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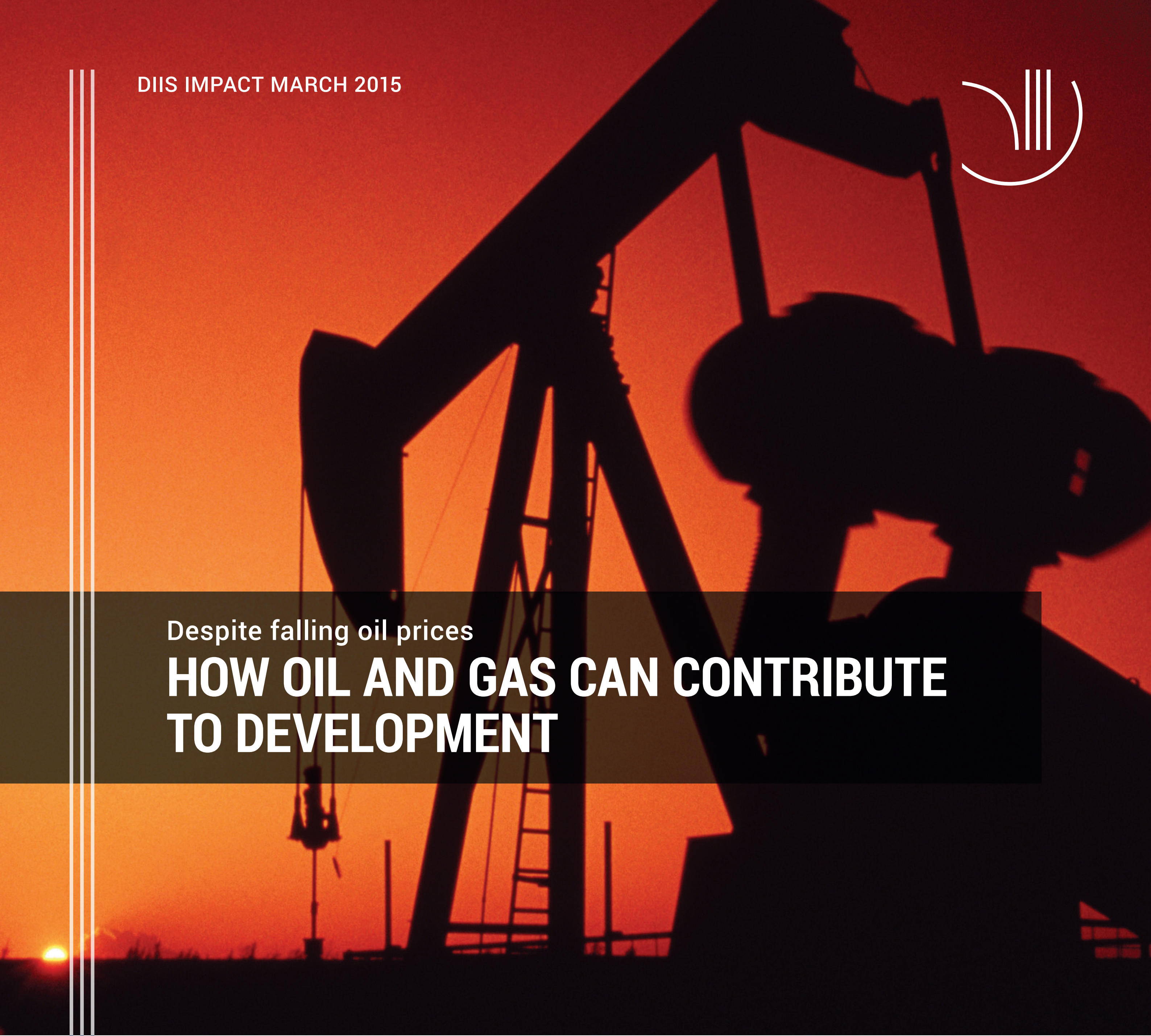

Despite falling oil prices

HOW OIL AND GAS CAN CONTRIBUTE TO DEVELOPMENT

NGOs and policy makers often argue that revenues from petroleum extraction in sub-Saharan Countries should be spent on social services. Falling oil prices puts this vision under pressure. A long-term focus on economic growth and job creation is more important.

When oil or gas is found in sub-Saharan African countries, expectations flare at the prospect of revenues that can be spent on social expenditure like health and education. In democratic countries in particular there is a pressure for maximizing revenues and redistributing wealth from resource extraction. NGOs and many policy makers also put international pressure on African governments in this regard.

RECOMMENDATIONS

- Long-term productive investments are required in order to mitigate revenue fluctuations due to falling oil prices.
- Guiding principles for favored industries are important. Learning environment, not the interests of individual companies should be promoted.
- Accountability, for instance by involving parliaments in countries undergoing democratisation, is more important than total transparency.

However, the fall in global oil prices highlights the importance of long-term productive investments in order to mitigate revenue fluctuations. The proposed UN Sustainable Development Goals reveal an inherent tension between meeting social goals (for instance spending on education and health) in the short run and economic goals (sustained economic growth and full employment) in the longer run. Though it may reduce social expenditure for a short period, African governments' priority to develop oil companies, energy-intensive industries and promote infrastructure investments is just as important for meeting the Sustainable Development Goals.

Advantages from investments in industry and infrastructure

The recent drop in world market oil prices suggests that the stream of revenues from petroleum resources cannot be taken for granted. A strategy for the development of industries and infrastructure may therefore not be a bad idea even if it reduces social expenditure in the short run. In order to successfully develop domestic productive capacities, guiding principles on how to diversify the economy and sustain economic growth are required.

The development of a national oil company may be an effective way to enhance domestic production capacity as well as the capacity to regulate the petroleum sector in the short run. In the longer run, history is rife with examples of state-owned oil companies that grow beyond the control of their owners and become highly inefficient. This means that resources that could have been used to develop production or channeled to other uses are siphoned off for sustaining these companies.

National companies should not become goals in themselves. There should be a strategy and some measurable objectives guiding their operations. Politicians should rather promote learning environments in relevant sectors than aiming at creating national champions.

Viability is also important: If unsuccessful, companies should be abandoned.

Accountability rather than transparency

The development of industry and infrastructure may not sit easy with the international emphasis on transparency of revenues from extractive resources. The most successful initiative in this regard is the Extractive Industries Transparency Initiative (EITI), which has promoted transparency norms to some effect. Not only does it require the disclosure of revenue streams from extractives; it also encourages the disclosure of 'any contracts and licenses that provide the terms attached to the exploitation of oil, gas and minerals' (EITI s. 25).

In contrast, the use of revenues for petroleum sector related purposes blurs revenue streams and reduces transparency. How do you account for the trade-offs between infrastructure investments and revenue streams that are often part of license negotiations on the African continent? This may be part of the reason why there is little evidence that EITI works; norms are more powerful when they can be adhered to in practice.

Transparency will only reduce the risk of corruption if coupled with political will to persecute perpetrators. Without accountability transparency is meaningless. Many European countries are not EITI compliant. Instead, they involve parliaments in conducting the oversight of the bids and contracts that do not reach the public's eye. EITI, in contrast, is a multi-stakeholder initiative which involves governments, companies and civil society, but does not grant parliaments any substantial role. Moreover, increased involvement of parliaments would contribute to development in democratizing developing countries.

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