

Fuelling poverty reduction through oil and gas revenues

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The discovery of oil and gas off the coast of Cambodia continues to fuel an immense amount of media speculation about the size of the reserves, the amount of revenues they will bring in and how these revenues will be spent.

However, there has been little discussion about the immense challenges developing countries, like Cambodia, face in developing their reserves: for example the intricately complex pre-production issues, such as negotiating contracts and ensuring environmental safeguards. Moreover, other vital questions – such as how to optimize fund flows, enhance human resources and ensure the competitiveness of non-petroleum industries like agriculture and manufacturing – are rarely addressed in the media.

This is also understandable: these issues are highly technical. They are discussed by technocrats and economists in language that often leaves journalists and the public scratching their heads. Perhaps this should change. Maybe it is time for the media to take a more technical and less dramatic look at Cambodia's nascent petroleum industry.

Over the past few years, UNDP has been working closely with the Royal Government of Cambodia, the Cambodian National Petroleum Authority, the Norwegian Government, and other partners, to examine models used by various countries to develop their petroleum reserves, with the goal of finding one that would be most effective in Cambodia. This is an ongoing process involving numerous partners directed towards a primary goal – fuelling poverty reduction through oil and gas revenues.

This goal is both an ethical imperative and one that makes economic sense. There is universal agreement on this. Unfortunately, however, it is not an easy goal to reach. Many countries – including developed ones – have encountered myriad and unexpected economic difficulties in developing their resource wealth, such as a rising exchange rate that hobbles the export competitiveness of manufacturing and agricultural industries.

Still, there are plenty of examples of countries that have successfully harnessed their petroleum and mineral resources to benefit the overall economy, as well as their citizens. Norway stands out and, among developing countries; Timor-Leste is leading the way, due in part to its successful negotiations with Australia for developing an overlapping claims area.

Both of these countries will be sending large delegations to the upcoming conference in Phnom Penh: *Fuelling Poverty Reduction through Oil and Gas Revenues: Comparative Country Experiences*. The two-and-a-half day event will bring Cambodian and international policy makers, technocrats and global experts together for a series of technical discussion sessions from 26 to 28 March. More than 300 participants, including high-level delegations from more than 10 developing countries and senior executives from global oil and mining firms, will be attending.

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The issues on the agenda are crucial – and not just for Cambodia. There is a market driven scramble to find new petroleum sources around the globe. This is expanding exploration and drilling to new, potentially petroleum-rich countries in the developing world. These countries face severe disadvantages in developing their resource wealth, as was pointed out at a high-level meeting on oil and gas development in Doha last September.

The Cambodian government sent a high-level delegation to Doha, which brought together policymakers well versed in the art of developing and managing petroleum reserves, with those facing the daunting task of building institutions and frameworks from scratch.

The major disadvantages faced by developing countries include a lack of technical expertise and knowledge when negotiating and managing commercial relations with major petroleum companies, as well as gaps in institutional capacity. The latter presents an unenviable conundrum: how can a developing country afford to swiftly build up the capacity of its petroleum-sector institutions before the anticipated revenues have begun to flow in?

Another question, raised at the Doha meeting, was how to effectively design and establish regulatory frameworks and compliance mechanisms that will eventually oversee a petroleum sector whose full reserves have yet to be reliably assessed.

As Cambodia's delegation to the Doha conference pointed out, their predicament is far from unique. Part of their solution is to bring the messages of Doha home. Our shared goal is that next week's ground-breaking conference encourages informed discussion about the foundation the Cambodian government must build to develop its petroleum and mineral reserves in ways that maximize benefits to the country and its citizens, safeguards the environment, ensures increased prosperity, and creates a legacy of rising opportunities for future generations.