



Mining for change

– how can natural resources support inclusive growth in Africa

by John Page and Finn Tarp

FINDINGS

The size of the natural resource revenue is often overestimated, and the delay in receiving revenue underestimated

Proper public expenditure management and systems are essential to ensure that investments yield adequate returns

Constraints on domestic construction firms limit local participation in the construction phase of the resource boom

While most countries studied succeeded in introducing and enforcing requirements for the employment and gradual skills upgrading of nationals, local procurement regulations have largely failed to increase participation by local firms in MNC value chains

For a growing number of countries in Africa the discovery of natural resources is a great opportunity, but one accompanied by considerable risks. There is an extensive literature linking natural resource dependence to poor economic performance. One cause is that resource-abundant economies tend to have economic and export structures that are highly concentrated on only few export products. Most of Africa's resource-rich economies experienced increases in export concentration during the first decade of the twenty-first century.

Because more diverse economies tend to succeed better in sustaining growth, it is important to find out how the revenues and opportunities associated with natural resource discoveries can be better used, to support structural change and diversification. To answer the question, three key areas of public policy — understanding and managing the boom, the role of the construction sector, and linking industry to the resource — are explored in five African resource exporters: Ghana, Mozambique, Tanzania, Uganda, and Zambia.

Understanding and managing the boom

The size of the natural resource revenue, and when it becomes available, are two questions which politicians and the public often do not understand well. In Ghana, Mozambique, Tanzania and Uganda the size of the natural resource boom has been overestimated and the delay in receiving revenues underestimated.



Ghana © Djigiarov



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POLICY RECOMMENDATIONS

To improve project selection, governments need to build a cadre of economists with training in project appraisal

Adopting a medium-term expenditure framework (MTEF) that incorporates multi-year maintenance plans can make budget preparation more forward-looking

Governments should avoid the temptation to relax prudent debt management practices in the face of pressure from domestic constituencies to front-load spending

Institutional and policy reforms can relieve constraints on construction. For example, easing the restrictions on movements of skilled artisans can help relieve skills bottlenecks

Government and industry need to develop an effective public–private partnership to integrate domestic firms into the resource value chain

Training can raise the capabilities of local firms and allow them to enter the MNC value chains, but governments and resource extraction companies must agree on the design of training and qualification processes for local firms to achieve ‘approved vendor’ status

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Some countries, Ghana and Zambia for example, have responded to the news of forthcoming resource revenues by increasing public expenditure and accumulating debt well ahead of the income coming on stream. A critical failure of public expenditure management in these cases has been the lack of effective systems to prioritize and select investment projects, and lack of adequate provision for the recurrent costs of maintenance.

The role of the construction sector

The construction sector — by making it easier to transform investment effort into investment outcomes — is vital for turning the potential of natural resource revenue into reality. Lack of firms' capabilities, access to material inputs, skilled labour, and access to finance constrain the ability of domestic construction firms to expand production, limiting local participation in the construction phase of the resource boom.

The research shows that institutional and policy reforms can relieve constraints on construction. In Ghana, Tanzania, Uganda, and Zambia, for example, policy changes can address confused urban land rights and delays in planning permission. In Tanzania, policy restrictions on imports and the performance of the port can be addressed. With planning, construction skills can be developed locally.

Increasing local content

In response to political pressures to ‘localize’ the benefits of natural resources discoveries, African governments have adopted a wide range of ‘local content’ and ‘value addition’ initiatives. Several countries have created institutions to guide their local content efforts. However, the research shows that resource extraction multinational companies (MNCs) and their first-tier suppliers often continue to operate almost exclusively with foreign second-tier suppliers. Most local companies are concentrated at the lower end of the natural resources supply chain.

Integrating domestic firms into the resource value chain depends on the ability of government and industry to develop an effective public–private partnership. Creating a unit — located within the office of the head of state or government — to act as broker between the multinational companies and domestic firms — is one way to develop this partnership. Training can raise the capabilities of local firms to the minimum level needed to allow them to enter the MNC value chains. However, the government and the resource extraction companies must agree on the design of the training, and on the qualification process through which a firm achieves ‘approved vendor’ status. Supplying training without commitment to the process by both parties is unlikely to lead to success.



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