development outcomes on a sustainable basis. There is common consensus about the lack of good governance in natural resource management being a major factor responsible for this for this unfortunate and pervasive state of affairs found in several resource-rich economies. It is therefore timely and appropriate that this conference should focus on the theme of good governance – moiré so, because Kazakhstan itself is a resource-rich economy well endowed in oil, gas and strategic minerals as well as agricultural commodities. But let me hasten to add that, on the basis of my examination of the Kazakhstan situation for the preparation of this address, I am content to note that this country in the course of its development path since independence in 1991 has so far not tumbled into the resource curse trap.

Kazakhstan enjoys a special position in the Central Asian region and indeed among transition and emerging economies globally. In addition to its rich endowment of natural

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resources, Kazakhstan occupies a unique geographic location bridging Europe and Asia, and the country has a diverse population which includes a significant proportion of dynamic and creative young people. Since independence, the Government has consciously been striving to use its vast resource wealth to achieve big gains in both physical and human development and to transform its economy and the lives of its citizens from a developing country level to First World standards within a tolerable period. Prudent investment of the country's resource wealth, combined with initiatives to enhance good governance, knowledge transfer and innovation, have largely characterised Kazakhstan's development path and its transition to an emerging market economy over the past three decades.

In the context of the venue of this conference, I can identify two visible attestations to Kazakhstan's admirable development path stemming from judicious use of its resource wealth and the Government's commitment to inclusive growth and sustainable development. **First**, the city of Astana, Kazakhstan's modern, well-planned and environmentally friendly capital which was created about two decades ago, is not only a contemporary and effectual national centre but also serves as the administrative hub around which a 'developmental state'-type driven strategy for economic transformation and sustainable development is crafted and radiated into all corners of the country. **Second**, this conference is taking place in Nazarbayev University (NU), a higher education institution which was established in 2011 as a vision of the Kazakhstan's President and modelled on some of the world's most prestigious universities. NU is endowed with unprecedented financial and human resources - again thanks to the wise use of the country's resource wealth - and intended not only to become a world-class research and education institution, but also to act as a 'role model' for other universities and higher education institutions in the country and the region.

In line with the theme of the conference, I have chosen for my keynote address to explore *why **good governance** matters and is particularly important for creating conditions to achieve rapid economic transformation and inclusive sustainable development.* I will speak about the challenges of establishing and maintaining framework good governance in natural resource extraction and management, and will do so specifically from the perspective of two key conditions – **transparency** and **accountability**. I will advance the argument that revenue flows from oil, gas and extractive minerals can have substantial multiplier effects and significant development impacts on the rest of the economy – but only if *specific public policy measures are introduced to address and avoid poor governance; to prevent exploitive practices of foreign investors, such as undervaluation of mineral assets, over-invoicing of supplies and tax manipulation and evasion; and to inhibit revenue mismanagement and corruption in general.* I will elaborate on good governance as an integral part of a desirable public policy sphere, especially for managing the extractive sector, noting that good governance is often the critical missing link in public policy that is preventing many resource-rich economies from achieving positive and transformative development outcomes despite their enormous resource wealth. Also, in line with the conference theme,

I will link good governance in resource management with opportunities to promote and stimulate economic **diversification**, as may be necessary for achieving long-term sustainable development - noting that natural resource reserves are in most cases finite.

Before turning to the main body of my address this evening, I want to state that another reason why I am pleased to be here at Nazarbayev University (NU) is that my own institution, the University of Warwick in the UK, is considered to be a strategic international partner of NU. Since 2013, there has been concrete collaboration between NU and Warwick in a number of education and research areas including foundation studies, engineering, public policy and diplomacy, inter-cultural needs and capacity building for professional services. I myself is personally involved in the execution of a joint Warwick-NU partnership research within the multi- university EU-funded Horizon 2020 project on European Leadership in Cultural, Science and Innovation Diplomacy (EL-CSID). Many visits have taken place between Warwick and NU academics/researchers and professional staff of both universities engaged in global partnership and international cooperation, including at the very high level of our then two Provosts (Stuart Croft and Anne Lonsdale) in December 2015. I have been specifically requested by Prof Stuart Croft, now Vice-Chancellor and President of Warwick, and also by senior colleagues of the International Office at Warwick engaged in global partnerships, to follow up on contacts established previously. In this connection, I will be making a courtesy call on the Provost of NU, Professor Ilesanmi Adesida, tomorrow afternoon.

2. The Challenge of Transformative Economic Growth and Sustainable Development through Resource Extraction: The Need for Good Governance

National regulatory framework for good governance

An effective national regulatory framework is necessary for ensuring good governance of natural resource extraction. By this I mean a legitimate and transparent system and mechanisms that will enhance ability to design and implement public policies at the national level to produce beneficial results, in terms of harnessing and translating resource wealth d into inclusive growth and sustainable economic development. In my opinion, and from the standpoint of such a framework requires three essential components. **First**, the institutional environment must be robust and sufficiently secure such that private sector investors and international development partners are willing to do business with the host government and invest in the country. **Second**, the framework should guarantee through appropriate contractual system and arrangements that the host government, and even local communities, benefit from extraction of natural resources through taxation and royalties. **Third**, the domestically captured value of natural resources should be transparently re-invested into assets that contribute to economic diversification and human and physical capital development, as well as broad-based social benefits for the population.

On the basis of each of these three conditions, available evidence of performance and outcome suggests that Kazakhstan's achievements as a resource-rich economy are notable.

There is ample evidence that Kazakhstan is using its enormous resource wealth to broaden and deepen the country's economic base, while at the same time substantially developing its stock of human capital to meet its developmental needs in the labour market as well as increase the international competitiveness of the economy overall. From a public policy perspective, this indicates the existence of procedures, institutional arrangements and legal frameworks that are conducive to a good public policy environment for natural resource management and governance. The lesson from this experience implies the need to formulate and implement realistic and concrete 'beneficiation' strategies for governance and management of extractive resources, such as 'linkage-based' development policies emphasising and promoting 'local content' and capacity building initiatives and programmes. These should go beyond mere guidelines to incorporate tangible incentives for encouraging stronger integration of the extractive sector with other sectors in the local economy including value-addition through local processing. It is these types of public-policy-driven initiatives, in my opinion, that will contribute to the expansion of employment and income-earning opportunities and help raise productivity levels as required for improving international competitiveness of the economy.

Next, Kazakhstan's experience in managing its resource wealth shows that, if properly harnessed and sensibly invested in human development activities, large revenues generated by extractive resources can enhance science and technology-based **innovation** and skills formation which can serve as the fulcrum for **economic diversification** - as is required for propelling modernisation and stimulating high and sustainable growth with employment and income-generation gains across various sectors of the economy. In such a model, it should be emphasised that the extent to which positive development and employment benefits are attained will be influenced by effectiveness of public policy measures to: (1) increase domestic sector innovation capability; (2) enhance technology transfer; (3) integrate innovation in the wider economic development process; (4) incorporate international knowledge linkages into the development process; (5) promote transparency and trust in industry and trade and avoid corruption; and (6) support knowledge transfer and promote shared value with international development partners. ***In this regard, It is my view, that our host, NU's Graduate School of Public Policy (GSP), is strategically placed - through its research and education structures and initiatives as well as its solid financial and human resource endowment, to influence the making of desirable public policies.*** This is in accordance with the stated mission of the GSP to promote development and raise the quality of life of the Kazakh population, through enhancement of good governance, diversification of the economy, and introduction of institutional reforms.

Economic diversification, particularly through innovation, will undoubtedly require the active participation of local entrepreneurs and small and medium enterprises (SME's) in the development process. In this regard, public policy will be crucial for improving access to capital for business innovation and for enhancing the quality of governance of science, technology and innovation (STI). Bold actions emanating from appropriate public policy will be needed to improve horizontal and vertical coordination for solving implementation problems concerning the activities of key stakeholders in both the enterprise and innovation systems. There is little doubt that with good governance and transparency, resource wealth can go a long way towards solving the problems of scarcity of domestic capital to finance economic diversification and transformation and that of information exchange and communication which is necessary for effective coordination. It is worth pointing out that the example of Germany as a successful export-oriented industrial economy - a performance which stems not only or even mainly from the production activities of large and well-known industrial conglomerates like Daimler, VW, Siemens, etc. but also the existence of thousands of well-run and efficient family-owned, niche-market, small manufacturing, export-oriented SMEs (with less than 500 employees). This, in a way, is an attestation to the merit of economic diversification and entrepreneurship as drivers of innovation and the engine of sustainable growth.

Accountability and transparency in the extractive sector: A policy framework

While government is the fountain of public policy, it is not the only actor in this 'policy space and chain', and in some cases government may not necessarily be even the most important actor that will facilitate growth and development through public policy. Turning again to Africa for illustrative examples, there resource-rich countries in the region wherein powerful and influential foreign private investors in the extractive sector call the shots as far as key national and local development decisions are concerned – sometimes as a result of a combination of government ineffectiveness, poor governance, bribery and corruption. Whatever is the cause of such a regrettable but inevitable situation in the national development process, one has to come to terms with the reality of the role of non-state actors in the public policy space, and in particular private sector investors.

This brings into focus the policy issue of 'corporate social responsibility' (CSR). While public policy concern about CSR in the extractive sector has usually been linked to environmental and workers/human rights concerns, there is need – on the basis of evidence from several resource-rich economies, particularly in Africa - for: (1) increased scrutiny over the behaviour of private companies (e.g. multinationals); and (2) accountability to address the risk of collusion with corrupt host governments and key domestic policy-makers that could result in the misallocation and mismanagement of resource wealth, often to the detriment of national economic development.

Such is the magnitude of imbalances between national processes for regulating natural resource extraction and resource wealth, on the one hand, and (international) corporate

practices on the other, that in some situations that these have become serious impediment to economic growth and sustainable development. Not surprisingly, the World Bank recently launched a high profile effort to promote 'good governance' in extractive sector transactions through greater public *accountability* and *transparency*. Similarly, the Geneva-based think tank and advocacy body established by Kofi Annan, the Africa Progress Panel (APP) in its much publicised 2013 annual report entitled '*Equity in Extractives: Stewarding Africa's natural resources for all*' vividly documented problems and failures associated with natural resources governance and management in the region and called on African governments to set out bold national agendas for strengthening transparency and accountability to their citizens.

3. Policy Recommendations for Good Governance in Natural Resources and Resource Wealth Management

We now know that inability to properly and transparently account for resource revenues in many resource-rich developing countries and emerging economies opens the door to corruption, rent-seeking behaviour and misallocation of resources in the domestic economy. It is therefore vitally important for Governments and policy-makers in resource-rich countries to develop strategies that would enable them to mobilise and use resource wealth to achieve economic transformation and social progress and bring development benefits and advances to the largest segments of their populations.

Broadly speaking, it is obvious that efforts to improve the management and governance of natural resources and resource rents should first and foremost revolve around specific policies and programmes to improve *transparency and accountability* in the public sector and in its dealings with the private sector and international development partners. Such efforts, however, could be at risk of losing credibility if they are not seen to be equitable and impacting positively on governance outcomes. Additionally, there is also a need for *capacity-building* in public policy for leveraging natural resource wealth into positive development outcomes. This specifically includes improving legal and technical competences of government officials involved in contract negotiations; upgrading auditing and reporting abilities; and increasing education and skills training for policy and programme implementation, monitoring and evaluation at all levels. Finally, from the standpoint of the allocation and use of resource wealth, it is necessary for decision-makers to finding the right balance in reconciling competing claims on revenues from extractive industries with longer-term objectives of stable growth and sustainable development.

With these broad considerations in mind, and taking into account the theme of the conference, I would now venture to recommend a number of public policy measures for improving governance of natural resources and resource wealth.

Recommendations at the level of national governments

Where there is evidence of systematic undervaluation of mineral concessions and assets and illegal diversion of resource wealth, government should create an independent monitoring and oversight agency with the legal authority to identify and investigate malpractices. This should be accompanied by regular disclosure of detailed and credible information about resource revenues and reserves accumulated, for example, in sovereign wealth or similar funds.

The creation of wealth funds for the explicit purpose of saving resource revenues for future investment is also recommended. This type of fund is a common fiscal instrument for managing hydrocarbon revenues. Here in Kazakhstan, for example, the National Oil Fund (NFRK) was created as far back as 2001 and has since saved nearly 80 per cent of total oil revenues (estimated at about US 40 billion), some of which have been used variously to stabilise the level of government spending and reduce the impact of volatile and falling oil prices on the national economy. Ideally, such funds should be professionally managed, have clear and transparent guidelines for conditions under which they may be accessed, and be directed through standard budget channels.

It is also recommended to have an institutionalised transparent system of competitive bidding and auctions for natural resource concessions and licenses, and a requirement that any company bidding for mining and mineral rights to fully disclose its beneficial ownership. And there should be a penalty of exclusion for non-compliance.

Likewise, it may be necessary to put in place a streamlined and progressive tax structure, in line with the goal (of government) to encourage strong and transparent fiscal linkages between the extractive sector and broader economy – i.e. to use resource wealth to enhance economic diversification into sectors unrelated to minerals (e.g. manufacturing and agro-industrialisation) and promote inclusive and transformative economic development. In this regard, government should regularly and continually reassess tax and royalty provisions and request renegotiation of relevant arrangements under contracts that are out of line with international practices and prevailing market conditions.

Finally, it is recommended that national governments of resource-rich states identify ‘best practices’ on negotiating foreign investment and concessions in the extractive sector. As already noted, they should therefore invest in capacity building for negotiating fair and better contracts, and utilise neutral third parties, if necessary, for assistance in the absence of such capacities - especially in the face of intense pressure from investors to conclude a deal. The issue of strengthening negotiating skills for extractive sector contracts must be accorded a high priority by host governments of resource-rich economies, since these agreements provide the legal framework for concessions that would most probably cover a period of twenty years or more, and which may be very difficult and costly to renegotiate.

Recommendations at the global level

There are already in place a number of externally-driven global and regional transparency and accountability agendas and initiatives. For example, a number of well-known efforts have been made by the extractive industry itself at global level to introduce guidelines and codes of practice, which its members can voluntarily adopt. These include the Extractive Industries Transparency Initiative (EITI); the Kimberley Process for the Certification of Diamonds; and the Publish What You Pay Campaign. Similarly, multilateral agreements and legal frameworks like the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, the World Bank/ IFC Performance Standards, the Dodd-Frank Act of the USA (recently shelved by executive order of President Trump), and comparable EU legislation for enforcement of project by project disclosure have all been structured around the need for greater transparency in contractual agreements and disclosure of payments particularly in the extractive sector.

While these initiatives collectively represent a move in the right direction from a good governance perspective, they nevertheless tend to have limitations in their definition and interpretation and, more seriously, various practical obstacles to their effective implementation – often to the detriment of the development agendas of developing and emerging economies. It is, therefore, necessary - within the wider context of global governance reform of international institutions and multilateral systems designed for the post-World War II period - to continue to press for desirable changes within the economic, political, social and environmental domains of these systems. These changes should reflect contemporary global realities and the irrepressible need for equity and legitimacy toward an improved institutional framework and a better and fairer globalisation.

4. Concluding Remarks

Let me now conclude by summarising public policy lessons in the management of natural resources and resource wealth, in the light of the pursuit of good governance and economic diversification for inclusive growth and sustainable development.

The main wide-ranging lesson is that the extractive sector can have substantial development –linked multiplier effects on the rest of the economy in resource-rich countries, if properly managed and governed. Unfortunately, many resource-rich economies of the Global South, and particularly in Africa, are so far not realising this objective - largely because of weak governance and lack of transparency, alongside unfair global extractive regimes. It is, therefore important to promote national public policy for good governance and transparent management of natural resources in tandem with conditions for reform in global governance toward a better and fairer globalisation.

Turning to the experience of Kazakhstan in resource management, we identify a key role of Government in the policy process. This implies a coordinated and integrated national development process involving transparent information exchange and cooperation among the main public sector actors, such as the Ministry for Investment and Development, Ministry of Education and Science, Ministry of National Economy, Ministry of Energy and Ministry of Finance. It highlights the necessity to promote transparency and trust in the extractive and other industries and trade, while at the same time putting in place specific measures to fight corruption as well as to cut out red tape in the investment process.

From a more general perspective, with respect to the management of extractive activities in resource-rich economies, challenges still exist at both the *sector* level and in the context of the *political process* in seeking to harness and mobilise resource wealth for inclusive growth and sustainable development.

At the extractive sector level, the main challenge is to design and implement policies for moving away from a narrow perspective that considers natural resource extraction as an enclave sector – often driven by foreign investors interests - and towards a more comprehensive and strategic outlook which focuses on the linkages between the extractive sector and other productive sectors including local businesses in the domestic economy. This may call for considerable policy innovation in the areas of rents, taxes and benefits from revenue streams. Such broader and innovative public policy style in natural resource development and management will stimulate economic diversification and facilitate inclusive growth development. For instance, as earlier stated, resource revenues can be used for the creation of a sovereign wealth fund that includes provision for venture capital to encourage innovative local SME activities and strengthen business partnerships between foreign investors and local firms.

With respect to the political process, there is need for a development-committed leadership, combined with good governance, for decoupling the interest of a few – be it local and/or external – from the pursuit of the broader collective interest in economic transformation and sustainable development. Resource wealth should be seen as the basis of a transparent and concrete public policy for reducing poverty and spreading the benefits of development widely. Harnessing the potential of natural resources and mobilising resource wealth for sustainable economic growth and development should be a foremost priority for resource-rich countries, so as to lift their populations out of poverty – i.e. by educating them; engaging them in productive employment; and providing them with other socio-economic opportunities and social protection. Maximising the value and development impact of a country's natural resources, while minimising the potential for harmful environmental and social outcomes, should also be a high strategic and policy priority in the development agenda of resource-rich economies.

Furthermore, turning to the policy issue of building *international development partnerships* to support natural resources extraction; such partnerships should be based on trust, mutual

responsibility and accountability, as well as on a common understanding of the challenges and opportunities as they apply and relate to the aspirations and expectations of the host government and its people. This will invariably require a partnership that is transformative and necessarily innovative in many cases, including new frameworks for international development cooperation that place a high priority on transparency and accountability

Finally, it should be realised that the efficacy of public policies for improving governance and accountability in the extractive sector is not just a matter of economic and fiscal reforms. It also concerns the *political will* of the leadership and government of resource-rich economies and, as such, the extent to which politics is intertwined with decisions pertaining to the capture and use of resource wealth.

I will end by stating that, fundamentally, all stakeholders and actors concerned in extractives – i.e. governments, foreign investors, international banking and financial systems, the domestic private sector - must recognise that good governance and transparency are the most important requirements for extractive-based development. Integration of these requirements, or their underlying principles, into the development and management of natural resources and resource wealth will enable greater accountability and responsibility and lead to more sustainable and inclusive path for growth and economic transformation.

I thank you for your attention.

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