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Extractive Industries and African Democracy: Can the "Resource Curse" be Exorcised?

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By the well-known ''resource curse,'' the abundance of oil and other valuable minerals has been associated with patrimonialism and repression—in Africa and elsewhere. This article demonstrates a self-sustaining dynamic: lack of accountability enables elite appropriation of resources which in turn raises the monetary value of political control and finances continued repression. Several initiatives have been taken in recent years to foster transparency in mineral production and revenue, but with marginal impact. Lifting the curse requires a robust global effort to discourage ''plunder oil.'' This is unlikely as long as the benefits of cheap oil to the importing countries outweigh the costs to the population of the exporting countries. The oil addiction of developed and emerging economies remains an oil malediction for African democracy. But launching a sustained international debate could eventually bear fruit.

Keywords: resource curse, Dutch disease, extractive industries, African politics, democracy, governance

The Paradox of Plenty, the Resource Curse, and the Democratic Deficit

The Paradox of Plenty[1]

Sub-Saharan Africa (hereafter Africa) has 13% of the world's population, but only 3.3% of the world's Gross Domestic Product (GDP) and 2.4% of exports of goods and services. Its development problems are enormous: of the world's 38 highly indebted poor countries, 32 are in Africa—the only region where poverty has increased in the past 25 years. The *incidence* of poverty is much higher than in any other region of the world except pockets in South Asia, and between 40% and 60% of the continent's 900 million people live below the poverty line of $1.25 a day.[2] Worse, the *depth* of poverty—that is, how far incomes fall below the poverty line—is greater in Africa than anywhere else in the world. And so is *vulnerability*, that is, the degree to which persons can fall below the poverty line if any of a number of adverse events occurs—such as the flare-up in food prices in 2008 or the repercussions of the global recession in 2009.

[1]The term was coined by Terry Lynn Karl (1997).

[2]Adjusted from the earlier well-known standard of a dollar a day.

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Not surprisingly, Africa lags behind in all other key economic and social indicators as well. Of the 177 countries ranked by the United Nations Human Development Index, which combines measures of life expectancy, literacy, educational attainment, and others, African countries—including most of the resource-rich countries—rank among the lowest. In the words of Paul Collier ''…a group of countries at the bottom are falling behind, and often falling apart…these countries coexist with the twenty-first century, but their reality is the fourteenth century: civil war, plague, ignorance. They are concentrated in Africa and Asia…. one billion who are stuck at the bottom'' (Collier 2007:3).

Yet, Africa holds 7% of proven world reserves of oil (compared to 3% for the United States), and the continent also has vast deposits of gold, platinum, diamonds and other gems, and a variety of valuable minerals—including copper, titanium, cassiterite, coltan, cobalt, uranium, zinc, manganese, etc. (Campbell 2006). This wealth is extracted by more than 1,000 companies (not including ''artisanal'' mining) but the bulk of production is accounted for by a handful of non-African multinationals, including in the last decade non-western companies, mainly from China.

Because of smuggling, official secrecy, and data manipulations, the real annual value of extraction and exports of African oil and other mineral resources is not known with precision, but it is huge. Even before the rapid rise in oil prices in 2005–2008, it was estimated that a minimum of $200 billion in oil revenues would flow into African government treasuries in more than 10 years (Denny 2003)—more than 10 times the annual amount of western aid—and large additional amounts will be earned from the export of gemstones and other valuable minerals. Statistically, therefore, per capita incomes in Africa will rise significantly. Similar bounty has generated rapid economic and social progress in countries such as the UK, Norway and, in Africa itself, Botswana. The same cannot be said of other resource-rich African countries, rather the reverse.

The Resource Curse

The main reason why very little of the revenue from extractive industries is likely to benefit the vast majority of Africans is that most of it will continue to accrue to unaccountable ruling elites. The ''paradox of plenty'' is anything but accidental. On the contrary, it is precisely the large extractive industries' revenues that allow the ruling elites to buy control, keep the military and security apparatus happy, repress moves toward greater political participation, and preclude a decent distribution of resources. The abundance of mineral resources is thus closely associated with a lack of democratic processes and outcomes.

Until the 1970s, the conventional wisdom was that abundance of valuable mineral resources—primarily oil, but also precious gems and valuable industrial minerals—would help development by providing the government and the private sector with greater capacity to finance productive investments. The notion that abundant natural resources are not a blessing emerged in the 1980s. The ''resource curse'' expression may be credited to Alan Gelb and associates (1988), who assessed the effects of the oil windfalls of 1973 and 1979 on six developing countries. He concluded that much of the potential benefit had been dissipated; some oil producers ended up actually worse off; and the major oil exporters performed less well than their resource-poor counterparts. These findings were first confirmed by Auty (1993), and later by several others, including Karl (1997) and Gelb and Auty (1987). Mineral-rich countries seemed to show a comparatively lower record of economic growth. Since 1975, the economies of resource-rich countries have grown at a slower rate than countries that could not rely on large exports of minerals. In oil-exporting countries in particular per capita income grew in the 1980s and 1990s at a much slower rate than in other countries.

In addition to unsatisfactory economic performance, there is an association between mineral plenty and bad governance—most evident and prevalent in Africa for various reasons, including the heavy hand of colonial history, manifested primarily in the artificial boundaries within which the ethnically plural African societies are constrained. Ghazvinian (2007) has illustrated how in a number of oil-producing countries—Angola, Equatorial Guinea, Gabon, and Nigeria—great wealth has failed to bring economic development, and, on the contrary, has exacerbated political decay and corruption.

However, the resource curse is not inevitable in Africa. In Botswana, for example, the export of diamonds has financed rapid development in a context of political legitimacy and comparatively sound economic management. Nor is the curse confined to Africa. Gemstones have enabled the ruling military elite to remain in power in Myanmar, and the only states in the Middle East where democracy has been gaining some ground are Jordan and Lebanon, the only countries without oil. Thomas Friedman (2009) has pointed out that in that region ''…power grows out of the barrel of a gun and out of a barrel of oil —and that combination is very hard to overthrow.'' He formulated the ''First Law of Petro-Politics,'' according to which ''…the price of oil and the pace of freedom operate in an inverse correlation…as the price of oil goes up, the pace of freedom goes down.'' And globally, Diamond noted that none of the 23 countries that rely on oil and gas for 60% or more of their exports are democracies—including Iran, Russia, and Venezuela—and has termed this state of affairs a ''democratic recession'' (Diamond 2009). Juan Pablo Pérez Alfonso, Venezuela's oil minister in the 1960s and one of the founders of OPEC, was indeed prescient in his early statement that ''oil is not black gold, but the devil's excrement'' (mentioned in Naim 2009).

In all countries and all regions, failures of democratization and governance are both cause and effect of the resource curse, and the impact is heaviest on the poor and vulnerable—hence most pernicious in Africa. But, just as the resource curse is rooted in a democratic deficit, so the potential solutions are to be found in improving institutions and strengthening political accountability (Acemoglu, Johnson, and Robinson 2002). As complex and long-term as this challenge may be, it is not intractable.

Extractive Resources and Conflict

The subject is much too extensive and complex to be fully addressed here, but one may highlight briefly that the countries most likely to be blighted by conflict have been those heavily dependent on natural resources (Ross 2002; Bannon and Collier 2003; and Karl 2007). Conflict over the allocation of rents from natural resources reinforces ethnic hostility. Natural resources are known to have played a key role in the conflicts that have plagued a number of African countries over the last decade—both in motivating and in fueling armed conflicts. Even when conflict gives way to a fragile peace, control over natural resources and their revenues often remains in the hands of the a small elite from the winning side or is shared among the competing elites. The risk of violent conflict is significantly higher in mineral resource-rich countries than in countries with other abundant natural resources such as fertile land. Siegle (2007) found that hydrocarbon-rich countries were twice as likely as others to experience intrastate conflict, and Fearon (2005) showed that oil exports predicted higher civil war risk. The Bonn International Center for Conversion (http://www.bicc.de) has developed an index of resource governance and an index of conflict intensity, and has found a strong negative correlation between the quality of resource governance and the intensity of civil conflict.

The Democratic Deficit

Democracy and governance are closely related but different concepts. In a nutshell, while both concepts refer to processes rather than events, governance concerns primarily the manner in which power is *exercised*, while democracy encompasses also the manner in which power is *obtained*. However, the two concepts tend to converge, mainly because obtaining results in arbitrary and authoritarian ways does not permit enlisting public involvement and the results are thus more likely to be ineffective or reversed in the long term. Exclusive concern with the quality of decisions without attention to the process of decision making will eventually produce bad quality decisions, and thus the nature of political institutions has a major impact on the quality of governance (see Alence 2004). The reverse is also true: improvements in the manner of governing are important for ''consolidated democracy'' (Linz and Stepan 1996, and Schedler 1998). And the general argument of a mutual association between political and economic progress was well elaborated by Claude Ake (1975).

Good governance, as important for economic and social development as good policy or financial resources, is generally defined as ''the manner in which power is exercised in the management of a country's economic and social resources for development.''[3] The *four pillars* of governance are accountability, transparency, the rule of law, and participation (Schiavo-Campo and McFerson 2008). As argued later, all of them tend to be weakened in resource-rich countries.

Accountability is key, and consists of the capacity to call public officials to task for their actions, especially in how public revenues are mobilized and how they are spent.[4] Administrative accountability must be accompanied by some external accountability—often termed ''social accountability''—whereby users of public services and citizens at large can hold to account the actions of the executive branch of government. Transparency entails the low-cost access by citizens to relevant information, particularly on public service access and quality, on mobilization of revenue, and on allocation of government expenditure. Transparency of government information is a must for an informed executive branch, legislature, and public at large—normally through the filter of competent legislative staff and capable and independent public media. The rule of law, among other things, is critical to provide society and the private economic sector with predictability—which, in addition to formal laws, requires regulations and administrative provisions that are clear, known in advance, and uniformly and effectively enforced. And participation by users of services, government employees, other relevant stakeholders, and citizens at large, is necessary to design effective government programs, supply the government with reliable information, and provide it with a reality check.

The four pillars of good governance are essential in combating and limiting corruption, and are weakened by *four failures*:

- Failure to make a clear separation between what is public and what is private, hence, a tendency to divert public resources for private gain;

[3]The World Bank lists only the first three pillars (World Bank 1992:1). The Asian Development Bank, in its own elaboration of the governance-development links (*Governance: Sound Development Management,* Manila, August 1995), adds participation as the fourth pillar of governance. Because without constructive involvement by the relevant stakeholders, accountability and the rule of law are hollow, thus the broader definition is preferable.

[4]Six dimensions of governance between 1996–2007: Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. See Kaufman, Kray, and Mastruzzi (2009).

- Failure to establish an efficient and clear framework of law and rules, or arbitrariness in their application;
- Failure to set development priorities, resulting in a misallocation of resources;
- Failure to establish transparent decision-making processes.

The Impact of the Resource Curse

The evidence shows that none of the four pillars of governance is strong in natural resource-rich African countries—transparency is partial, participation non-existent, accountability weak, and application of the rule of law haphazard and arbitrary—and the ''four failures'' listed above are conspicuously in evidence—particularly the lack of separation between private and public assets, as shown by systemic corruption on a grand scale. The nine African countries characterized by especially high dependence on extractive resources for both exports and government revenue are: Angola, Botswana, Chad, Republic of Congo (Congo Brazzaville), Democratic Republic of Congo (Congo Kinshasa, formerly Zaire), Equatorial Guinea, Gabon, Nigeria, and Sudan. Of these, only Botswana has escaped the resource curse (for reasons explained in McFerson 2009a).

A review of trends in African governance since the end of the Cold War (McFerson 2010) shows improvements in African governance overall, with several African nations making substantial progress—although reversals have occurred and the progress has been anything but uniform. None of the countries where governance has improved are resource-abundant, and the countries where no governance improvement has taken place include almost all those with plentiful mineral resources, many of which have also been characterized by brutal internal violence and systematic repression.[5]

Political and Civil Freedoms

Politically, a positive development in Africa has been the increase in the number of ''free'' countries on the continent—that is, those with a functioning multiparty system, respect for civil rights, and a free press—to 11 in 2008 from just three in 1977.[6] Equally important is that the number of nations ranked as ''not free'' at all has fallen to 14 from 25. Table 1 shows the details. What is relevant for our argument is that countries showing an increase in political and economic freedom have tended to be the ones without substantial oil or other valuable minerals. The positive political evolution has bypassed countries with abundant mineral resources, which still figure prominently among the ''not free'' (Angola, Chad, Republic of Congo, Democratic Republic of Congo, Equatorial Guinea, Sudan) or the ''partly free'' (Gabon, Nigeria).

[5]The end of the Cold War triggered two contrasting impulses: a governance improvement associated with the end of superpower competition, and a deterioration caused by the resurgence of suppressed ethnic conflicts. Based on a variety of evidence, three subperiods can be identified: fragile governance progress from 1989 to 1995; backsliding associated largely with civil conflict between 1996 and 2002; and resumption of progress in recent years. These broad trends mask major intercountry differences—with Ghana the best-known case of improvement and Zimbabwe the worst case of reversal. Overall, African governance is now somewhat better than two decades ago. However, improvements in economic governance have lagged behind the progress on the political front, and all progress has bypassed entirely the resource-rich countries.

[6]According to Freedom House 2008, a US-based group that tracks political freedom around the world (http://www.freedomhouse.org).

TABLE 1. Changes in ''Freedom'' Rankings, African Countries, 1977–2008

Free countries		*Partly free countries*		*Not free countries*	
1977	*2008*	*1977*	*2008*	*1977*	*2008*
Botswana	Benin	Burkina Faso	Burkina Faso	Angola	Angola
Gambia	Botswana	Comoros	Burundi	Benin	Cameroon
Mauritius	Cape Verde	Congo (B)	Central African Rep.	Burundi	Chad
Seychelles	Ghana	Kenya	Comoros	Cameroon	Congo (B)
	Lesotho	Lesotho	Djibouti	Cape Verde	Congo (K)
	Mali	Liberia	Ethiopia	Central African Rep.	Cote D'Ivoire
	Mauritius	Nigeria	Gabon	Chad	Equat. Guinea
	Namibia	Sao Tome & Principe	Gambia	Congo (K)	Eritrea
	Sao Tome & Principe	Senegal	Guinea-Bissau	Cote D'Ivoire	Guinea
	South Africa	Sierra Leone	Kenya	Equat. Guinea	Rwanda
		South Africa	Liberia	Ethiopia	Somalia
		Swaziland	Madagascar	Gabon	Sudan
			Malawi	Guinea	Swaziland
			Mozambique	Guinea-Bissau	Zimbabwe
			Niger	Madagascar	
			Nigeria	Malawi	
			Senegal	Mauritania	
			Seychelles	Mozambique	
			Sierra Leone	Niger	
			Tanzania	Rwanda	
			Togo	Somalia	
			Uganda	Sudan	
			Zambia	Tanzania	
				Togo	
				Uganda	
				Zimbabwe	

Source. Freedom House 1990 and 2009.
(*Note*. Congo (B) stands for Congo-Brazzaville and denotes the Republic of Congo [former French colony]; Congo (K) stands for Congo-Kinshasa, and denotes the Democratic Republic of Congo, ex-Zaire [former Belgian colony].)

Corruption

Corruption remains a huge problem. An estimated \$0.5–\$1 trillion is lost annually to corruption worldwide, and the African Union puts the figure for Africa at around \$150 billion, equivalent to fully *one quarter* of Africa's GDP.[7] In the 2008 Transparency International Corruption Perception Index, of the African countries included only Botswana and South Africa scored above 5.0, indicating low corruption; 14 countries scored between 3.0 and 5.0, indicating a significant corruption problem; and 36 countries scored below 3.0, indicating rampant corruption.

Again, the peak of corruption is found in resource-rich countries. The average public integrity score for the eight resource-rich countries is 2.0 versus the 2.9 average for the other African countries. Of the 179 countries surveyed, Gabon is

[7]unctad.org/templates/download.asp

TABLE 2. Governance Indicators, Resource-Rich African Countries, 2008

Country	*Voice and accountability*	*Political stability*	*Government effectiveness*	*Regulatory quality*	*Rule of law*	*Control of corruption*
Angola	17	30	14	17	8	6
Chad	9	4	3	9	3	3
Congo Republic	15	25	8	12	11	8
Congo DRC	9	2	1	5	2	5
Equat. Guinea	3	40	4	7	7	2
Gabon	24	53	26	28	32	12
Nigeria	31	3	13	29	11	18
Sudan	4	2	5	7	4	2
Average	14.0	19.9	9.3	14.3	9.8	7.0
Africa	32.1	33.4	26.0	28.7	28.6	30.8

Source. http://www.worldbank.org/governance/wgi.
(*Note*. Based on the country scores relative to the worldwide average, countries are ranked by percentile, with higher values indicating better ratings. For example, a percentile of 70 on a given dimension means that 70% of countries worldwide score worse, and 30% score better, than the country in question. Thus, the higher the number, the better the situation on that particular dimension.).

ranked 84 for public integrity, Angola 147, Equatorial Guinea 168, Nigeria 147, the Republic of Congo 150, the Democratic Republic of Congo (ex-Zaire) 168, and Chad and Sudan are tied for next-to-last place. In the entire world, only Somalia ranks worse.

The combination of mineral resources and patrimonial regimes has made these regimes virtually synonymous with bribery. Public services are unevenly provided and of extremely poor quality; civil servants are so poorly paid (by design) that they have to resort to petty corruption in order to survive; the institutions intended to provide checks and balances within the system are badly under-resourced and totally lacking in independence; and the judicial and law enforcement systems function by bribes or as agents of the regime. As a consequence, revenues from abundant mineral resources in these countries are readily squandered by greedy and corrupt leaders on luxuries for themselves, their families, and cronies, while the average citizen is mired in extreme poverty. When asked why he robbed banks, the 1930s thief Willie Sutton replied: ''That's where the money is.'' The Willie Sutton Rule has held sway in mineral-rich countries of Africa and elsewhere, owing to the absence of accountability, voice, transparency, and the rule of law, as shown next.

Economic and Administrative Governance

The positive correlation found worldwide between economic freedom and per capita national income is not visible in resource-rich states.[8] Although there are exceptions—again, Botswana—almost all of Africa's resource-rich economies are heavily state-controlled. This is hardly surprising. Politically, the regimes need tight control in order to appropriate the resource revenue. Economically, they have no need to free up their economies to attract foreign investors, nor do they need foreign aid or have an interest in sound economic policies. This contrasts with resource-poor but well-managed countries—Lesotho, Namibia, Senegal, and others—which recognize the need to create an investment- and business-friendly environment to boost economic performance. As Table 2 shows, the eight resource-rich countries compare very badly with the rest of Africa on every single

[8] *The Economist*, January 30, 2008.

dimension of economic and administrative governance—with the largest gaps found in government effectiveness, the rule of law, and control of corruption.

Very much the same results are obtained from other surveys, such as the Ibrahim Index of African Governance and the Afrobarometer (see McFerson 2010, for details). The convergence among all the indicators is nearly total as concerns the lowest-ranking countries. Combining the indicators of political and civil liberties with those of corruption perception and of economic governance produces a common list of the ''10 worst'' African countries in terms of democracy and the quality of governance—in alphabetical order Angola, Chad, the two Congos, Cote d'Ivoire, Equatorial Guinea, Guinea, Somalia, Sudan, and Zimbabwe. Six of these are resource-rich countries, and the remaining two—Gabon and Nigeria—are close behind. It is especially worrisome that all but one of the 10 worst countries have been consistently classified by Freedom House as ''not free'' throughout the entire 30 years of the survey, demonstrating the deep roots of patrimonialism and repression and thus the slight prospect of endogenous improvements.

The Roots of the Resource Curse in Africa

What explains this strong association between the abundance of valuable extractive resources and the weakness of democratic institutions in Africa?

The ''Big Man'' Syndrome and the Role of Ethnicity

Cultural factors are a first contributor to the democracy deficit and governance weaknesses in much of Africa. The ''Big Man'' syndrome and its corollary of a patrimonial state and predatory behavior is the focus of neo-Weberian explanations of Africa's development predicament.[9] ''Big Men'' are most notoriously exemplified by the late Joseph Désiré Mobutu in Zaire, Teodoro Obiang Nguema in Equatorial Guinea, the late Omar Bongo in Gabon, Omar al Bashir in Sudan, and Dennis Sassou-Nguesso in the Republic of the Congo—but the Big Man syndrome is widespread throughout the continent.

Formal laws and regulatory frameworks may appear sound on the surface, but in reality they are often Potemkin Villages built for foreign consumption and to rationalize vested interests, while real power is exercised through parallel networks. In patrimonial states, decisions about resources are made by big men and their cronies—''linked by informal (private and personal, patronage and clientelist) networks that exist outside…the state structure and which follow a logic of personal and particularist interest…These networks reach from the very top through dyads connecting the big man, members of parliament, chiefs, party officials, and government bureaucrats to villagers'' (Cammack 2007:12). Individuals and communities are highly reliant on patrons; the distinction between public and private assets is blurry; corruption is elevated to universal norm; and few contrary influences exist that would undermine these upward ties—for example, higher education, foreign interventions, innovative organizational forms, travel, and wider communications.

The neo-Weberian paradigm rests in part on the distinction between formal and informal institutions, with informal institutions and rules constituting the majority of a country's total ''stock'' of institutions, and exerting a greater influence than formal institutions on individual behavior and social outcomes (North 1991). The paradigm is also loosely related to Robert Putnam's explanation of

[9]EEE Research Programme 2007–2011, version 29-01-2007 Economy, Environment, and Exploitation (EEE). Available at http://www.ascleiden.nl/Pdf/EEEFullTextProgramme.pdf.

the backwardness of Southern Italy relative to the rest of the country by reference to the predominance of vertical relationships of dependence there, rather than the horizontal relationships that produce reciprocal trust and social capital and prevail in the rest of the country (Putnam 1993).

Thandika Mkandawire (2001) writes of the ''neo-Weberian'' patrimonial state:

> The neo-Weberian critique has focused on the failure of African states to establish themselves as rational-legal institutions and to rise above the ''patrimonialism'' that affects all of them, regardless of their ideological claims and the moral rectitude of individual leaders. ... the neo-Weberian critique highlights the flawed nature of the performance of the post-independence state, especially in its relationship with a society at large from which it has not been able to distance itself adequately so as to perform efficiently.

Neo-patrimonialism is not limited to Africa, of course. Indeed, equally good examples can be found in Central Asia (e.g., Kazakhstan's President Nursultan Nazarbayev, and Turkmenistan's late President Saparmurat Niyazov who created around himself a grotesque personality cult rivaling North Korea). However, Mkandawire differentiates between the neo-patrimonial state in Africa and in Asia: ''the Asian variant of patrimonialism does not constrain rational bureaucratic decision making...; Africa's patrimonialism does just that. The African state is said to be afflicted not only with paternalism, but also with a debilitating strain of 'pathological paternalism.''' (This interesting hypothesis is yet to be convincingly demonstrated, however, as shown by the example of Myanmar's regime—both brutal and inefficient.)

Another observer writes that the ruling elites in the ''low-legitimacy'' states find their stability in the adoption of neo-patrimonial strategies of power with their handmaidens of corruption, clientelism, nepotism, and regionalism. These policies substitute patron-client links for the lack of moral legitimacy of the state and offer the regime a stable lease on life. They buy short-term acquiescence and provide a quick fix to their periodic crisis. As Englebert (2000) argues, state legitimacy is a crucial variable in determining the odds of neo-patrimonialism in any given country. African states with high legitimacy include countries such as Botswana and Lesotho, which are ethnically homogeneous and where the contemporary state is very close to the contours and political cultures of the *pre*-colonial roots.[10] *Neo-patrimonial policies are the equilibrium outcome of illegitimate post-colonial statehood* (Englebert 2000).

It is therefore only to be expected that Big Man syndrome and neo-patrimonial tendencies characterize the large majority of African countries, where the state boundaries are an artificial colonial creation and cut across ethnic and cultural lines. Moreover, in countries with an abundance of valuable mineral resources the misappropriation of revenue by principal government actors is heavily influenced by ethnic or clan ties—the most extreme example being the ruling Mongomo clan of the majority Fang tribe in Equatorial Guinea. However, while ethnicity is rightly cited as an important factor in relationships between big men and their cronies, the coexistence of lack of democracy and abundance of mineral resources is best explained by a combination of two other factors—one political and the other economic, to which we now turn.

[10]Examples of ''illegitimate'' statehood in Africa are Somalia, and the Democratic Republic of Congo—the former because ''its boundaries fail to incorporate large segments of Somali populations living in Kenya, Ethiopia, and Djibouti,'' the latter because it is a ''highly artificial creation derived from the exploration of the Congo river by Henry Morton Stanley and the exploitation of ivory and wild rubber in the river's basin by King Leopold II of Belgium'' (p. 13). Also see Hochschild (1998).

The Rentier State

A major explanation of the resource curse is political. The concept of ''rentier state'' first evolved in relation to oil-rich states in the Middle East and was then applied to African countries with substantial mineral resources. It is an unfortunate reality that most resource-rich African countries have become rentier states—that is, states in which the government is heavily dependent on revenues from mineral resources extracted by foreign companies, rather than on taxes or on production of other exports, and without much contribution or effort by the government itself or the local private sector.

''Rents'' can be defined as the reward for ownership or control of mineral resources (which are extracted rather than ''produced''), or as the profit of a monopoly over and above the profit that would accrue under competitive market conditions. When received by a government in the form of royalties from a foreign company which conducts all extraction, transport, and marketing activities, the revenue constitutes ''pure rent,'' insofar as the government need not expend any resources or effort whatsoever, and benefits simply from the unearned control over the land in which the minerals are located. The alliance between the patrimonial state and the foreign extractive companies or traders rests on mutual interests—profit for the companies and enrichment-cum-control for the ruling elite—with no involvement by or consideration of the population and its needs. The result is poor economic performance, poverty, corruption, authoritarianism, and dependence.

Terry Lynn Karl (2007) frames the links between governance problems and resource-derived rents as follows: ''First, rents involve negotiation between resource-rich states and international oil companies (in the case of oil), in terms of which party gets which proportion of the rents. Citizens play no role in these negotiations. Rents represent the notion of extracting high excess profits by ''reaping what one does not sow.'' Second, such a process is dangerous to institution building, in that most countries extract resources from their populations rather than redistribute these resources to the population, which has powerful implications for accountability. Because rentier states avoid taxation, there is a breach in the link that requires state-building and consultation with the citizenry. No taxation means no representation. Instead, there are negotiations about how to collect money from the international companies, and there is no transparency in this process. The social consequences flow first from the nature of pre-existing political, social, and economic institutions and, second, from the extent to which oil revenues subsequently transform these institutions in a rentier direction. (Although Karl's focus is on petroleum dependence, the same dynamic applies to other valuable mineral resources.)

Dutch Disease

The second major explanation of the resource curse is economic: ''Dutch disease'' refers to the discouragement of domestic production of other exportable products that arises from the abundance of revenue from exports of minerals. (The term was coined in the late 1970s by *The Economist* to explain the consequences of the discovery of North Sea natural gas near Holland.)

Dutch disease involves a rapid and substantial contraction of the domestic production of exports and goods that compete with imports. This deindustrialization of a nation's economy occurs because the discovery of a valuable natural resource raises the value of that nation's currency, which makes the country's goods more expensive and less competitive with other nations, makes imports

cheaper and thus increases them, and overall decreases domestic production. In time, with continuing dependence on natural resource revenue most domestic production disappears and, when the natural resource is depleted, the country is left without an economic base of its own.

Paradoxically, the legacy of mineral resource wealth is therefore a much greater fragility of the economy. Extractive resources generate great wealth, but, if poorly managed, can also undermine economic growth, create incentives for grabbing a share of the unearned pie instead of producing goods or services, heighten corruption in the public and private sectors, and may even fuel conflict. The resulting poverty, instability, and weakened rule of law are not only bad for local people; they can also damage the reputation of the companies and generate lower returns to investors.

The resource curse is a strong tendency, but is not an inevitable condition, nor is it exclusive to sub-Saharan Africa—as shown, on the one hand, by Botswana's effective use of its diamond resources and, on the other hand, by the governance weaknesses in most oil-exporting countries of the Middle East. Also, it is likely that bad governance generates the natural resource curse, rather than the other way around. In the 1960s, Norway lagged behind its Scandinavian neighbors in per capita income, as it had for decades, but the discovery of oil combined with clean governance and efficient management of the public sector made for good use of the oil export revenue.

In any event, once the syndrome is established, malgovernance and misappropriation of natural resources reinforce one another. A solution lies in strengthening the accountability of decision makers that control the extractive resources and revenues. But such accountability is not possible without adequate information about the resources being extracted, the revenues generated, and where they flow. In the absence of good governance, the decision makers have reasons to avoid providing such information. Transparency is thus the main route to improvements.

A different variant of Dutch disease can be found in the link of mineral wealth to inequality and conflict, summarized in Michael Ross' ''inequality trap'' (Ross 2002): While the revenue from mineral wealth should offer the possibility to accelerate growth and reduce poverty, in practice it often produces greater inequality. The inequality may lead to conflict, which in turn discourages the non-mineral investments that could help diversify the economy. (This is an additional reason why it is important to include income distribution as an indicator in governance surveys, as done in the Ibrahim Index of African Governance, discussed earlier.)

What Has Been Done: Not Too Late But Too Little

As a general proposition, since elite appropriation of mineral revenues in resource-rich African states stems from malgovernance and weak democratic processes, the broad directions of improvement lie in the gradual strengthening of mechanisms of accountability, transparency, and participation. Concerning transparency in particular, there is no legitimate need for secrecy in either the government reporting of oil production and revenue or in the contracts with the multinational companies. An early argument (as in Cameroon in the 1970s) that oil revenue had to remain a ''state secret'' in order to resist pressures to increase public expenditure, has revealed itself to be a rationalization of the ruling elite interest in keeping prying eyes away from their ''private'' expenditure. And despite industry claims about competition and trade confidentiality, in extractive industries contracts the main secrets being protected are generally either bribes or provisions revealing how the company has taken advantage of inexperienced government negotiators—as concluded in a study

from Columbia University and the Revenue Watch Institute (Lissakers and Rosenblum 2009).[11]

Indeed, sunlight is the best disinfectant. Certain international initiatives, summarized next, have been taken in recent years to try and improve transparency in the extraction and sale of mineral resources and to contain corruption.

Publish What You Pay

The Publish What You Pay (PWYP) campaign was launched in June 2002 primarily by George Soros, Chairman of the Open Society Institute, and the major international non-governmental organizations (NGOs) Global Witness 2008, the Catholic Agency for Overseas Development (CAFOD), Oxfam, Save the Children UK, and Transparency International UK. The Publish What You Pay campaign aims to help citizens of resource-rich developing countries hold their own governments accountable for the management of revenues from the oil, gas, and mining industries. The coalition also calls on resource-rich developing country governments to publish full details on revenues. This is a critical first step toward a more accountable system for the management of extractive revenues.

In particular, PWYP is dedicated to the passage of a US law requiring companies to publish the payments they make to foreign governments for oil, gas, and minerals. This is the Extractive Industries Transparency Disclosure (EITD) Act, introduced by Representative Barney Frank (D-MA), and cosponsored by a large number of other representatives. The Act would require companies to report all payments of over $100,000 made to foreign governments for oil, gas, and minerals. The information would be included in the financial statements that are already required by the Securities and Exchange Commission (SEC). The requirement would apply to both American and international companies listed with the SEC, covering a majority of the largest oil, gas, and mining companies in the world. The provision of the act would be critical for establishing freedom of information and a global standard for transparency in the minerals sector, especially at a time when oil company profits are at record levels. The EITD Act will help improve governance in oil-producing countries and facilitate poverty reduction, as transparency would enable revenues to be managed in a more accountable and equitable manner.[12]

Promoting Revenue Transparency

Linked to the Publish What You Pay campaign is the Promoting Revenue Transparency Project (PRTP).[13] The recommendation from Transparency International is that oil and gas companies should proactively report in all areas relevant to revenue transparency on a country-by-country basis. Proactive disclosure by companies, not only of payments but also of other relevant transactions and on a country-by-country basis, would provide the main stakeholders—including companies, investors, governments, and civil society organizations—with the information they need to hold governments to account for how extractive revenues are spent.

[11] The International Bar Association is working on a model mineral development agreement, attempting to balance public and investor interests. (See letter of Peter Leon, Chair of the Mining Law Committee of the International Bar Association in the October 16, 2009 *Financial Times*.) Even if sound, such an agreement can perhaps redress to an extent the negotiating balance between multinational companies and host government, but can accomplish little to improve the utilization of the extractive revenue for development.

[12] www.globalwitness.org/data/files/pages/myths_and_facts_sheet.pdf. Accessed July 25, 2008.

[13] Cf. *2008 Report on Revenue Transparency of Oil and Gas Companies.*

Moreover, the PRTP project also calls on oil and gas companies to discourage governments from including in contracts confidentiality clauses that obstruct revenue transparency, based on guidelines identified in the *2008 Report on Revenue Transparency of Oil and Gas Companies*. Also, home governments and appropriate regulatory agencies should urgently consider introducing mandatory revenue transparency reporting for the operations of companies at home and abroad, consistent with the IMF Guidelines on Resource Revenue Transparency (IMF 2005).

The African Peer Review Mechanism

The African Peer Review Mechanism (APRM) is intended to be a key driver of African governance renaissance, and is a centerpiece of the New Partnership for African Development (NEPAD) process for the socioeconomic development of Africa. Its mandate is to ensure that the policies and practices of participating countries conform to the agreed values in the following four focus areas: democracy and political governance; economic governance; corporate governance; and socioeconomic development. The APRM process entails periodic reviews of the policies and practices of participating countries to monitor progress being made toward achieving the mutually agreed-upon goals and compliance. National ownership and leadership by the participating country are essential factors underpinning the effectiveness of the APRM, which is designed to be open and participatory. The process should be guided by the principles of transparency, accountability, technical competence, credibility, and freedom from manipulation. Regrettably, there have been few meaningful outcomes, if any, from the process—echoing the generic weakness of regional institutions such as the African Union.

The Extractive Industries Transparency Initiative

The most important single initiative to foster transparency in resource-rich developing countries is the Extractive Industries Transparency Initiative (EITI), which was launched in 2002 by British Prime Minister Tony Blair and has been led by the UK Department for International Development and supported by all major international organizations, including the African Union. The EITI aims to strengthen resource governance by improving transparency in the reporting and use of revenues from the extractive industries, including petroleum and mining, in developing and transition countries. Under this initiative, aggregate payments to government reported by companies (including state-owned resource companies) and aggregate payments received by government from companies are published, thus making discrepancies transparent. The EITI sets a global standard for companies to publish what they pay to host governments and for governments to disclose what they receive, and has a well-defined implementation process to evaluate countries on the basis of certain progress indicators.

Almost all oil-producing African countries have adhered to the initiative, but with widely diverse degrees of commitment. As in other international treaties (e.g., on human rights, or labor standards), formal adhesion may mean little or nothing if the enforcement mechanism of the treaty is weak or non-existent. The EITI has potential leverage, stemming not only from its provisions to monitor progress but also from its capacity to trigger popular and political pressure on the companies that benefit from cozy arrangements with governments. In this sense, the EITI is closer to the OECD Anti-Bribery Convention of 1998 than to other international conventions that rely entirely on the seriousness and goodwill of the signatory government.

Indeed, there is a consensus in Africa and elsewhere that the EITI has had some slight initial success, within the limits of its parameters, in improving

resource governance. The Africa Progress Panel is an independent mechanism that monitors implementation of policy and international commitments and reports on progress in Africa. In its 2008 report, the panelists (who include such eminent persons as Kofi Annan, Tony Blair, Bob Geldof, and Nobel prize-winner Muhammad Yunus) concluded that, together with the APRM, the initiative is a step in the right direction, but that much stronger penalties are needed against governments that violate its requirements. But again regrettably, such penalties are nowhere on the horizon and, in their absence, little progress can be expected.

The Way Forward

The initiatives taken so far are puny compared to the enormity of the problem. Much more robust action would be needed to lift the resource curse from the people of Africa or at least substantially alleviate its impact—let alone to turn the oil revenue into the blessing that it could potentially be under different circumstances. Any such action should rest on two critical lessons of experience, and will require a new international consensus.

Lesson One: The Limits of Formal Reforms

As implied earlier, formal rules and institutions, such as anticorruption laws and agencies, are utterly insufficient to improve public integrity and limit the misappropriation of mineral resources when in conflict with the informal rules and norms which determine actual behavior (McFerson 2009b). However, they can make a major contribution when introduced in the context of regime legitimacy, reasonably good public management, and low tolerance for malgovernance. In Botswana, for example, several major corruption scandals involving very senior and prominent people in the late 1980s and early 1990s led to the establishment of a Commission of Enquiry, and the subsequent 1994 Corruption and Economic Crime Act. The act expanded the evidence of corruption to include ''being in control of disproportionate assets or maintaining an unexplained high standard of living,'' and created the Directorate on Corruption and Economic Crime with special powers of investigation, arrest, search, and seizure. The legislation achieved its purposes largely because corruption in Botswana was not publicly acceptable and when scandals did erupt they were met with general condemnation.[14]

At the same time, African experience in country after country demonstrates that establishing anticorruption agencies and adopting integrity legislation accomplishes little in the absence of an enabling environment and in an institutional landscape with widespread public tolerance for or resignation to corruption. Indeed, such actions may well be worse than nothing, by giving the illusion of improvement by covering up the same corrupt institutional framework with a whitewash of formal ''reform.'' Paradoxically then, such initiatives are successful in countries where they are not essential, and futile in countries where they would be essential.

Lesson Two: The Chicken and the Eggs

Has the malgovernance chicken produced the eggs of mineral resource misappropriation, or have democratic processes been damaged by the ready availabil-

[14]See *Botswana's Approach to Fighting Corruption and Economic Crime*. Available at http://sc.icac.org.hk/gb/www.icac.org.hk/newsl/ISSUE1/content.asp?chapter=4.

ity of large mineral resource revenues? There is no theoretical presumption on either side, but the empirical scale of evidence tips toward the hypothesis that lack of democratic processes comes first and resource revenue misappropriation follows. For example, Nigeria got into severe governance trouble in the mid-1960s and eventually full-scale civil war before large oil reserves were exploited there, and the Mongomo clan in Equatorial Guinea needed no extractive resource revenue to establish its repressive dominance over the country immediately after independence. In any case, the usefulness of such chicken-or-egg questions is limited, because after the link between malgovernance and mineral resource abundance is established the two factors become mutually reinforcing. Again, in Nigeria the oppression of the Ogoni people in the Niger Delta has been instrumental in permitting the governing elite at the center to appropriate the revenues from oil in Ogoniland.

Wherever it begins, the vicious circle consists of weakness in political institutions leading to elite misappropriation of mineral revenue that is, in turn, used to underpin continued political repression and resource theft. Turning to the hopeful side, the circularity also implies that progress, even if difficult and painfully slow, can be achieved by inserting positive elements in this dynamic. The best and most positive example of what is possible is provided by Ghana, with its second free and fair presidential election in 2009 and the remarkable democratization of the past 10 years after more than a generation of coups and turmoil. The country is also a major test case of whether its democracy has become consolidated sufficiently to resist the corrupting pressures that will increasingly come from the exploitation of the recently discovered oil.[15]

The Need for a New Consensus

As noted, recent international initiatives to introduce transparency have had some initial success—particularly the EITI. Certain steps may also be possible within the affected countries themselves, to gradually and selectively increase the capacity of citizens to exert some influence and control over their government. Coordinated international pressure for transparency in mineral resources can be combined with internal bottom-up efforts by civil society in each African country. Thus, transparency and social accountability are the twin means to improve both governance and development in Africa in the long term—in theory.

In practice, the evidence shows that in the majority of resource-rich countries the vicious interplay of corruption and repression is so deeply rooted as to rule out any realistic prospect of endogenous improvement. It would be a cruel joke to advise the average Africans oppressed by a powerful regime unconstrained by any countervailing force or moral scruples to demand greater transparency and accountability—when doing so would only put their life and that of their families in grave jeopardy. No initiative can make much of a difference in the long term until lifting the resource curse is treated as a truly global public challenge.

Good Governance as a Global Public Good

Until the 1980s, the self-serving rationalization that autocratic government necessary for economic and social development was prevalent. In contrast, for more than 20 years now, the international community has recognized democratic modalities and good governance as key factors of development—and a new generation of Africans themselves have lost much of the erstwhile tolerance for Big Men and patron/client networks. Surveys of African citizens invariably show that

[15]See http://www.Revenuewatch.org, July 9, 2009.

their top priority for external aid is ''support for improved governance and anticorruption ahead of other options, including providing funding to their central governments'' (Kaufmann 2009:29).

But especially difficult issues arise when the impact of political repression and malgovernance spills over national boundaries, for in this case it cannot be fully addressed on a strictly national basis. This is all the more likely when national boundaries are an artificial result of colonialism—and is particularly relevant to Africa. Democratization in developing countries is thus critical for a number of international objectives—effectiveness of international aid in reducing poverty and fostering development; curtailing refugee flows; containing violent conflict; and mitigating the risks of state failure. *Good governance should be recognized as a global public good, and the lifting of the resource curse as an international responsibility.*

Translating that recognition into practice has been and will be very hard. The difficulties in dealing with governance as a global public good stem from: the dominant nation-state paradigm; the internal politics in both developed and African countries; the opprobrium of colonial history; and the proper limits of international organizations. However, the political and social rationale for active international concern with ''internal'' governance issues is strong and almost universally accepted, and a central question for the future is how the international community can intervene effectively to improve governance.

Plunder Oil?

Foreign aid can be used to support governance improvements in the developing world, but cannot lift or alleviate the resource curse since the regimes in question are by definition rich enough not to need any aid. But they do need the investors and the buyers, and international action focused on foreign investment and trade might eventually have an impact.

A relevant precedent is provided by the Kimberley Process. The tragedy of brutal conflict in West Africa fueled by ''blood diamonds'' eventually led the international community to recognize their direct and clear linkage to political repression, violence, and massive human rights violations. In May 2000, governments and the diamond industry came together in the South African town of Kimberley to discuss how to combat the trade in diamonds from conflict zones. This meeting led to the Kimberley Process Certification Scheme, which set up an internationally recognized certification system for rough diamonds and established national import/export standards, and was ratified by 52 governments in November 2002. Although flawed by the ''voluntary self-regulation'' on the part of the diamond industry and with insufficient country enforcement provisions (among the signatories are notorious violators such as the DR of the Congo, Guinea, and Zimbabwe) the process has had significant positive results in weakening the link between gems and violent repression and conflict (see http://www.stopblooddiamonds.org/the-kimberly-process.asp). Nicky Oppenheimer, chairman of DeBeers, the world's largest diamond producer, even claimed that due to the Kimberly Process, when you find a diamond in western stores ''you can now be sure that it is not a conflict diamond'' (interview by Fareed Zakaria on ''*GPS*'' Program, CNN, October 11, 2009).

Qualitatively, the conflict diamonds issue is no different than the resource curse associated with petroleum, insofar as the link to governance problems is equally direct and clear. Of course, neither diamonds nor any other extractive resource can even begin to compare with the scale and importance of hydrocarbons in the world economy. Thus, it would be very difficult to envisage international arrangements to restrict the export of ''plunder oil'' similar to those made for conflict diamonds. On the other hand, identifying the product's origin and interdicting its extraction and export would be enormously easier for oil and natural gas.

As a first step in that direction the United Nations could be used as a forum to initiate discussions toward a set of general principles for the international community to use the power of moral suasion and of market rules to progressively reduce the adverse impact of plunder oil on governance and development. More ambitious would be an attempt to reach an agreement among all major countries investing in African extractive resources that any backsliding on fiscal transparency or accountability for the use of resource revenue would trigger progressively stronger consequences for the overall flow of investment to the African government concerned, eventually culminating in a boycott of exports for the worst offenders.

Whatever the specific route taken, any meaningful action to address the resource curse would obviously depend on achieving a genuine consensus among the principal oil importers, and here China is key. China's voracious appetite for the energy to fuel its spectacular economic growth has led to an increasing role in Africa. To illustrate, China has already replaced Britain as Africa's third-largest business partner and accounts for almost 40% of Angola's oil exports and 60% of Sudan's. The Chinese have built the 1,000-mile pipeline carrying oil from the heart of South Sudan to the export terminal in the northeast of the country, and the China National Petroleum Corporation (CNPC) controls nearly all of Sudan's oil fields and has invested $15 billion in the country (see Bello 2007 and Wrong 2009). The central question is whether China will use its mounting leverage at least in part to contribute to development in Africa, or will replicate the attitude of Belgian King Leopold II, who said in 1877: ''We must simultaneously be cautious, smart, and quick to act if we are to procure the spoils of that magnificent cake, Africa'' (quoted in Michel, Beuret, and Woods 2009).

So far, signs are not encouraging. But China's long-term interest in gaining global credibility commensurate with its increasing weight in the international economy might nudge it toward a holistic strategy that could include joining an initiative to help rescue the hundreds of millions of people currently afflicted by the oil curse.

A Gleam in the Eye

The resource curse issue exemplifies the tension inherent between the limits of the *inter*-national system and the common global interest in fostering democracy and development in Africa and elsewhere. Given the prevailing ethos and current political constraints, it would be naïve to imagine that meaningful action to combat plunder oil could be practical in the immediate future, mainly because the benefits of cheap oil and minerals to the importing rich country outweigh the costs to the poor population of the exporting country. (The clearest visual manifestation of the problem was the newspaper photo of a smiling US Secretary of State Condoleeza Rice shaking hands with President Teodoro Obiang N'guema of Equatorial Guinea on his ''state visit'' to America in 2007.) The oil addiction of developed and emerging economies remains an oil malediction for the people of Africa.

But a gleam in the eye is justified by the latest Afrobarometer survey of public attitudes in African countries (http://www.afrobarometer.org). Despite some disenchantment with multi-party ''democracy,'' public tolerance for the alternatives to democracy is minimal. The Afrobarometer found in 2008 that four of five Africans reject Big Man rule, and three out of four reject *both* military rule and one-party rule. This finding finally lays to rest the convenient myth of the early 1970s that because of Africa's unique history and social structures a one-party system is better for African democracy than the multi-party politics of the early post-independence years or of developed countries. It also points to a vast

generational shift in African attitudes, which could underpin on the domestic side an eventual international action to address the global problems caused by the resource curse.

Lifting the resource curse is not on the horizon. But initiating a sustained debate now would widen the awareness and lay the necessary foundation of support for a hopeful future when circumstances might change sufficiently to permit considering effective action. The relevant parallel here is to the Helsinki Declaration on human and political rights, arising from the 1975 Conference on Security and Cooperation in Europe. At the time, the Conference and the Declaration were derided by many as a mere piece of paper, and viewed by the Soviet leadership as a cosmetic farce for the benefit of western do-gooders. But as events showed, in the late 1970s and 1980s the declaration was put to good practical use by civil society in Eastern European countries to confront their governments with the chasm between their actions and the principles to which they had formally subscribed in Helsinki—contributing to the retreat and subsequent implosion of the Soviet Union and the democratization of Eastern Europe.

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