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How about a Singapore-Jakarta consensus?

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NATURAL RESOURCE REVENUES: Blessing or Curse?

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The impending development of offshore oil fields recently discovered in Cambodia's territorial waters, and continuing onshore exploration, may herald significant changes to the country's economy in the near future.

But it remains to be seen whether the billions of dollars in revenue expected from these developments will raise the living standards of Cambodians, 40% of whom live below the poverty line.

In our view, it is critical for the Government to ensure that the receipt and expenditure of oil and other natural resource revenues are made transparent and are subject to public scrutiny. After all, resource revenue is meant to be a blessing for Cambodia and should not, through corruption or mismanagement, become a curse.

Let us consider why transparency is crucial in the context of Cambodia's extractive industry.

'Resource Curse'

The annual sales of oil and other natural resources in the future will be substantial, possibly in the billions of dollars. However, that does not necessarily mean that Cambodia, or its citizens, will be better off in the long run.

On the contrary, resource rich countries may, if they do not follow a prudent fiscal policy, be struck by what economists term the 'resource curse' - i.e. the paradox that countries with an abundance of natural resources tend to have less economic growth than countries without these natural resources. In fact, despite billions

of dollars of incoming revenues from oil, gas and mining extraction, citizens of more than 50 resource rich countries around the world remain steeped in poverty.

There are several reasons for this phenomenon, including a decline in the competitiveness of other economic sectors (caused by appreciation of the real exchange rate as resource revenues enter an economy); volatility of revenues from the natural resource sector; and government mismanagement and/or corruption, provoked by the inflows of easy windfalls from the resource sector.

The impact of the 'resource curse' is not limited to the economic sphere. Local populations in resource rich countries often suffer its adverse effects as well. These effects include the destruction of their immediate environment and the social and economic devastation that follows: i.e. arbitrary eviction and dispossession, unlawful arrest or harassment, and neglect of health care, housing, and education.

Corruption & Mismanagement - A Dangerous Cycle

Will Cambodia fall prey to the "resource curse" in the future? Unfortunately, there are few indicators for confidence for good development outcomes.

Endemic government corruption and mismanagement, which the "resource curse" thrives on, have become part and parcel of Cambodian life. Cambodia ranks 151 out of 163 countries on Transparency International's Corruption Index 2006. An independent research study published in July 2006 shows that unofficial fees and commissions paid to public officials by private companies amount to about US\$330 million, which represents about 50% of the total Government budget revenue (or about 6% of GDP) at that time.

The draft Anti-Corruption Law, which was designed to combat corruption and misfeasance, has not been enacted, even though more than 10 years have passed since it was first conceived.

The Government has done very little to improve the situation. As far as the oil sector is concerned, there is no legislation in place to govern exploration or production by the companies. The criterion upon which exploration concessions are awarded to oil companies by the relevant authority, the Cambodian National Petroleum Authority, is kept secret. In most cases, there is limited information, if any, about the Government's expenditure of signature bonuses, commissions or incidental revenues received from oil companies.

The legal and regulatory framework governing the hard minerals sector is no better.

Although the "Law on Management and Exploitation of Mineral Resources" was enacted in 2001, it has several loopholes. For instance, notwithstanding its name, it does not provide any mechanism to monitor the exploitation of mineral resources by companies once they have been granted a licence to do so. Further, it does not require that the companies disclose any information about their contracts or payments.

In fact, under article 20 of the law, such public information is protected! It cannot be publicly disclosed unless their licence is terminated or if they give prior approval to allow such disclosure.

In the circumstances, there is a genuine fear that public officials will misappropriate a substantial portion of the revenues generated by the extractive industry in the future. Not only would this severely undermine Cambodia's social and economic stability,

but it would also perpetuate a cycle of corruption, mismanagement and bad governance.

Put simply, this cycle involves four stages.

The Government could first find that it is easier to maintain authority through allocating resources to favoured constituents and private enterprises than through growth-oriented economic policies and a level, well-regulated playing field.

Next, huge flows of money from natural resources could, in turn, fuel this corruption and mismanagement.

Very soon, the Government could find that it has less of a need to improve the institutional infrastructure or to regulate and tax a productive economy outside the natural resource sector, thereby resulting in the economy remaining undeveloped or, worse, suffering a decline.

Finally, all this could exacerbate social divisions and impede social development.

Cambodia should be spared such a fate.

Transparency - An Antidote

We believe that insisting on transparency in the manner in which resource revenues are received and managed by the Government is the only way to ensure that there is an effective check on the Government's receipt and use of these revenues. Only then can the Cambodian people, the true owners of these natural resources, understand what these resources yield to the national budget and scrutinize the actions of public officials and their Government.

Transparency is in the best interests of everyone concerned - citizens, mining, gas and oil companies, the Government and the wider international community.

If companies disclose what they pay, and the Government discloses its receipt of revenues and the way in which it utilizes these revenues, non-state actors such as civil society organizations, international organizations/financial institutions, donors and other watch-dogs in Cambodia will be able to compare the two and thus hold the Government accountable for the management of this valuable source of income.

Revenue transparency will also help these groups to work towards a democratic debate over the effective use and allocation of resource revenues and public finance in order to meet development objectives, improve public services, and redistribute income.

Mining, gas and oil companies cannot control how the Government spends the taxes, royalties and fees they pay. But they have a social responsibility to disclose the payments they make so that Cambodian citizens can hold the Government accountable.

More than any legal licence conferred by the Government, transparency will strengthen these companies' social licence by demonstrating their economic contribution to society.

It would also increase the likelihood that the revenues they pay to governments will be used for sustainable development, which creates a stable business environment, rather than being diverted or dissipated by corruption.

We commend the Government for setting up the Public Financial Management Reform Program, which aims to strengthen Parliament's capacity to oversee the national budget and assess the contribution from the extractive industry towards the budget. But greater transparency is necessary.

Mandating disclosure of payments and revenues is an antidote to the resource curse (and its consequent ill effects) and can be achieved by way of simple adjustments

to the existing law, accounting standards, disclosure rules, and the lending conditions of international financial institutions, regional development banks, export credit agencies and private sector banks.

In order to realize the dream of a prosperous and developed Cambodia that thrives on its natural resources, companies must disclose what they pay for these resources and the Government must disclose the revenues it receives and account for how it spends them.

Promoting transparency of revenues in relation to the extractive industry is a vital step towards alleviating the crushing poverty of ordinary Cambodian citizens and ensuring good governance, corporate accountability and sustainable development in the long run.