Governance strategies to remedy the natural resource curse

Joseph Siegle

A predictable outcome

The natural resource curse represents "a perfect storm" of influences detrimental to citizens' well-being and stability. Resource-rich countries typically develop more slowly, are less diversified, more corrupt, less transparent, subject to greater economic volatility, more oppressive and more prone to internal conflict than non-endowed countries at similar income levels. Meanwhile, the outsized revenues available to resource-rich governments allow them to pursue more belligerent and radical policies than they would otherwise be able to support. The pernicious ripple effects generated by these states, in turn, consumes a disproportionate share of global time and resources.

Despite the growing attention to the phenomenon, strategies for remedying the resource curse remain poorly understood and compartmentalised. This is, in part, due to an under-appreciation of the multi-dimensional nature of the resource curse. It is not solely an economic distortion (or "Dutch disease") due to over-reliance on a single primary commodity export and the dampening effect this has on terms of trade and productivity. Nor is it wholly a matter of inadequate transparency and the resulting corruption made easier by the large sums of easily consolidated revenues. And the higher levels of political instability cannot be attributed solely to the fact that resource-rich countries have more to fight over. Each of these considerations is important but they are insufficient on their own to base an effective reform strategy.

Often overlooked in this discussion is the distinguishing feature that governance type plays in the resource curse. Over 70 per cent of all hydrocarbon-rich countries are autocracies. Nearly 40 per cent of autocracies are resource-rich. These patterns are not a coincidence but central pieces to understanding the resource-curse puzzle. Autocracies survive, by definition, on exclusive structures of power. The revenues at their disposal are committed to sustaining this narrow power base – typically consisting of patronage networks, the military and ethnic group allegiances. Development, defined in its broadest sense, suffers. Low accountability coupled with intimidation allows the inequity to persist. When resource revenues are added to the mix the effects are even more lopsided: greater inequality, corruption, coercion and underdevelopment. The seemingly paradoxical outcome of resource-rich countries being development-poor is, in fact, quite predictable.

Historically high resource prices, especially oil, have tightened the grip on power of many resource-rich autocracies. The upsurge in their revenues has also fundamentally changed the relationship between these governments and the

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broader international community. Resource-rich autocracies have little need for the aid on which many reform initiatives are conditioned. Accordingly, alternative reform strategies are required.

This chapter analyses the distinguishing effects of governance on the resource curse. It then lays out some of the governance challenges that perpetuate the resource curse. Focusing on these challenges, the remainder of the chapter offers a series of recommendations for ameliorating the resource curse.

Governance distinctions in the natural resource curse

Thirty-six countries are considered to be hydrocarbon rich according to the International Monetary Fund (IMF) (see Table 1).[1] An additional 16 qualify as mineral rich. Two countries, Indonesia and Uzbekistan, meet the criteria on both lists. While these resources are often considered together, important differences between the two exist. First, the median per capita income in hydrocarbon-rich countries is significantly higher than in mineral-rich countries – US$1,978 versus US$563. Next, while roughly 70 per cent of all hydrocarbon-rich countries are autocracies.[2] less than a fifth of mineral-rich states fall into this category. Conversely, only five of the 36 hydrocarbon-rich countries qualify as democracies, compared with eight of the 18 mineral-rich nations. Stated differently, on a democracy scale of 0–10, the median score for hydrocarbon-rich countries is zero. Among mineral-rich countries it is seven – matching the global median. To illustrate these differences, Table 1 lists the respective hydrocarbon-rich and mineral-rich countries according to their regime classification – autocracy, mixed and democracy.

TABLE 1. Resource-rich countries by governance category, 2007

Hydrocarbon-rich autocracies	Mineral-rich autocracies
Angola	Guinea
Azerbaijan	Jordan
Bahrain	Uzbekistan
Brunei	
Cameroon	
Chad	
Congo, Republic of	
Equatorial Guinea	
Gabon	
Iran	
Iraq	
Kazakhstan	
Kuwait	
Libya	
Oman	
Qatar	
Saudi Arabia	
Sudan	
Syria	
Turkmenistan	
United Arab Emirates	
Uzbekistan	
Vietnam	
Yemen	
Hydrocarbon-rich mixed regimes	**Mineral-rich mixed regimes**
Algeria	Democratic Republic of Congo
Colombia	Kyrgyzstan
Ecuador	Liberia
Nigeria	Mauritania
Russia	Namibia
Timor Leste	Sierra Leone
Venezuela	Zambia
Hydrocarbon-rich democracies	**Mineral-rich democracies**
Indonesia	Botswana
Mexico	Chile
Norway	Ghana
São Tomé and Principe	Indonesia
Trinidad and Tobago	Mongolia
	Papua New Guinea
	Peru
	South Africa

Resource-rich categorisations compiled from IMF (2007). Governance ratings derived from Freedom House and Polity IV.

Not coincidentally, the two categories of resource-rich countries also have distinctive geographic distributions. Nearly 40 per cent of the hydrocarbon-endowed countries are in the Middle East (12), 25 per cent are in sub-Saharan Africa (nine), and 15 per cent are each located in the former Soviet Union and Latin America (five each). In contrast, 10 of 18 mineral-rich countries are located in sub-Saharan Africa. Three are in East Asia, and two each in the former Soviet Union and Latin America. Only one mineral-rich country is in the Middle East.

The run-up in prices of certain natural resource commodities in recent years, particularly

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oil, has provided a substantial boost to growth rates (and government revenues) in resource-rich states. Indeed, between 2000 and 2005, median per capita incomes in oil-rich and mineral-rich countries expanded by 17.5 per cent and 15.2 per cent, respectively. This compares to the global average of 5.8 per cent. When broken down by regime type, little variation in these growth rates is observed among oil-rich countries. Among mineral-rich countries, however, mixed regimes and democracies realised distinctly higher rates of growth during this five-year period – over 16 per cent compared to the median rate for autocracies – 5.7 per cent.

Growth figures in all natural resource-rich countries need to be interpreted with caution, however. The stimulus for the growth typically comes from externally driven factors (that is, demand for resource commodities) rather than from improvements in productive capacity. Growth in resource-rich countries is also much more subject to volatility. In fact, a standard measure of volatility, the coefficient of variation, shows that resource-rich countries experience 60 per cent greater volatility in their growth than the global norm. Growth volatility in resource-rich mixed regimes and democracies more closely resembles the global average, experiencing half the levels of volatility that is seen in resource-rich autocracies. (This also helps to explain the governance-based growth differences among mineral-rich countries). Notably, greater volatility is a characteristic of autocratic growth regardless of resource wealth. As an illustration of this, between 1996–2005 autocracies were more than twice as likely to experience an annual contraction in GDP of more than 5 per cent as were democracies. These are non-trivial differences for people already living at the margin in these societies.

Another important difference between governance types is how growth is translated into improved living conditions. For example, despite the rapid income growth of recent years, improvements in infant mortality rates among resource-rich countries between 2000 and 2005 have lagged behind the global norm. Hydrocarbon- and mineral-rich countries saw median levels of infant deaths drop by 8.4 per cent and 3.4 per cent, respectively, during this five-year period. The global norm was 11.9 per cent. (These patterns are consistent controlling for income). Again, however, there are significant differences in rates of progress seen between governance types. Among hydrocarbon-rich countries, autocracies saw levels of infant mortality rates drop by 4.2 per cent. Mixed regimes and democracies were apparently able to do more with their resource booms, showing median improvements of 15.3 per cent and 18 per cent, respectively. Similar, though more modest differences are observed among mineral-rich countries. Between 2000 and 2005 autocracies experienced a median decline in infant deaths of 2.3 per cent compared to a decline in infant deaths of 5.7 per cent and 13.6 per cent for mixed regimes and democracies, respectively. This was the case even though resource-rich autocracies were starting from a higher level of infant deaths, making marginal gains relatively easier. For example, the median infant mortality rate in hydrocarbon-rich autocracies in 2005 was 44 per 1,000 live births, compared to 19 per 1,000 live births in democracies.

Improvements in cereal yields provide another illustration of changes in levels of well-being linked to governance. This is all the more important in that the rural sector represents 70 per cent of employment in most developing societies, where the natural resource curse is most pernicious. Globally, cereal yields improved by 4.9 per cent on average from 2000 to 2005. This exceeded the median rate of improvements seen in hydrocarbon-rich autocracies (2.0 per cent) and mineral-rich autocracies (3.1 per cent). In comparison, mixed regimes and democracies in hydrocarbon-rich countries saw cereal productivity improve by upwards of 12 per cent. In mineral-rich democracies and mixed regimes the median rate was 13.5 per cent. In short, the deficiency in development performance of resource-rich countries is most closely linked to those that are autocratically governed. Similar divergences by governance type show up on other measures of well-being, such as healthcare spending, life expectancy and educational attainment.

The below par development performance of resource-rich autocracies coincides with their regularly inferior corruption ratings. The global median score on Transparency International's annual corruption perceptions index in 2007 was 3.2 (out of 10). The median for hydrocarbon-rich

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autocracies was 2.6 and for mineral-rich autocracies 2.2. In comparison scores for democracies in both resource categories were 3.5.

Resource-rich autocracies are also more conflict prone. Of the 22 internal conflicts taking place in 2005, eight (35 per cent) were in natural resource-rich countries (seven of these eight were hydrocarbon rich). Fuel exports as a share of GDP a statistically significant in predicting civil conflict since 1995, controlling for income and other factors. Consequently, the probability of hydrocarbon-rich countries experiencing civil conflict is double the norm. Unsurprisingly, then, hydrocarbon countries are often the locus of humanitarian crises. Five of the top 10 countries generating internally displaced people are hydrocarbon-rich autocracies. If autocratically governed mineral-rich countries were added, the total would be seven of these top 10 countries. Similar patterns are observed for refugee outflows. The destabilising effects of the natural resource curse, in short, are not confined within the borders where the instability originates.

These comparisons indicate that governance type is a defining feature in determining whether resource riches are curses or blessings. Yet, while resource-rich autocracies are more prone to the resource curse, it should be recognised that this is a two-way effect. Bountiful natural resource holdings have a corrosive effect on political institutions. In fact, fuel exports as a share of GDP are a statistically significant negative predictor of democracy, controlling for income. Similarly, a rapid rise in natural resource revenues in young democratisers can cause a weakening of their nascent accountability structures. Therefore, while the prospects of avoiding the curse of resource wealth are far greater if a country has already established democratic institutions prior to the inflow of resource-generated revenues, this is not a guarantee of immunity.

To summarise, there is a strong political economy aspect to the resource curse. Benefits from these resources generally flow to a relative few. While booming commodity prices expand GDP, these proceeds are not reinvested in productive capacity, especially in resource-rich autocracies. Instead resource booms are typically accompanied by the flight of capital (as beneficiaries transfer their assets abroad for safe keeping). As a result inequality grows and development lags. Those benefiting under the exclusive arrangement vigorously resist efforts that would reduce the rents they are capturing. While most people would gain by a more equitable revenue-sharing arrangement, the costs of informing, organising and mobilising them, particularly in repressive environments, are prohibitive.

The upshot is that the reasonable assumption that natural resource wealth is automatically a boon for development is unfounded. This conclusion is counter-intuitive. Who, after all, would want to shun the billions of dollars in additional revenues these resources typically represent? Surely these resources must have some positive social benefit. Experience shows, however, this is the exception rather than the rule. It is much more frequent to observe lagging development among resource-rich autocracies.

Looking at the positive, resource wealth need not condemn a society to poverty and instability. Resource-rich democracies and democratisers have done a relatively better job of transforming these riches into sustained development gains while avoiding the scourges of the resource curse. Norway, Botswana, Ghana, Chile, Mexico, South Africa, Namibia and Trinidad and Tobago are among the handful of resource-rich countries that have benefited developmentally from their resource endowments. Recognising this reality provides a valuable starting point for any strategy aiming to redress the natural resource curse: the transparency, accountability and policy inclusiveness needed to overcome the oil curse are much more likely under democratic political systems.

Recommendations: reshaping the legal landscape

The natural resource curse is fundamentally about unfairness. A privileged minority benefits extravagantly from their insider status at the expense of the majority. This inequity persists because those in power are able to take advantage of a lack of public scrutiny to conceal from the public the degree to which they are profiting from these national endowments.

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Control of these revenues, in turn, funds the capacity of autocratic governments to suppress resistance. The incentives that autocratic political leaders face to stay in power, meanwhile, reinforce the pattern of using these revenues for patronage. A political monopoly facilitates an economic monopoly and vice versa. Checks and balances, already weak, are further emasculated by this concentration of power, facilitating ever greater abuses of authority.

At its root, then, the natural resource curse is a classic challenge to collective action propelled by unaccountable governance. Accordingly, remedial action entails both reshaping the incentives these political leaders face as well as informing and mobilising the disadvantaged majority so that they can assert their claims for a more equitable distribution of these resources.

A starting point is establishing a broad-based international legal framework that criminalises the diversion of natural resource revenues. The United Nations Convention against Corruption (UNCAC) lays the foundation for such a framework. Since December 2005 the Convention has obliged ratifying countries to help trace, freeze and confiscate the proceeds of corruption, as well as help in the repatriation of the stolen assets. Complementing this Convention, a joint UN–World Bank programme, the Stolen Asset Recovery initiative, was launched in 2007 to help build global partnerships, strengthen national institutional capacity and provide technical assistance to facilitate the recovery of stolen assets. Such an international commitment is required since industrialised countries with large financial centres have historically been the main havens for diverted assets. As of December 2008, 140 countries have signed the Convention and 129 have ratified it into law. However, of the G8 countries Germany, Italy and Japan have not yet ratified the Convention, and neither have the major financial centres of Liechtenstein, Singapore and Switzerland.

A top priority in remedying the natural resource curse is to expand the number of countries that have ratified this emerging global legal framework – thereby limiting the havens for ill-gotten natural resource revenue diversions. This international legal framework could be further strengthened if citizens of countries subject to asset diversions were recognised as aggrieved parties and incorporated into the UNCAC process. Currently, only states are party to the Convention – and this is the basis of cooperation for asset recovery. While this arrangement works when a new reformist government is attempting to recover assets stolen by a previous regime, it does not permit action in countries where leaders of a corrupt government remain in power and are actively diverting natural resource wealth.

Complementing the initiative to criminalise natural resource diversions should be an effort to establish the normative principle that natural resource revenues belong to all citizens of the endowed country. Since this is a public resource the general population has a right to know the financial details of any revenues such as royalties, fees and exploration licenses generated from these resources. Access to this information, in turn, will facilitate a public dialogue on the appropriate uses and oversight of these resources. The Extractive Industry Transparency Initiative (EITI) established in 2002 has taken important steps in this direction with its lists of principles and criteria upholding the view that revenues generated from natural resource wealth should contribute to development and poverty alleviation. Since then over 20 resource-rich developing countries have signed the EITI, though they have made varied levels of progress toward publishing revenue and payments data.

Other stakeholders in EITI include donors, international financial institutions such as the World Bank and the IMF, private sector extractive firms, investors and civil society organisations. Accordingly, the EITI has emerged as the central global forum for addressing natural resource transparency concerns. However, this is a voluntary protocol. Enshrining the principle of citizen ownership of natural resource revenues in legally binding conventions such as UNCAC and in national legislation would go further in establishing this as a legal tenet with penalties for non-compliance. It would also oblige greater support from all member states as well as financial institutions.

Other strategies for remedying the resource curse focus on improving the tools by which the voice of the majority and the accountability of the leadership can be strengthened. This will necessarily entail targeting issues such as trans-

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parency, freedom of speech, an independent media, shared power, civil society advocacy, political competition and the responsibility of government to serve all citizens. Accordingly, the scope for undertaking these reforms will differ markedly depending on the type of political system currently in place. Countries on a democratic path have already accepted the principle of checks and balances. That is, they have a political framework in place amenable to corrective action. Reforms in resource-rich autocracies, on the other hand, must be aimed, at least initially, at the more fundamental challenge of establishing the political space in which citizens can begin to make demands for transparency and the oversight of their government.

Democratisers

Resource-rich countries that are already engaged on the road to democratic reform (such as Nigeria, Indonesia and Zambia) represent a vital opportunity to break the resource curse. Accordingly, these countries merit energetic international support so that they can reset their institutional incentives away from the unaccountable norms they have inherited. Leaders in these democratising states have already made the hard decisions by accepting the principles of political competition, popular participation and the oversight of public officials. Entrenched patterns of self-serving behaviour die hard, however. There are many powerful impulses and counter-pressures for officials in these governments to revert to established practices.

The governance trajectories of these resource-rich democratisers, therefore, are uncertain. For this reason this transition period is a pivotal, though finite, window of opportunity. Domestic and international reformers can contribute to a positive outcome by maintaining high expectations for full revenue and budget transparency, while helping to strengthen what are still weak democratic checks and balances. They should also be persistent, since long-established norms will not change overnight. To illustrate, contemporary democratisers Nigeria, Indonesia, and Zambia have averaged 28 years of autocratic rule since 1960.

Natural resource-rich countries that are just emerging from conflict such as Liberia, Sierra Leone, the Democratic Republic of Congo and south Sudan present another time-sensitive window of opportunity to establish incentives for accountability. Establishing a transparent revenue-sharing formula with multiple layers of checks and balances early on in the post-conflict process should be a top priority and, arguably, a condition for international funding. At the least such a framework should be in place before these revenues start to flow to a new government. To be sure, institution-building in the turbulence of a post-conflict environment is very difficult. Nonetheless, a context without dominant autocratic actors – and one possibly with reformist elements – constitutes an opening for change that may not exist once the political die has cast.

In some cases conflict has been so devastating or prolonged that new institutions will effectively have to be created. While it is a daunting undertaking, this challenge has certain advantages for introducing international best practices on a clean institutional slate. Capacity deficiencies and still nascent democratic instincts among government officials of these new states oblige adopting practical implementation strategies that can be managed and sustained by the young governments. Coupled with the strong personal temptation for leaders of these new authorities to take the path of self-enrichment, close international engagement at each stage of this process will be required. Sovereignty claims are likely to be invoked by some government leaders who will chafe at the transparency and oversight mechanisms that emerge from this process and who have a self-interest in maintaining some opaqueness around these revenue flows. This argument must be addressed head on. Sovereignty is indeed a priority – but it is the sovereignty of the citizens that should be upheld.

In line with treating natural resources as a public resource, the norm that all natural resource contracts must be ratified by democratic legislatures should be instituted. The full disclosure of the financial and in-kind conditions of the contract would provide an invaluable starting point for citizen supervision and tracking the ways in which the flows of revenues are being used. In many resource-rich countries, these revenues are "off the books" altogether. Requiring a parliamentary sign-off on all natural resource contracts would introduce an initial layer of checks and balances and move away from the

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current norm of contracts being negotiated on opaque terms solely with the executive branch. This stipulation would also formally interject citizen interests over these national resources, if only symbolically in some cases, into the decision-making process with the aim of making this part of an ongoing national dialogue.

International actors should complement their transparency-raising and accountability-strengthening initiatives in resource-rich democratisers with development support. Since the extractive sector generates relatively few jobs, a key priority would be to foster economic diversification. Development initiatives that stimulate more employment would help balance some of the inequities that fuel the social instability so common in resource-rich societies. It will also help to reduce the country's vulnerability to the distortions, volatility and political monopolisation that plague single resource-dominated economies.

This carrot of development investment should be contingent on resource-rich governments agreeing to EITI transparency standards towards royalties and other revenues generated from their natural resource sectors. As part of this commitment to transparency, all political leaders in democratising natural resource-rich societies should establish and maintain the precedent of fully disclosing the source of their personal finances on an annual basis. Governments that are unwilling to comply with these basic transparency standards should be deemed ineligible for new development aid.

A complementary standards-raising strategy to the EITI protocols would be to mandate the IMF to conduct bi-annual "report cards" of all natural resource-rich countries. The IMF has developed a 73-page guide on resource revenue transparency that lays out the best practices for ensuring natural resource revenues are accounted for and allocated in a transparent manner that enhances economic performance (IMF 2007). Countries would be rated on how well they adhered to these practices. This technical review would then serve as a template for dialogue and reform between the government, internal watchdog groups and international actors. It would also be a means by which comparisons between countries could be made and relative progress assessed.

Other development investments that should be a priority for international actors include building the capacity of civil society watchdog organisations in the accounting and budget analysis sectors so that they can engage in effective oversight of the revenues generated from natural resources. This would include skills development in forensic accounting in order to investigate fiscal and budgetary inconsistencies. Along these lines, specialised media training should be promoted so that investigative journalists can gain an understanding of the financial management of the extractive sector and its link to government revenues. This capacity building would contribute to empowering key representatives of the excluded majority with information and analyses that would facilitate their mobilisation and, ultimately, a fairer distribution of natural resource revenues.

Certain economically motivated reforms such as reducing government subsidies of the hydrocarbon sector (which keep fuel prices artificially low and introduce distortions in other parts of the economy) and cutting back the often massive, centrally managed line ministries that control large parts of the government budget will also have clear governance benefits by reducing key opportunities for corruption and patronage that sustain the resource curse.

A common point of tension in resource-rich democratisers is the extent to which these resources should be considered a national versus a local endowment. There are valid arguments to be made on both sides of this debate. However, seen from the perspective of the state-building enterprise in which many resource-rich countries are engaged, there are compelling reasons to treat these as national revenues with provisions for certain local taxes, royalties and defined infrastructural improvements. This approach removes a combustible source of friction between jurisdictions while creating incentives for stronger ties between regions and national unity more generally. Allocating these revenues at the national level also offers the flexibility to forge the necessary compromises between competing interests as part of the social compacts on which democracies rely. Similarly, it increases the potential contributions of resources to greater geographical and group equity rather than amplifying disparities. To reiterate, the national collection and allocation of natural resource revenues will work only if the national government is subject to democratic checks and

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balances and the transparency in reporting and civil society supervision this entails. Otherwise, national level consolidation of these resources is highly susceptible to the logic of exclusion underlying the resource curse.

A complementary dimension of this resource-sharing dialogue is to require all resource extraction contracts to specify development investments that would be made in regions where the resource extraction is occurring. This will help to mitigate the perceived lack of tangible social and economic benefits and sense of exploitation among citizens in these regions that breed the resentment and the instability so often seen. Given that the private extractive sector typically generates relatively few local jobs, developmental benefits to the local jurisdiction from these extraction activities cannot simply be assumed. The development elements in these contracts would also be subject to parliamentary debates and approval.

Another means by which international actors can strengthen incentives for natural resource transparency is to make membership in elective international bodies espousing principles of good governance such as the EU, the New Partnership for African Development (NEPAD), the Commonwealth and the Community of Democracies, among others, contingent on adherence to international transparency norms. Similarly, this should be an explicit criterion for eligibility to the US Millennium Challenge Account, which deems that qualifying countries are ruling justly and democratically, fostering economic rights and investing in their citizens. The eligibility requirements to these bodies have already been shown to stimulate reform among countries seeking this legitimation.

Autocracies

Reshaping the incentives of oil-rich autocracies also entails a series of sticks and carrots. While it is commonly assumed that resource-rich autocracies are immune from outside pressures, this is a fallacy, especially in an increasingly globalised world. Most leaders, regardless of how insulated they may seem, care about their international reputations. These leaders want to be seen as meeting minimally accepted norms of legitimacy, human rights and respect for the rule of law. Challenging resource-rich autocracies to meet international standards in these areas, therefore, is an initial point of dialogue for reform. Governments falling below these norms, meanwhile, must increasingly answer to international public opinion – and assume the direct economic effects this entails.

Comparative indices that score every country in the world on their provision of these rights and measures of well-being provide an independent basis for identifying those governments with substandard records. Advocacy groups can take these ratings and shine the spotlight of global attention on those with deficiencies. Officials from organisations that conduct or use such surveys in the allocation of resources – such as Freedom House, the World Bank, the Millennium Challenge Corporation, Transparency International, and Global Integrity – report that such rankings matter. These groups are regularly approached by autocratic governments on how to improve their scores. While their goal may not be to become an open, democratic society, these governments want to avoid being scored at the bottom of any governance measuring programme, considering the negative reputational effects this would generate. In short, comparative rankings – and the unwanted attention this may bring – can be a meaningful incentive for expanding space for citizen supervision. In the process they can help redress some of the information and public mobilisation constraints that allow the inequities of the natural resource curse to persist.

Another point of intervention is for international development organisations to come to terms with the counter-intuitive reality that the massive revenue flows generated by natural resources in countries with autocratic governments do not typically lead to widespread improvements in levels of well-being. Accordingly, international financial institutions, especially the World Bank and regional development banks, should stop lending autocracies money for resource extraction.

This "do no harm" lending philosophy would help these organisations avoid inadvertently entrenching the dysfunctionality at play in most resource-rich autocracies. Resources controlled by governments without checks and balances are far more likely to reinforce the existing inequitable power structure than to

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advance development. Compelling economic arguments of the need to take advantage of a nation's natural comparative advantage are simply trumped by the political economy dynamics that dominate these societies. In some cases private capital may step in with additional resources to fill the gap. But these firms know they face a risk premium for their investments, which is a primary reason why the resource-rich state seeks international public sector support in the first place.

Furthermore, officials in resource rich autocracies often rely on international banks to safeguard and manage the revenues they are siphoning off. This is because the economic and financial volatility typical of autocratically governed economies means that domestically held assets are inherently vulnerable. This augments the leverage that UNCAC can bring to bear on these governments. Accordingly, foreign governments should come under greater scrutiny to freeze the assets of political leaders and their families in natural resource-rich countries that were generated from these resources. The recent willingness of Swiss banks, long-renowned financial safe havens, to cooperate in the exposure and seizure of ill-gotten wealth is a hopeful development in this regard. These efforts can be further accentuated by simultaneously ensuring additional funding support for non-governmental oganisations and OECD government ministries tasked with tracing these assets.

Development investment in resource-rich autocracies should be held out as a carrot for reforms. However, as with democratisers, this should be strictly contingent on autocratic governments meeting minimum standards of transparency on the reporting of resource revenue. Otherwise, international development agencies risk perpetually absorbing the costs of autocratic governments' anti-developmental policies. Funding civil society actors, strengthening the capacity of watchdog groups and facilitating information access and exchange would remain a priority in any case.

Similarly, opportunities for expanding trade and private sector investment should be held out as tangible incentives to resource-rich autocracies for opening up to reform. OECD governments can encourage or discourage such investment by signalling to capital markets and political risk-rating agencies when genuine steps toward more accountable governance and the rule of law are being made. OECD governments could further encourage such investment by engaging in public–private partnerships reducing some of the risk faced by private investors. The investment pursued in these contexts would be aimed at the non-extractive sector – with the intention of contributing to economic diversification, job creation and strengthening the private sector.

Private sector

The private extractive sector also has an important role to play in remedying the natural resource curse. In an era of globalised communications extractive sector firms are increasingly under the glare of international public opinion for their perceived role in contributing to the underdevelopment, corruption, human rights abuses and instability associated with resource extraction. They more and more frequently feel the brunt of resentment from restive local populations who blame them for their enduring poverty. Recognising the potential effects these perceptions will have on their bottom line, a number of large extractive sector firms have welcomed the efforts by EITI and others to establish international standards of conduct. However, any firm that attempts to apply minimum transparency, human rights, labour, environmental, health or development standards on its own places itself at a competitive disadvantage. Firms with fewer qualms working in such contexts (and typically based in more insulated environments) are quick to step in. Consequently, there is a lowest common denominator effect where, if even only a few extractive firms are unwilling to adhere to minimum standards, the dynamics of the natural resource curse are reinforced.

In consultation with extractive sector firms, accordingly, the EITI and the IMF through its revenue transparency report cards should also rate countries on how strenuously they apply labour, environmental and health standards for extractive operations. Such standards, in turn, would be written into all future natural resource contracts negotiated between governments and extractive firms. The aim of setting these standards would be to minimise the scope for less socially responsible firms to gain a competitive

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advantage at the expense of the health and well-being of local people. In the process, standards for extractive operations globally would be raised. Establishing such standards would also provide extractive firms with greater clarity about the operating environment in which they are competing, while reducing the risk to their investment from social and political instability.

Making all such contingencies of a natural resource extraction contract public would put pressure on national governments to make deals only with firms that maintain strong records of social responsibility. Engaging locally affected populations in the decision-making process would also garner greater support for the project. Along the same lines, locally elected community leaders should have a seat at the negotiating table when extractive agreements are being crafted. This would institute a channel of two-way communication early on in the relationship between an extractive firm and society. Obtaining the endorsement of local leaders, in turn, would be in the financial, public relations, and social stability interests of both the private extractive firm and the national government.

These contracts would also stipulate specific development initiatives that private investors would sponsor in the district(s) where the extractive activity would take place. In the process a local community supervisory committee would be established to meet regularly with the extractive firm to ascertain progress and proactively discuss problems. Annual reviews of the performance of the extractive firm with local leaders and communities as well as national stakeholders would be required. This would introduce greater local accountability into these agreements and provide a specific, transparent forum where adherence to the health, environmental and labour standards can be reviewed and grievances proactively aired. It would also provide a discrete platform to assess whether the development strategies outlined in the contract have contributed to economic and social progress in the targeted district(s) over time. Moreover, it would provide a series of meaningful opportunities for private firms to enter into dialogue with local people, ensuring they are aware of the developmental benefits these investments have made while clarifying any points of misinformation. These standards and procedures are aimed not at making the extractive process more onerous for socially responsible firms but to expose and pressure those who are undercutting the reforms aimed at reining in the damaging effects of the natural resource curse.

Adopting a baseline code of conduct in the international extractive sector will require enforcement mechanisms and penalties for non-compliance if these standards are to be meaningful. In other words, if the goal is to reverse the "race to the bottom" dynamic current in place, firms that undercut global norms need to be penalised. This is especially relevant, given that the costs to the public interest are so high. Penalties would differentiate between firms that were actively subverting these transparency protocols and those that were participating, but had fallen short on certain measures.

The non-complying transgressors would be subject to a name and shame campaign. Drawing on EITI and IMF reports, non-governmental organisation watchdog groups like Global Witness, Revenue Watch and the Publish What You Pay coalition could publish a monthly bulletin of the major firms and financial sponsors that are skirting transparency, health, environmental, labour, or developmental standards. Meanwhile, firms scoring in the bottom 10 per cent of the IMF revenue transparency rankings for more than two years running would be barred from competing for contracts and raising assets from capital markets in EITI signatory countries. The United Nations Office on Drugs and Crime (UNODC), which is the lead agency responsible for implementing UNCAC would issue démarches to the UN ambassadors of state-owned or state-financed firms that were involved in these undermining actions. These censures would be widely publicised to draw international attention to companies that are effectively sponsoring the corrupt, counter-developmental and destabilising rule of resource-cursed states. Firms that are playing by the established rules, conversely, would derive reputational benefits by scoring on the positive end of these monitoring ledgers.

Firms that sign up to the EITI standards, though not meeting some of the health, environmental, labour or developmental goals as determined via their annual reviews, would be required to submit their plans for remedial action to local and national stakeholders. Persistent shortfalls would be referred first to

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national political leaders and then to the EITI and UNODC secretariats.

Conclusion

The natural resource curse is a global curse. The instability, corruption, confrontational governance and poverty it fosters are at the heart of regional and international development and security challenges. Resource-cursed states, non-coincidentally, are also overwhelmingly autocratic. Political monopolisation fosters economic monopolisation. The easily consolidated nature of hydrocarbon extraction makes petroleum-rich states particularly susceptible and resistant to the transparency, accountability and supervision that are needed to ensure the revenues generated benefit most people. At its heart, then, the natural resource curse is a problem of political governance. Curbing this accordingly, is linked to advancing accountable, democratic institutions.

The natural resource curse is also about unfairness – a few, politically well-connected people can profit at the expense of the many. Remedies, therefore, must focus on raising the costs to rent-seekers while empowering the majority. Prospects for doing so are greatly facilitated in societies that have already taken the first steps towards democratic systems of governance. They should, therefore, receive maximum support from the international community lest leaders in these democratisers slip back into the powerful gravitational pull of self-interest before natural resource reporting norms and institutional checks and balances can gain traction. While the challenges to reform in resource-rich autocracies are more difficult, reputational and investment interests in these governments – connected as they are to the global economy – still provide considerable leverage to help shape incentives toward a more productive use of these resources.

Notes

1. Countries are considered hydrocarbon-rich or mineral-rich if their (a) average share of hydrocarbon or mineral fiscal revenues exceeds 25 per cent of total fiscal revenue during the period 2000–2005 or (b) the average share of hydrocarbon or mineral export proceeds was greater than 25 per cent during this period (IMF 2007). Hydrocarbons include coal, crude oil and natural gas. Minerals include tin, gold, lead, zinc, iron, copper, nickel, silver, bauxite and phosphate.

2. Political categorisations are based on annual scores for two independent measures of democracy: the Polity IV governance index issues annual democracy scores for every country with a population over 500,000 based on the establishment of institutions for the selection of their political leaders, opportunities for popular participation in the political process and checks on the chief executive (Gurr *et al.* 1990; Marshall and Jaggers 2000). Freedom House conducts an annual survey of political rights and civil liberties, based on independent analysts' assessments of 25 questions for all countries in the world. This generates a 2–14 composite score. For our purposes, countries scoring in the top third of each scale, respectively, are considered democracies; those in the bottom third are treated as autocracies. Mixed regimes containing certain elements of democratic and autocratic systems, score in the middle tier of these indices. Democratisers are countries that have made and sustained a two-point improvement on the Polity IV democracy scale (a three- point gain on the Freedom House index).

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