Can Extractives Drive Sustainable Human Development in the 21 Century?

Oil, gas and minerals are major sources of economic growth for many developing countries: Half of the world’s population (approximately 3.5 billion people) lives in countries that hold great oil, gas and/or mineral wealth, however almost 70% of them live in extreme poverty. Non-renewable mineral resources play a dominant role in the economy of 81 countries particularly Gulf states and account for one quarter of the world’s Gross Domestic Product (GDP). Predictions stipulate that with the current trend of use, extractive resources could be depleted in a near future. Many countries such as Australia, Canada, Norway, Chile and Botswana have leveraged their resources investing the wealth generated and using effective legal and policy strategies across sectors in order to lay the foundation for improved human development. Extraction of resources is expected to increase in the coming years in the Asia-Pacific, Africa, and elsewhere in the developing world. For example, when measured by value, 22% of global mineral extraction now occurs in resource rich developing countries (Chile, Brazil, Peru, South Africa, Zambia and Democratic Republic of Congo) and more than 50 countries in Africa are either exploiting or planning to. Massive investments including Foreign Direct Investment (FDI), modern exploration technologies and growing global demand are the main drivers of the sectors rapid expansion. However, dividends from resource exploitation can be short lived if not applied strategically to provide quality services, such as education, healthcare and a diversified economy that is inclusive a creates opportunities for all. This vision is reflected in the Sustainable Development Goals (SDGs), especially SDG1 to end poverty in all forms everywhere with wealth generated by extractives, SDGs 3 promotes healthy lives and well-being for all at all ages and SDGs 4 which calls for inclusive and equitable quality education and promote lifelong learning opportunities using dividends from extractives.

Still many rich resource countries continue experiencing a resource curse: Instead of being a driver for sustainable human development, in many developing countries, mineral wealth and extraction has often resembled a curse rather than a blessing. The co-location of resource wealth with weak governance and rule of law, poverty and deep rooted inequality, lack of decent jobs, environmental degradation and health deterioration, economic mismanagement, corruption and violation of human rights has fueled poverty, political instability and even violent conflicts. Laws – or the absence of them – related to land rights often do not cover subsoil resources making such rights null and void once a rich vein is found. Ironically, research demonstrates that poverty is more prevalent and reduction efforts lag in resource-dependent economies as compared with non-resource-dependent ones. Most resource dependent economies score lower on the Human Development Index as they fail to invest royalties and dividends from resources into social sectors that support human development. The extractives sector is capital intensive, male dominated, with about 35% of the professional and technical work force represented by women in highly extractive dependent countries compared with 52% in low resource dependent countries. Therefore issues of gender equality and empowerment of all women and girls as put forth in SDG 5 is of particular importance. Additionally, in resource rich developing countries, the average unemployment rate for women is 15% (8% for men) with women occupying only 8.7% of ministerial level positions, 9.5% of seats in national parliaments and 18.4% of senior and managerial positions compared to less extractive dependent countries where the numbers are almost twice as high at 16.9%, 17.9% and 32.7%, respectively.

With major environment concerns: Current practices used by the extractive industry negatively affect the environment and planet. Fossils fuels (oil, gas, coal) have contributed significantly to climate change (about 25% CO2 increase the last 150 years), air quality deterioration, oil spills, and acid rain. Offshore oil production is moving into deeper waters with negative impacts on marine biodiversity and oceans. Onshore unconventional oil and gas production are increasingly infringing on sensitive and protected areas including forests. High pressure on water and energy resources, use of harsh chemicals as inputs in both artisanal and large scale mining and toxic waste by products are generated through the mining process have detrimental impacts on nature and human health demonstrating the inextricable link between economic activities, sound environmental management and human development.

Policy Recommendations

- Promote good governance and long-term development planning to build stable and peaceful societies
- Economic diversification to broad-based development in order to become more competitive, and more resilient to shocks
- Re-invest royalties and dividends from extractives on social sectors to support human development
- Balance the country’s short-term priorities with its long-term development goals as extractives resources are finite
- Shift policy attention towards a gender responsive fiscal expenditure to reduce gender inequalities
- Reverse current environmental impacts and shift towards more sustainable extractives industries
• **Good governance and sound long-term development planning**: can help countries avoid the effects of the resource curse. Therefore, it is important to design, implement and monitor long-term effective strategies and policies across sectors, set up legal and regulatory frameworks (e.g. South Africa Black Economic Empowerment law to address traditional inequalities) - effective anti-corruption laws, licensing and tendering, promote transparency and high civil society engagement at all stages of development planning and expenditure decisions. Encouraging dialogue between the corporate sector, indigenous peoples and rural populations and governments can help prevent conflict and promote democratic and inclusive governance of natural resources, promotion human rights and better working conditions. There is an urgent need for the extractives industry to incorporate standards that are based on human rights and economic growth that is environmentally and socially sustainable.

• **Economic diversification will help countries to diversify their economies and development strategies in order to become more competitive and resilient to shocks**, including economies that suffer from volatile price-markets. It would, on the one hand, enhance linkages between extractives activities and other economic sectors (e.g agriculture, energy, tourism, services, manufacturing and processing of minerals) and on the other produce multiplier effects for local economies in terms of infrastructure development and opportunities for the creation of decent jobs for youth and women.

• **Re-invest royalties and dividends from extractives on social sectors to support human development such as quality education, health, social protection and skills training, and.** Specific legal and economic instruments (e.g tax, funds, bills) with targeted resources allocation from extractives revenue should be used to finance transitions to more sustainable production within the extractives sector looking at examples such as Botswana’s Pula Fund.

• **Balance countries’ short-term priorities with their long-term development goals as extractives resources are finite.** Specific measures including sovereign or future generation funds can provide ongoing benefits far beyond the exhaustion of the resource. Raising the living standards of the poorest today and investing in health, education, social protection, infrastructure, and productive capacity will help developing countries to build resilient and stable societies.

• **Shift policy attention towards a gender responsive fiscal expenditure in resource dependent economies.** This means paying special attention to gender inequalities by investing the revenues from oil, gas and minerals in women and girls so that they enjoy equal access to better education, leadership positions and decent jobs where they are traditionally underrepresented.

• **Reverse current environmental impacts and shift towards a more sustainable extractives industry:** through environmental and social safeguards and regulatory policies. Appropriate mitigation measures need to be put in place with remediation cost and restoration management plans for degraded ecosystems. Moreover, extractives should promote long term sustainable policies and practices (e.g. transport, packaging, and water use, pollution) to preserve nonrenewable resources and promote the use of renewable resources.

**UNDP Work on extractives:** UNDP’s Strategic Plan (2014-2017) focuses on extractive industries to ensure that natural resource wealth is used to improve people’s lives. Within the context of the SDGs and the 2030 Agenda and UNDP offers a broad range of services through the implementation of its extractives strategy with global, regional and country programs and projects.

**Policy advice on democratic and effective management of extractive resources** through the formulation of comprehensive policies to manage extractives (implementing, monitoring and evaluating), institutional coordination and policy coherence across sectoral ministries. UNDP supports:

- **São Tomé and Príncipe** on a law which establish an oil fund and strict anti-corruption and transparency measures.
- **Liberia** on a national policy with linkages between Small and Medium Enterprises and large mining companies.
- **Nigeria** report for the Niger Delta guide sub-regional Human Development with Shell support and the federal government.
- **Namibia, South Africa** and Angola are developing and implementing reforms to reduce the environmental impact of offshore diamond mining on vital marine resources.

**Capacity development** to strengthen systems and ensure transparency and accountable management of resource revenues, engagement of sub-national governments and civil society in designing policies and revenue allocation. UNDP provides support to

- **Iraq** on an initiative that fosters local content and business linkages between multinational and local companies.
- **Liberia, Sierra Leone and Tanzania** in rebalancing the asymmetries in bargaining power so that countries obtain a fairer share of the revenues from their extractive sector.
- **In Ecuador**, on establishment of a trust fund under the Yasuni National Park, a World Biosphere Reserve with impact protect indigenous peoples and CO2 emissions.
- **Azerbaijan**, on its national Foundation for investment to support export

**Facilitate South-South knowledge exchanges, dialogue and stakeholders participatory decision making processes.** UNDP supports:

- **Guyana** to convene policy discussions on good practices of extractive sector governance, development of a national strategy for extractive industries.
- **Brazil** on a global dialogue on extractive to enhance public-private-community Cooperation in the context of the 2030 Agenda.
- **African Mineral Development Centre** was established in Addis to support the realization of the African Mining Vision.
- **UNDPS Oslo Governance Centre** works on governance of extractive industries in post-crisis and post-conflict settings.
- UNDP has knowledge-exchange platforms help desk facility and tools (roster of experts and an e-library on