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Africa and the New Rentier Effect: Oil, Aid, Regime-Type

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Summary

Rentier state theory grew out of an attempt to understand political development in the oil-rich states of the Middle East. The framework has since been applied to understand the politics of resource-rich countries in Latin America, Asia and Africa, with proponents arguing that rentier states tend to suffer from poor governance because state officials use "unearned income" to avoid institution-building and to suppress calls for democracy. This Policy Brief will discuss whether a framework that grew out of the study of the Middle East can shed light on the relationship between African states and their citizenries.

Introduction

Scholars of European state formation have long underlined the connection between taxation and political development, noting that revenue collection can promote institution-building and accountability[1]. This argument goes back at least to Joseph Schumpeter (1918) who spoke of the "tax state," describing how a country's tax system shapes the relationship between a state and its citizenry[2]. But scholars of the post-colonial world observe that the process of state formation in Europe occurred in a specific context[3]; whereas state-building in the contemporary era occurs in a context where there is an abundance of natural resources and strategic rents at the international level, which rulers can access. Different theoretical tools are therefore required to understand

1. Charles Tilly, Coercion, Capital and European States, A.D. 990-1990 (Cambridge, 1990) Deborah Brautigam, "Introduction: taxation and state-building in developing countries," in Brautigam et al., eds., Taxation and State-Building in Developing Countries: Capacity and Consent, (Cambridge: Cambridge University Press 2008)

2. Joseph A. Schumpeter, [1918] "The Crisis of the Tax State" in Richard Swedberg (ed.) Joseph A. Schumpeter: The Economics and Sociology of Capitalism, pp. 99–140. (Princeton University Press, Princeton and Oxford, 1991)

3. Mick Moore, "Revenues, State Formation, and the Quality of Governance in Developing Countries," International Political Science Review (2004) political development in the non-West[4]. The diffusion of rents at the international level and its effect on state structures would give rise to "rentier state theory," introduced by economist Hussein Madhavy in 1970, to understand the political economy of Iran specifically, but more generally of states that derive a substantial part of their national revenue from the "rent" of local resources to external actors[5]. Giacomo Luciani and Hazem Al Beblawi would elaborate on this thesis adding that rentier states also lack a strong domestic productive sector, and that only a small segment of their labor force is employed in the generation of the rent[6].

Rentier state theory, thus, grew out of an attempt to understand political development in the oil-rich states of the Middle East. The framework has since been applied to understand the politics of resource-rich countries in Latin America, Asia and Africa, with proponents arguing that rentier states tend to suffer from poor governance because state officials use "unearned income" to avoid institution-building and to suppress calls for democracy. This Policy Brief will discuss whether a framework that grew out of the study of the Middle East can shed light on the relationship between African states and their citizenries.

The Resource Curse

Economists have identified different kinds of "rents." Simply put, there are economic rents which are derived from the export of natural resources (such as oil, gas, minerals, diamonds, and timber), and "strategic rents" in the form of payments for development, military spending or a particular foreign policy. The African continent is home to a third of the planet's mineral reserves, a tenth of its oil reserves, and two-thirds of global diamond formation[7]. According to the IMF, [sub-Saharan] Africa's leading oil exporters are Angola, Cameroon, Equatorial Guinea, Gabon and Nigeria (and if North Africa were included, we would add Algeria, Egypt and Libya). The continent's leading mineral-rich states are Botswana (diamonds), the Democratic Republic of Congo (diamonds/copper), Mozambique (aluminum), Namibia (uranium), South Africa (gold and chromium), Tanzania (gold) and Zambia (copper)[8]. For decades, Africa's economic growth has been determined by commodity prices, such that when prices for export crops have been high, growth has expanded; and when prices have dropped, growth rates have plummeted.

In the study of African politics, the rentier effect has often been known as the "resource course," the argument being that a state with an abundance of natural resources tends to govern in undemocratic ways, and achieve less growth than those lacking resources. Oil wealth in particular is said to bolster authoritarianism in three ways. First, there is the "taxation effect," whereby oil-rich governments tax at low rates such that populations are less likely to demand accountability or representation. Second, there is the "spending effect" where these states spend more on patronage to dampen pressures for democracy, as well as on the military apparatus and internal security, thus stifling any demands for participation. Finally, oil wealth is said to hinder not only the evolution of state institutions, but also "group formation," where state largesse inhibits the formation of social classes and civil society groups that could push for liberalization[9].

One of the most thorough applications of the rentier state paradigm in Africa has been by scholars Wantchekon and Jensen, who, in their study "Resource Wealth and Political Regimes in Africa," assess the efforts of African states to consolidate democracy since 1975[10]. The authors show that over the last 40 years, resource-dependent African states (Algeria, Cameroon, DRC, Gabon, Libya, and Nigeria) have struggled to consolidate democratic rule; and, aside from South Africa, the only successful transitions to democracy have occurred in the resource-poor states of Benin, Mali, Senegal, and Madagascar. The authors submit that executive discretion over the distribution of resources leads simultaneously to higher levels of government spending and poor governance – in accordance with rentier state theory.

4. See Thomas Richter and Christian Steiner's study of Egypt for different categories of rents, "Politics, economics and tourism development in Egypt: Insights into the sectoral transformation of a neo-patrimonial rentier state," Third World Quarterly (2008)

5. Hossein Mahdavy, "The Pattern and Problems of Economic Development in Rentier States: The Case of Iran," in Cook, M. A. (ed.) Studies in the Economic History of the Middle East: from the Rise of Islam to the Present Day (London: Oxford University Press 1970)

6. Hazem Beblawi, "The Rentier State in the Arab World," in Hazem Beblawi and Giacomo Luciani, The Rentier State in the Arab World (London: Croom Helm 1987)

7. "The twilight of the resource curse? Africa's growth is being powered by things other than commodities," The Economist January 15, 2015

8. IMF's Regional Economic Outlook , Sub-Saharan Africa: Time for a Policy Reset (April 2016)

9. Michael L. Ross, "Does Oil Hinder Democracy?" World Politics (April 2001)

10. Leonard Wantchekon and Nathan Jensen, "Resource Wealth and Political Regimes in Africa," Comparative Political Studies (September 2004) See also John C. Anyanwu and Andrew Erhijakpor, "Does Oil Wealth Affect Democracy in Africa?" African Development Review (2014)

Another strand of rentier state theory in African Studies looks at the correlation between oil abundance and armed conflict. As Michael Ross has argued, natural resources play a "key role in triggering, prolonging and financing conflicts" – with oil wealth making it "easier for insurgents to fund their rebellions, and aggravate ethnic grievances."[11] Speaking of the Angolan civil war, another scholar observes that "abundant and secure oil rent allowed the MPLA party to wage a long and violent civil war against the National Union for the Total Independence of Angola (UNITA) since the 1970s."[12] A more nuanced version of this thesis, however, challenges this resource-conflict "determinism" noting the importance of wealth per capita in the correlations between oil and conflict: emphasizing that a high wealth per capita oil state like Saudi Arabia has been able to increase spending and avoid civil conflict, while a lower-wealth per capita oil state like Nigeria is facing an ongoing insurgency in the Niger Delta.

As analyst Cyril Obu has observed, there are several resource-rich states that have "escaped" the resource curse – among them Canada, Chile, Norway and on the African continent, Botswana. Whether they have escaped by dint of inherited institutions (because of "inclusionary institutions" as Daron Acemoglu says of Botswana), or because of superior political management, more grounded empirical analyses are needed of the socio-economic conditions and political structures that "can and do mediate the relationship between abundance and developmental outcomes."[13] Franklin Obeng-Odoom has similarly claimed that oil has had a variegated effect on African oil-cities, and is not "monolithically" a blessing or curse; the rentier effect often depends on local institutional configurations. Looking at the twin cities of Sekondi-Takorandi, Ghana's new "oil hub," the author observes that oil has produced "direct and indirect" jobs and sparked a booming real estate market. More ethnographic studies of the impact of oil on urban areas are thus needed.

11. Michael Ross, "Oil, Drugs, and Diamonds: The Varying Roles of Natural Resources in Civil War" in eds., Karen Ballentine and Jake Sherman, The Political Economy of Armed Conflict: Beyond Greed and Grievance (London 2003)

12. Philippe Le Billon, "Angola's Political Economy of War: The Role of Oil and Diamonds, 1975–2000," African Affairs (January 2001)

13. Cyril Obi, "Oil as the "Curse" of Conflict in Africa: Peering Through the Smoke and Mirrors Article," Review of African Political Economy (December 2010)

The case of Botswana (and to a lesser degree Ghana), and the overall positive growth rates across the continent in the last decade, have all raised doubts about the "resource curse" argument, and led economists to reconsider the "big push" thesis of the 1960s that held that natural resources can jump-start economic development[14]. Prominent observers have recently expressed optimism about the developmental possibilities of Africa's natural resources. In 2013, the Swiss-based African Progress Panel (chaired by the late Kofi Anan) declared, in its annual report, that "defying the predictions of those who believe that Africa is gripped by a 'resource curse,' many resource-rich countries have sustained high growth and improved their citizens' daily lives….The Africa Progress Panel is convinced that Africa can better manage its natural resource wealth to improve the lives of the region's people."[15]

"Diversification"

Another reason that the "resource curse" thesis is called into question is because of the diversification of African economies. In December 2011, *The Economist* apologized for its notorious cover of May 2000 wherein it declared Africa "the hopeless continent," and instead spoke of an "Africa rising," describing how the continent was home to the fastest-growing economies in the world. Although the growth has not been equitably distributed, "Afro-pessimism" began to give way to "Afro-optimism."[16] Analysts would note that by the early 2000s, Africa's growth was being driven by products other than commodities; that while the commodity market turmoil in 2008-2009 had caused some currency drops, there were no drastic depreciations (as happened in 1998-1999 when the Nigerian naira lost 80% of its value). This newfound resilience of African currencies was because economic growth was now driven by non-resource sectors. Economic liberalization and institutional reforms have drawn more foreign direct investment (FDI), such that despite global stagnation, investment flows to Africa have increased. Resource-rich African states still get more FDI in absolute terms, but the continent's resource-poor countries now receive more investment when measured in share of GNP. According to the World Bank's annual "Doing Business" report, in 2014, sub-Saharan Africa did

14. "The Big Push Back," The Economist (December 3 2011)

15. "Africa Progress Panel Report 2013: Equity in Extractives," http://africaprogresspanel.org/en/publications/africa-progress-report-2013/

16. Ewout Frankema and Marlous van Waijenburg, "Africa Rising? A Historical Perspective." African Affairs (June 2018)

more to improve commercial-related regulation than any other region in the world, with Rwanda now being ranked as more "business-friendly" than Italy[17].

In terms of diversification, oil is still the main export of Nigeria and Angola (who, respectively, boast the continent's first and second largest oil reserves). Yet, while oil may account for 95% of Nigerian exports, growth of late has come from banking, construction, telecommunications and services (the latter representing 60% of GDP). Likewise, Angola's growth is now coming largely from manufacturing, construction and agriculture. In the same vein, the banking sector has grown rapidly in Zambia, as have construction and transportation in the DRC. Tourism across the continent has increased with foreign visitors doubling in number from 2000 to 2012. These trends would prompt *The Economist* to cautiously predict that, "there is reason to think the 'resource curse' is losing its power."

"Aid-Dependency"

Given the growth rates underway, students of the rentier effect have now shifted their attention to the impact of development aid on Africa. In 1976, economist Peter Bauer argued that foreign aid undermined the process of institutional evolution necessary for economic development, not least a state's capacity to collect revenue[18]. Others distinguish the negative effects of natural resources from that of development aid. Jeff Sachs, who in the mid-1990s was underscoring the "negative relation between natural resource intensity and subsequent growth,"[19] has, in the last decade, been arguing for a "big push" approach to aid, stating that assistance targeted towards infrastructure, technological capacity, legal systems and healthcare can help poor states enter the world market. William Easterly, on the other hand, contends in The Tyranny of Experts (2014), that foreign assistance has had dysfunctional effects, and that development assistance to Africa has bolstered authoritarian rule, and ignoring human rights, emphasized economic openness over political openness[20]. The Sachs-Easterly debate has framed the larger conversation about the impact of aid, and the critics of aid appear to have the upper hand at the moment.

Proponents of aid believe development assistance will not have the negative effects that natural resource rent has had, because the former is more transparent, more targeted and delivered with specific conditionalities. Critics respond that financial assistance to Africa has been linked to technical capacity-building for decades (between 1987-1997, for instance, the World Bank alone funded 70 civil service reform projects in Africa)[21], and yet, aid has still had negative effects. As numerous studies have shown, high levels of aid are associated with poor governance[22]. Aid has distorted incentives in the policymaking process, creating what economists call "soft budget constraints" wherein decisionmakers think budgets are flexible (if not limitless) all leading to fiscal indiscipline. Scholars also note that Africa is chock-full of regimes with strong presidential rule, weak legislatures, feeble civil society organizations, and the streams of unearned revenue accruing to the head of state simply amplify his discretionary power, and hinder the development of institutional checks.

The West's post-2001 support for African autocracies, viewed as allies in the struggle against violent extremism, has also made academic opinion more skeptical about the role of aid[23]. In the volume Aid and Authoritarianism in Africa (2016), the authors observe that aid, first and foremost, reflects donor priorities, and emphasize that 4 out of the 10 most important aid recipients in Africa – Ethiopia, Mozambique, Uganda and Rwanda – are ruled by one-party regimes that restrict participation and clamp down on dissidents. The authors also note how Rwanda and Ethiopia – two regimes lauded for evolving into Africa's "developmental states" – have been becoming more authoritarian, while receiving greater amounts of aid[24]. The case of Rwanda is instructive because it

17. "Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises," The World Bank (October 2013)

18. Peter T. Bauer, Dissent on Development: Studies and Debates in Development Economics, Revised Edition, (Harvard University Press 1976)

19. Jeffrey D. Sachs and Andrew M. Warner, "Natural Resource Abundance and Economic Growth," NBER Working Paper no 5398, National Bureau of Economic Research (December 1995)

20. William Easterly, The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor (Basic Books 2014)

21. Brian Levy & Sahr Kpundeh, "Building State Capacity in Africa: New Approaches, Emerging Lessons," World Bank Publications, The World Bank (2004)

22. Deborah Brautigam and Stephen Knack, 2004, "Foreign Aid, Institutions and Governance in Sub-Saharan Africa," Economic Development and Cultural Change (2004)

23. Tobias Hagmann and. Filip Reyntjens , eds. Aid and authoritarianism in Africa, (London: Zed Books, 2016)

24. Christopher Clapham, "The Ethiopian Developmental State," Third World Quarterly, (Issue 39 2018) pp.1151-1165 belies the argument made by modernization theorists that economic growth will lead to political liberalization. Yet the link between foreign aid and authoritarianism is not so obvious. The case of Benin is often mentioned: a low-income, aid-dependent African state that successfully transitioned to democracy in 1991 but is still heavily dependent on aid and is often described as a "democratic rentier state." Aid has not undermined democracy in Benin, nor has it prevented the emergence of effective taxation instruments[25]. In "The Amplification Effect," a broad survey of aid and regime-type, the authors conclude that foreign aid neither improves nor erodes governance in recipient states, but rather it amplifies existing "political-institutional orientations." In their words, "Aid makes dictatorships more dictatorial and democracies more democratic."[26] As with the "resource curse," the effect of foreign aid is mediated by domestic institutional configurations. Thus, two propositions should be kept in mind: (1) Jeff Sachs' argument that it is economic development that produces institutions and not the other way around, and (2) that as long as only nine out of Africa's 54 states are democratic, foreign aid to the continent will continue to essentially support dictatorial rule.

"Rentier Political Marketplace"

An innovative re-formulation of the rentier state paradigm has come from British anthropologist Alex de Waal who, in The Real Politics of the Horn of Africa (2015), introduces the concept of "rentier political marketplace" to understand new forms of governance emerging on the continent[27]. The argument is that with the end of the Cold War, and the reduction of Western support for African states, rulers have had to find new ways to maintain the top-down cashflow to their regimes' "political budgets." Rents are thus mobilized at the domestic and international level through primary accumulation and extortion. Given the weakness of state institutions and rule of law, the currency of this "political marketplace" is money, violence and continuous bargaining. In this framework, political finance is in the hands of individuals; control over violence is dispersed and contested; political disputes are not resolved by the law, and African states are integrated into the global economic order in a subordinate position.

Thus, unlike the story of European state formation, where the state is a "protection racket" negotiating the terms of taxation with elites, governance in Africa's weak rent-reliant states should be more accurately viewed as an "extortion racket," where local elites are bargaining for a share of the state's rents, and resorting to violence when necessary. In this framework, the ruler of the African state is the principal economic actor, with the greatest access to rents deriving from his control of the country's resources, but also from security cooperation and criminal activities. As De Waal writes, "Most members of the political elites of north-east Africa have come to resemble gangsters rather than civic political leaders."

How did this new rentierism come into being? The author details a series of events that undermined state formation in northeast Africa: the economic crisis and the "retreat of the state" in the 1980s, the global arms market, the increasing number of potential patrons in the Middle East and elsewhere, the rise of Islamism, and the new post-9/11 security agenda, have all made rents widely available, thus undermining institutional development. Aspiring political entrepreneurs have access to enormous pools of cash, with foreign aid flows looking increasingly trivial compared to the revenue flowing from oil and mining, counter-terrorism, peacekeeping, etc. Even the African Union, notes the author, has become a player in "the political-commercial logic of the rentier marketplace" by becoming a sub-contractor in the market of providing international security.

25. Giulia Piccolino, "Taxation, Aid Dependency, and Political Representation in Benin," GIGA Working Paper, No. 253 (September 2014)

26. Nabamita Dutta et al, "The Amplification Effect: Foreign Aid's Impact on Political Institutions," Kyklos: International review of Social Sciences (May 2013)

27. Alex de Waal. The Real Politics of the Horn of Africa. Money, War and the Business of Power

Conclusion

In closing, it is worth noting that for all the talk of "rent-seeking" in Africa, and depictions of African leaders as supplicants for assistance and the continent as a place where the West pointlessly pours money, Africa is actually a long-term net creditor. In 2013, a joint report from the African Development Bank and Global Financial Integrity (GFI), an American-based research organization, stated that because of weak tax regimes, Africa lost $597 billion in net resource outflows between 1980 and 2009, largely through tax evasion, corruption and criminal activity. Three African regions – West and Central Africa ($494 billion), North Africa ($415 billion) and southern Africa ($37 billion) accounted for 95 percent of the total illicit financial outflows over three decades[28].

A more recent report by the UK-based Global Justice Now (2017) has buttressed these claims, noting that the total amount of capital that flowed into sub-Saharan Africa in 2015 was $161.6 billion, while the outflow amounted to $202.9 billion. These outflows included debt repayments by African governments and the private sector ($18 billion per year, while aid was coming in at $19.7 billion), multinational corporation profits ($32.4 billion) as well as illegal activities (logging, poaching and so on)[29]. As long as this state of affairs persists – a combination of state fragility and enormous outflows of capital and resources – Africa's relationship to the world economy and external economic actors will be a source of intense debate.

28. "Illicit financial flows have made Africa 'a net creditor to the world," The Guardian (May 28 2013)

29. Ian Taylor African Politics: A Very Short Introduction (Oxford University Press 2018) p.119

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In 2002–2003, Aidi was a consultant for UNDP's Human Development Report. From 2000 to 2003, he was part of Harvard University's Encarta Africana project, and worked as a cultural reporter, covering youth culture and immigration in Harlem and the Bronx, for Africana, The New African and ColorLines. More recently, his work has appeared in *The Atlantic, Foreign Affairs, The New Yorker* and *Salon*. Since 2007, he has been a contributing editor of *Souls: A Critical Journal of Black Culture, Politics and Society*. Aidi is the author most recently of *Rebel Music: Race, Empire and the New Muslim Youth Culture* (Pantheon, 2014), a study of American cultural diplomacy.

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