

MANAGING NATURAL RESOURCES IN TURBULENT TIMES

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Abstract: *This research paper is developed as bildungsroman on the idea of natural resources used at its true value, achieving efficiency in consumption, efficacy in distribution and using as building blocks the process behind the development of the Kimberley certificate in the diamond industry and its purpose of helping the African market clear its name and also offering support for transparent and safe transactions. In this paper we also present the need to highlight the reform and the push developed by global entities that fight for redeveloping the path of sustainable development and protecting underdeveloped and emerging economies.*

Key words: *natural resources, Kimberley certificate, sustainable development,*

JEL CLASSIFICATION: F63, N50

1. INTRODUCTION

Many low-income countries depend on primary goods for their exports and tax revenues. On average, such dependence is associated with an increased risk of conflict, poor governance and poor economic performance. However, the average hides extremely wide variations. In 1970, Botswana and Sierra Leone were both low-income countries but with substantial diamond resources. For the next 40 years, diamonds have been the central element of the economy and the basis for Sierra Leone's economic and social collapse - its per capita income is now much lower than in 1970, and the country has sunk to the bottom of the human development index. Instead, diamond resources have been key to Botswana's success in becoming the fastest growing economy in the world and a middle-income country. Therefore, although, on average, primary goods have been an obstacle to development, they can also lead to successful development. The curse of natural resources is not a destiny. The challenge, both nationally and internationally, is to adopt policies that make better use of this potential.

2. GOVERNANCE AND MANAGEMENT OF NATURAL RESOURCES

Most of the resources that support and fuel civil wars depend on access to the global economy - its markets, financial intermediaries, its brokers, investors and foreign companies that often extract wealth from a developing country [1]. This does not mean deciphering the impact of globalization and adding it to the list of negative effects attributed to it. On the contrary, while globalization offers new opportunities to the rebels, it makes them even more vulnerable to international pressure - more

than would have been possible when the rebellions were proxy wars of the superpowers - provided the international community is willing to exercise it [2-5].

Who receives the funding? Increasing the transparency of natural resources revenues; Although these proposals for global action are aimed primarily at the international community, the governments of low-income, resource-rich countries should also have a strong interest. They are often threatened by rebel groups financed by income from natural resources and would obviously benefit if these sources of funding were blocked. But these governments need to show that their revenues from natural resources are well used [6]. As discussed, the movements of the rebels, especially those who want to retreat to the background of natural resources, are much more supported by the presence of a corrupt elite that hijacks revenues, rather than a government that uses them transparently to raise standard of living in all categories [7, 8]. The government's best defense is likely to take a credible look at the revenue it receives, how it fits into the budget and how it is spent. However, there are two major obstacles, even when governments seek to be held accountable. First, the sheer magnitude of resource income and the extent of rents depending on the size of the country's economy.

Governments in low-income countries, with weak institutional capacity and a long tradition of public accountability and control, face enormous problems in effectively absorbing and tracking large revenue streams [9]. This does not mean exempting or excusing corruption in resource-rich countries, but only indicating the extent of the pressures and therefore the temptations involved [2, 10-14]. Second, in many cases, it is not enough for resources to be accounted for and used relatively well - the government is not fully reliable and will therefore have to convince by setting up an independent and credible verification process [1, 15]. These two factors suggest that countries that want to do the right thing also need help, which, if they succeed, can put pressure on those governments that do not manage their resources efficiently.

One possible way to address these issues in an integrated way is to develop an international template for optimal governance of natural resource revenues that a resource-rich government could choose to subscribe to. Such a template would have five elements.

First, the host government would require international companies in the extractive industries to report payments so as to allow for adequate control and international comparability. Such reporting could be created for the general public or for an independent entity such as international financial institutions [16].

Second, the government itself would require national resource extraction companies, private or governmental, to report on the same basis.

Third, the government would commit to reporting its revenues from all of the above sources and ensuring that they are easily tracked as they go through the budget.

Fourth, an independent entity, such as international financial institutions, would collect the reported information, try to reconcile payments and receipts, integrate the net government revenue figure with standard budget information on revenue and expenditure, and publish the results annually.

A natural division of labor would be for the World Bank to collect, reconcile and arrange business data, and for the International Monetary Fund to integrate net income into budget data that it already examines in accordance with its agreements or Article IV consultations [17]. Fifth, the government will designate and, if necessary, develop credible internal control institutions - such as parliamentary committees or ad hoc entities, including civil society organizations, as in Chad - to which international financial institutions could report the information in a form that would be easily intelligible [18].

3. THE CASE OF KIMBERLEY CERTIFICATES ON THE DIAMOND MARKET

Where does a resource come from and who buys it? Closure of rebel organizations in the markets; The Kimberley certification process scheme is designed to make it increasingly difficult for rebel organizations to sell rough diamonds in global markets. The process, which took only two years to establish (a relatively short time for a global initiative), is an important first step. Significant technical and operational issues remain to be resolved and it is too early to judge whether the Kimberley certification process has been successful and will continue in the long term. However, it is an encouraging sign that this type of global action is indeed possible.

If the Kimberley certification process proves ineffective, this private voluntary agreement will need to be strengthened by intergovernmental legislation and likely to provide for enforcement sanctions. However, the existence of the private agreement shows that all parties have recognized the need for effective action and deserves the opportunity to demonstrate success. Moreover, if the Kimberley certification process is successful, it could form the model for governing other resources for which there is significant inadvertent funding of the conflict.

Realistically, the effect of better regulation of commodity markets is not to completely shut down rebel organizations in the markets. Efforts, such as the Kimberley certification process for rough diamonds, provide ways to track the chain of custody for illegal exploitation and other schemes that can be streamlined even if the rebels are able to sell the goods they extort from local producers as long as they can sell these illegal goods only with a very high price reduction. In this regard, a key global action is to monitor and evaluate the Kimberley certification process, while developing and implementing certification and tracking schemes for other goods using blockchain certification (Lucara Diamonds is a pioneer in this domain).

Following the source of funds: financing of illicit goods; One practice that funded several rebel organizations in the 1990s was the option to sell extracted goods in the future, whereby a rebel organization receives advance funding to benefit from a right to extract natural resources in the future, if which rebellion will succeed. Companies rightly consider this practice unacceptable; however, it happens at the edge of the corporate world. There is a strong case for criminalizing such transactions in the company's country of origin, similar to the OECD agreement to criminalize bribery internationally.

Extortion and kidnapping have also become an important source of funding for rebel movements and, as we discussed earlier, the financial flows involved can be considerable. Although companies should be discouraged from operating in such conditions, the insurance industry has developed products that offer redemption insurance. The general effect of this is obviously to increase redemption payments and there is a good case for banning redemption insurance. OECD governments could also make and abide by a commitment that public money will not be used to pay ransoms for rebellious movements and, consequently, that extortion payments will not be considered tax-deductible business expenses. There is also a strong case for OECD countries to consider anti-drug policies that reduce financial flows to rebel groups.

Strengthening control over illicit payments; The proposed model is intended to ensure that legitimate payments from companies to governments are properly accounted for and used. Illegal payments by natural resource extraction companies for bribing influencers are a different matter. The OECD agreement to criminalize these payments is a start, but the bribe to officials can be disguised as "facilitation payments" to companies controlled by their relatives, and therefore further efforts are needed.

Some resource extraction companies, in accordance with the OECD Guidelines for Multinational Enterprises, have now committed not to make facilitation payments. It would be desirable to make greater efforts to encourage adoption by non-OECD countries, but also to

encourage industry to determine exactly what the boundary between legitimate and illegitimate payments is and to incorporate it into companies' corporate rules of conduct.

There is also an important role for the international banking system. The family of President Abacha (Nigeria) has been able to deposit in well-known international banks far in excess of the presidential salary, obviously illegally embezzled from Nigerian oil revenues. Banks now have a slightly greater responsibility to know their customers and report suspicious receipts. There is also growing cooperation in ensuring the repatriation of corrupt money. However, there is a possibility of a much stricter strengthening of anti-drug legislation by the international banking system.

In some cases, even the best control and information about the relationship between officials and corrupt politicians will have no effect. Leaders and politicians may be impervious to moral pressure or may have enough power to place them above their own national law. In such cases, the international community has a certain responsibility to impose punishments on the guilty party and his associates without causing suffering to society. The United Nations has developed smart sanctions that provide some room for such a targeted approach to sanctions. These types of sanctions should be strengthened and supported internationally.

Attracting reputable companies in risky environments; Currently, some low-income countries face severe difficulties in attracting natural resource extraction companies to exploit their resources. When resource companies withdraw from difficult environments as a result of greater international public scrutiny, they could be replaced by companies that are less respectable or less vulnerable to international pressure or shareholder concerns. In this case, global efforts would be counterproductive.

An advantage of the Chad-Cameroon distribution model of improved governance of natural resource revenues is that it offers international companies a degree of reputational protection. In fact, international financial institutions certify a governance structure as acceptable. The introduction of a more standardized model for good governance and its adoption by governments interested in attracting reputable companies would provide a much higher reputational coverage. Such a template also has the potential to address political risk. Currently, insurance entities that provide coverage for policy risks, such as the World Bank Group's Multilateral Investment Guarantee Agency (MIGA), must assess each governance situation in its entirety on an ad hoc basis. If governments subscribe to the good governance model, this would be the type of information relevant to MIGA and other insurers and could greatly facilitate their willingness to provide coverage.

4. CONCLUSION

The doctrine of permanent sovereignty over natural resources is extremely consistent in the contemporary world, appearing to grant national states both jurisdictional rights and property rights over the resources found in their territories. But the normative justification for this doctrine is far from clear. This paper elucidates the best arguments that could be made for permanent sovereignty, including demands for national improvement or resource attachment, as well as functionalist claims that link resource rights to key state functions, but also show that these functionalities are insufficient to justify permanent sovereignty and that, in many cases, they actually count against it as a practice.

It may be fanciful to assume, as Gindin's young hero [2012] does, that water from Sweden tastes somewhat Swedish. But while we can be sure that the water, tin or copper found in Sweden is no different in terms of their properties or the fact that the tin or copper found in Norway is different in structure from the Swedish one. They are considered to be Swedish in the sense that international law defines them as part of the Swedish people. A number of instruments of international law clearly and unambiguously stipulate that natural resources are at the "disposal" of nation-states. The United

Nations International Covenant on Civil and Political Rights, for example, states that „*all peoples are free to dispose of their wealth and natural resources*”.

This doctrine, which has been known as the doctrine of "permanent sovereignty" over natural resources, is a strong organizing principle in world politics. Although it may be wrong to assume that it is a natural fact of a world made up of states, the principle came to be developed and enshrined in international law in the 1950s and 1960s, when it was an extremely controversial part of the struggle for decolonization.

While many newly independent countries were eager to establish a strong doctrine of permanent sovereignty in international law, the great world powers were eager to restrict permanent sovereignty with a set of conditions to ensure that natural resources were used for the wider good and in the interest of global economic cooperation. However, the principle continues to have a major effect in establishing what might be called the contemporary world order. Each nation-state enjoys an extensive and essentially exclusive set of rights over resources in their territories, although they make exceptions to this rule which results from the voluntary drafting of treaties.

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