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THE PARADOX OF PLENTY: THE POLITICAL AND DEVELOPMENTAL IMPLICATIONS OF NATURAL RESOURCES IN SUB-SAHARAN AFRICA

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SUMMARY

- The resource curse in Sub-Saharan Africa and the resultant negative effects it generates on economic growth is dependent on the type of available natural resource(s) in a country. Countries with a narrow range of resources manifest higher levels of corruption compared to counterparts with a diverse set of resources.
- Corruption and economic stagnation are not the inevitable outcome for countries endowed with natural resources, provided they are willing to embrace prudent fiscal policies that target investments in domestic production and services.
- A comprehensive reform of policies and institutions that foster corruption, domestically and internationally, is crucial to promoting economic growth in Sub-Saharan Africa.

CAUSES OF THE NATURAL RESOURCE CURSE

The phenomena of the “paradox of plenty” or the “resource curse” in Sub-Saharan Africa (SSA) is well-known and documented. Both terms refer to the prevalence of slow growth rates despite large natural resource endowments. This paper will examine the underlying causes of the natural resource curse and briefly explore why most SSA countries become embroiled in its costly and negative practices.

The possible causes of the natural resource curse can be categorized into two

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types of factors: economic and institutional. The economic explanation of the negative effects of natural resource dependence on growth is termed the “Dutch disease,” referring to the decline of other tradable sectors resulting from the boom in the natural resources sector (Sandbu, 2005). This surge tends to draw capital and labour away from manufacturing, resulting in the rise of manufacturing costs and reducing export-led growth in the long run (Bulte et al., 2003).

The resource curse is also dependent on the type of natural resources a country is endowed with. Countries with point source resources that are extracted from narrow and select natural resources tend to manifest much higher levels of corruption and stagnant growth rates than countries with less concentrated or diffuse resources, such as agriculture, fisheries and livestock (Kolstad and Soreide, 2009). Countries in SSA with rich endowments in oil, precious metals, diamonds and other minerals are notorious for their bad institutions, bleak growth rates and dismal development outcomes. On the other hand, countries with more diffuse resources tend to exhibit a more inclusive and cooperative environment with less corruption and more stable growth rates.

Nevertheless, the mere existence and availability of natural resources does not necessarily lead to slow growth rates and underdevelopment. If handled prudently, natural resource management can lead to economic growth and social development. While point source resources are finite and generally require less investment in terms of human resources and knowledge development, the windfalls to be gained from them need to be invested in popular initiatives focusing on long-term development and growth. Furthermore, Dutch disease can be effectively avoided by investing in the diversification of domestic production and service industries. This, however, requires prudent fiscal and political management of the revenues earned from natural resources.

GOVERNANCE AND INSTITUTIONAL FACTORS

With the colonial empires’ heavy interest in the natural resources of their colonies, but scant investment in local development and growth initiatives, the wave of independence that swept through Africa between the 1960s and 1970s left the newly autonomous countries with underdeveloped institutions and weak economic and governance structures. The arbitrary

division of societies along ethnic, religious and geographic lines created deeply engrained divisions throughout the continent. Coupled with the communal nature of African cultures, these divisions fuelled widespread societal delineations with the heavy manifestation of favouritism and patrimonialism among fragmented groups.

With some groups better off than others, and with more access to various economic and political resources, social divisions along economic lines created massive divides between the small group of elites and the poverty-stricken remainder of the population. Furthermore, exclusionary politics cemented divides, and created widespread mistrust and abhorrence amongst deprived groups competing for scarce resources. Lack of reinvestment of resource revenues into social development programs underlined this process, diminishing human resource development and the advancement of social capital. As such, the undereducated and starving masses of resource-rich African nations remain preoccupied with competition over scarce resources, such as food, water, basic sanitation, health care and education and focus less on political mobilization, further bolstering the ruling elite's grip on power. With heavy investment in the security sector to ensure loyalty, support is backed by force and the African ruling elite maintains its monopoly through authoritarian-style governance apparatus, favouring ethnic and religious solidarity and kinship, while simultaneously excluding the less-fortunate masses within their nation's boundaries.

Equatorial Guinea, a small country off the West African coast, best exemplifies the lack of reinvestment of resource dividends to benefit the general populace. The country earns over US\$7 billion per year from oil exports, yet 60 percent of its population of just over half a million lives below the absolute poverty line of US\$1 per day (McFerson, 2009). Three out of five households in Equatorial Guinea's major cities have no running water or access to electricity, and the country's lack of a functioning healthcare and education system places it among the lowest ranks on the Human Development Index in relation to its per capita GNP (McFerson, 2009). Meanwhile, the country's ruling elite own most businesses and oil revenues, which are declared a "state secret" and are deposited in a foreign bank account, of which the president is the personal signatory (McFerson, 2009). Similarly, the vastly endowed Democratic Republic of Congo (DRC), rich in many natural resources, such as copper, oil, diamonds, gold, cobalt and

coltan, suffers from severe restrictions of political and civil rights, absence of good governance and rampant corruption, placing the country among the lowest ranks on Transparency International's Corruption Perception Index (McFerson, 2009). Other notorious offenders include Angola, Congo/Brazzaville, Gabon and Nigeria.

Yet, in the middle of such widespread corruption lies Botswana, an international success story with its prudent natural resource management policies, good governance practices and exemplary levels of development and growth, *despite* its abundant diamond and other precious metal and mineral wealth. Botswana exports US\$2 billion a year in diamonds and other minerals, forming over 80 percent of its exports (McFerson, 2009). An electoral democracy with a healthy and well-functioning civil society, the country has enjoyed peaceful democratic succession and active political participation since it gained independence in 1966 (McFerson, 2009). Furthermore, the country is known for its political legitimacy, wide-ranging social services, well-developed infrastructure, and a well-functioning and easily accessible education system. From a political perspective, Botswana is considered one of the highest-rated countries on the continent in terms of governance indicators, such as accountability, transparency, participation, observance of the rule of law and independent judiciary (McFerson, 2009) and is considered the least corrupt country in Africa.

Why is it, then, that despite its abundant natural resources Botswana has fared much better politically, economically and socially than its neighbours throughout SSA? The answer lies in a number of factors. In comparison to other African states, Botswana's success is based on a good institutional legacy and relatively minimal colonial involvement in the region, allowing for the country to adopt foreign institutional structures and mould them into local adaptations that work for the domestic populace. In addition, the country's elite maintained an honest and fair political system, coupled with far-sighted fiscal management of the nation's riches, including building international reserves and investing in vital domestic sectors, such as infrastructure, health and education (Hillbom, 2008). While some challenges remain—such as relatively high income inequality levels between the urban and rural populace—shrewd political and financial management, combined with long-term planning and domestic reinvestment, has allowed the country to flourish.

In light of this, it appears that quality institutions and sensible governance practices form the underlying base for a country to escape the resource curse. Yet with such widespread misuse of political power, patronage and extensive looting of natural resources, how can countries deeply engrossed in the resource curse escape and rise above it?

ECONOMIC GROWTH, POLITICAL MANAGEMENT AND DEVELOPMENT

In the case of countries with abundant natural resources, economic growth in and of itself will not necessarily lead to widespread and sustainable development. In fact, although economic gain from natural resources may lead to higher growth rates in general, the numbers alone can be slightly deceiving, as such growth may contribute to the widening of income gaps and economic inequality amongst the wider population. Where resource revenues are based on narrow point source resources, the industry developed around its extraction and exportation tends to be relatively small, with only low levels of human resource and capacity development required. While the revenues earned from the extractive industries will likely be lucrative, the industry itself will not create a large employment base nor contribute to large-scale national capacity building and knowledge development. Thus, although national revenues may be higher and the individuals employed in extractive industries may earn higher incomes, the relatively small size of this sector does not generally translate to a significant rise in living standards and overall development. Coupled with substantive mismanagement of the revenues earned through rent seeking and patronage, the resource curse will easily manifest itself in this environment.

Close attention must be paid to underlying structural problems. Rent seeking and patronage are considered the main protagonists at the heart of the resources curse, bolstered by weak governance practices and institutions and high levels of economic and social inequality. The absence of political competition and the lack of interest and support for political transitions further reinforce the resource curse. Moreover, rent-seeking firms' interaction with corrupt governments creates a never-ending cycle of resource exploitation with low levels of public accountability.

The alarming prevalence of an international enabling environment, where resource rents are readily deposited in foreign bank accounts and

multinational firms actively participate in the exploitation of foreign natural resources must be given proper attention. A study of capital flight in 30 countries in SSA over the period from 1970 to 1996 estimated the amount to be somewhere around US\$274 billion—an equivalent to 145 percent of the total debt owed by the same countries (Shaxson, 2007). As such, corrupt practices must be viewed on a global scale and international tax havens enabling corruption must also enter the equation to root out the problem.

Thus, the elimination of the resource curse must be tackled through a number of avenues:

- 1** Through the diversification of investment in, and development of, sectors outside the extractive industries, such as the service and manufacturing sectors. This will reduce the dependency on any single sector for a large portion of national revenues, as well as create a more conducive environment for economic growth and social development by offering a more inclusive and diverse labour market, as well as encourage skill development, training and capacity building.
- 2** Through strengthening bureaucratic institutions by reducing the appeal of bribes and kickbacks. This can be achieved through better incentives and compensation, as well as through the intensification of the negative consequences associated with patronage.
- 3** By the reinvestment of natural resource revenues into social development programs, such as education, healthcare and infrastructure projects in order to build a more egalitarian, healthy and well-educated domestic base. This will lead to a larger skilled labour force and better-educated middle class, increasing the demand for domestic products and services, and raising general living standards.
- 4** By good governance practices with far-sighted fiscal and social policies, allowing for the increase of accountability and transparency through healthy political contestation and the emergence of a vibrant civil society. This will increase social capital and will keep corrupt practices at bay through legitimate political, economic and social mechanisms.

5 By addressing international structural elements that enable and contribute to resource rents to be tucked away in foreign safe havens, as well as allow for questionable foreign business practices and investments to play a role in the prevalent problem of corruption. By demanding adherence to international standards and regulations, domestic corruption can be curbed by disallowing capital flight and forcing revenues to remain within domestic boundaries. At the same time, by refusing to provide an enabling environment to such practices, the international community would lead by example in the effort to uproot the widespread international problem of natural resource rents and corruption.

REFORMING POLICIES AND INSTITUTIONS

Overall, a concerted effort is needed in order to tackle the vicious cycle of poverty and inequality underlined by predatory governments, and use the natural endowments of the SSA region in a more egalitarian manner to contribute to stable growth and sustainable development. This, however, cannot be achieved without a comprehensive overhaul of domestic and international policies and institutions, investment in social development programs and the enactment of prudent fiscal management of national revenues—all paving the way for the development of a stable, better educated and more egalitarian generation of new leaders and citizens.

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