

What Can We Learn About the Management
of Natural Resources from the Management of Foreign Aid?

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Abstract: A large body of literature has arisen in economics and political science analyzing the apparent “resource curse”—the tendency of countries with high levels of natural resources to exhibit worse economic and political outcomes. This paper examines the purported causal mechanisms underlying this curse and shows that they all center on the revenue that these resources generate for the government. As such it is not surprising that the most recent literature on the topic has demonstrated that—given a competent government—natural resources have no negative consequences and may actually have positive effects. The important question therefore is, What can be done in countries without effective governments? Policy proposals have centered on (a) taking the revenue out of the hands of the government, or (b) having the government commit to use the funds in certain ways. Neither of these has been particularly successful, which we might have predicted from research on another important non-tax revenue source for developing countries: foreign aid. The parallels of the foreign aid literature with the resource curse literature are reviewed, as are the lessons from the aid literature. It is argued that the best thing to do with natural resources in very poorly governed countries may be to leave them in the ground, a recommendation that has consequences for rich country actions.

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I. Introduction

It is commonplace in the development community to hear laments about how international donors never live up to their promise of giving 0.7 percent of their GNP as foreign aid. If the international community surprised everyone tomorrow and suddenly delivered the annual aid that has been promised since 1970—with all donors giving 0.7 percent of their GNP to poor countries—the massive windfall of perhaps \$100 billion to developing countries would likely be greeted with great fanfare.

What would happen instead if the \$100 billion did not come from aid, but rather from some other source? What would be the difference? This is similar to what has happened in recent years, with record high prices for oil and other natural commodities generating massive revenues for many developing countries. And yet while there is some hope that this windfall of resources will have a beneficial development impact, there is far more emphasis in the international community about how countries can avoid the “curse” that apparently comes along with natural resources (e.g. Overseas Development Institute, 2006). Countries rich in natural resources seem to do worse economically and politically than they otherwise should.

This paper will argue that in fact the differences between these two revenue sources are few. As I will detail, many of the problems that have caused natural resource wealth to be associated with poor political and economic outcomes center on how the revenue from these resources is used. As such, in many cases there should be no particular difference between a country getting its revenue from aid or, for example, oil. There are specific policy implications arising from this approach, which I will outline, and they differ quite a bit from what tends to be recommended with regard to avoiding the resource “curse”.

The next section reviews the literature linking natural resources to poor economic and political outcomes, detailing how the major problems are caused by the revenue these resources generate. It also discusses the policy recommendations made to deal with these problems, and their lack of success. This failure to alleviate the resource curse would not be surprising to those who have researched the effectiveness of foreign aid. As reviewed in the third section, the aid community for decades has experimented with various mechanisms to improve the effectiveness of aid in poorly governed countries—many mechanisms quite similar to those recommended now for natural resources—and found their success limited. As a result, the aid community has in recent years begun to turn to an approach of “selectivity”, attempting to give aid to countries that already have good economic policies and political institutions in place. In the fourth and concluding section, I discuss how this might be applied in the case of natural resources—a very different approach than is being implemented now.

II. The Revenue Curse

The presence of natural resources appears to have negative economic and political consequences. According to many scholars, these resources result in worse economic growth (e.g. Sachs and Warner, 1995) and more authoritarian political regimes (e.g. Ross, 2001). This section examines the causal mechanisms linking the resources to these effects. Most importantly, I demonstrate that each of the underlying causal mechanisms connecting natural resources and these outcomes can be linked to (a) natural resource *revenue* and (b) how governments use that revenue. As I discuss at the end of the section, this indicates that we may be able to learn about how to manage *this* revenue from what we know about how to manage other kinds of revenue. There are three main causes I will review: “Dutch Disease”, revenue volatility, and a broad area I will refer to as “political deterioration”.

One of the most well known effects of the discovery of natural resources is the appreciation of the real exchange rate, leading to a condition often referred to as “Dutch Disease”. This is caused by a rise in the value of natural resource exports, and it generally makes exporting other (non-natural resource) commodities more difficult. With imports now cheaper, it also becomes difficult for domestic producers to compete in the local market. In addition, as local labor and assets are used by the natural resource sector, their prices increase, making them more expensive for producers in other sectors. The result is a privileging of the natural resource and nontradeable sectors, crowding out the traditional exports in an economy (manufacturing and/or agriculture). However, Dutch Disease does not *have* to occur when natural resources are discovered—whether it does depends to a great extent on how the government spends the resulting revenue. As Sachs (2007) has argued, “The real fear of the Dutch Disease, in short, is that the non-oil export sector will be squeezed, thereby squeezing a major source of technological progress in the economy. *But this fear is vastly overblown if the oil proceeds are being properly invested as part of a national development strategy.* If the proceeds from oil are used not for consumption but for public investment, the negative consequences of real exchange rate appreciation can be outweighed” (p. 184, emphasis in original). In other words, a competent government can avoid this aspect of the “resource curse” (also see Van Wijnbergen, 1984).

In addition to Dutch Disease, natural resource exporters also face the problem of volatility in revenue. As Humphreys, et al. (2007b) have discussed, this volatility has several sources, including resource extraction rates that vary over time, governments’ back-loaded contracts with producing companies, world price fluctuations, and pro-cyclical lending that tends to accentuate booms and busts. This volatility creates a problem for fiscal policy: because there are diminishing marginal benefits to public spending, the social gain from spending more in some years does not make up for the social cost of spending less in others. However, like Dutch Disease, this is a problem that can be overcome with a competent government in place—one that can “smooth” spending over a period of time. There are a variety of ways that this can be accomplished, though the most popular option recently has been to set up “natural

resource funds”, which (when they function well) store revenues when natural resources are booming and then augment public spending when revenues diminish.

The final causal mechanism (or set of mechanisms) linking natural resources to a “curse” can broadly be called “political deterioration”. Natural resource rents have been linked to greater corruption and weaker accountability (Leite and Weidmann, 2002) and less democratization (Ross, 2001). Accountability arguments tend to center on the ability of governments with these revenues to avoid taxing their citizens, which is often thought to have played a key role in the development of western representative institutions (Ross, 2004; Tilly, 1990). Similarly, many explanations for the link between natural resources and authoritarian political regimes have focused on revenue (Anderson, 1995; Karl, 1997). These resources simply give political regimes more money with which to pursue their various strategies for staying in power. As Jensen and Wantchekon (2004: 821) state, “The key mechanism linking authoritarian rule and resource dependence, both in democratic transition and democratic consolidation, is an incumbent’s discretion over the distribution of natural resource rents.” However, as with the first two “resource curse” mechanisms, the fact that these political mechanisms revolve around the use of revenue indicates that the effects are likely due to the institutions in place when these revenues arise. For example, building on this logic in recent work (Morrison, 2009), I have shown that these revenues are not “anti-democratic”, or even “pro-democratic”, but simply stabilizing, in the sense that they solidify whatever regime they enter.

In sum, the various negative effects that have been attributed to natural resources are caused by the revenue that these resources generate, and how governments use that revenue. For this reason, it is not surprising that the most recent and important work on the “resource curse” is highlighting the fact that these resources have very different effects depending on the institutional environment in place in a given country. Formal theoretical and cross-national statistical works have begun to confirm what observers of the countries discussed above have seen: in beneficial institutional environments, natural resources have no negative effect and can even have strong positive economic impacts (Boschini, et al., 2007; Hodler, 2006; Mehlum, et al., 2006; Robinson, et al., 2006). These studies indicate that it is only in poor institutional environments that natural resources have negative developmental effects. Similarly, on the political side, scholars have begun to demonstrate that these resources can actually work to stabilize democratic regimes, not just authoritarian ones (Dunning, 2008; Morrison, 2009).

While these arguments are encouraging, in that they dispel the notion that natural resources must be associated with a curse, they also raise a troubling problem: What can be done with these resources when they accrue to countries with poor institutional environments? Several options have been suggested and even implemented. Given that the major problem is how governments use natural resource revenues, one of the central thrusts of policy recommendations has been to lessen government control over how these revenues are used. This has taken one of two forms. The first is to take the resources away from the government or otherwise bypass the government in some way. This has included proposals to privatize state-owned oil companies (Weinthal and Luong, 2006) or distribute oil wealth directly to citizens (Birdsall and Subramanian, 2004). The second

form is to keep the resources in the hands of the government but attempt to change the government's actions in some way. This has included putting the money in natural resource funds (Varangis, et al., 1995), which include some sort of conditions over the way the funds are used and/or overseen.

Where they have been implemented, these policies have not been particularly successful (Davis, et al., 2001; Pegg, 2006). For example, countries where natural resource funds seem to have worked properly are countries that were managing their fiscal situation well to begin with. While disappointing, the lack of effectiveness of these mechanisms should not be surprising. The countries that have succeeded in avoiding the problems discussed above—such as Indonesia, Malaysia, and Botswana—were not successful in managing their resources because they put in place some particular mechanism to insulate themselves. These were countries whose growth trajectories indicate they were doing many things right—managing their natural resources well was just part of their overall economic competence. In addition, while the mechanisms suggested by the policy community with regard to natural resources may be seen as innovative in that community, their lack of success would not seem strange to those who focus on another major revenue source for developing countries: foreign aid. The reasons why, and the implications of the experience with foreign aid, are explored in the next section.

III. The Lessons of Foreign Aid

In addition to highlighting the importance of the institutional environment for determining the effect of natural resources, the fact that the “curse” of these resources is caused by revenue raises an important question: If it is natural resource *revenue* doing the work, why is this revenue different from other kinds of revenue, particularly others that are not generated through taxation? Though one of the first influential analyses of states dependent on oil mentioned similarities between oil rents and other types of externally obtained revenues (Beblawi, 1987), it is only recently that scholars have begun to explore these similarities more in depth.

The principal external revenue with which natural resource revenue has been compared is foreign aid (Bräutigam, 2000; Collier, 2006; Moore, 2001; Morrison, 2007; Svensson, 2000; Therkildsen, 2002). As Collier (2006) notes, “both are ‘sovereign rents’” (p. 1483). And in fact, it is striking to note how similar the literatures on the effects of aid and natural resources are. Scholars have linked aid to exactly the three causal mechanisms discussed above: Dutch Disease (e.g. Smith, 2008; Younger, 1992), variability of aid (e.g. Arellano, et al., 2009), and political deterioration (e.g. Bräutigam and Knack, 2004; Knack, 2001; van de Walle, 2001). And as with recent research on natural resources, several scholars have argued that aid's effect is contingent on the institutional environment in place (e.g. Burnside and Dollar, 2000).

However, despite these apparent similarities, policy recommendations regarding these two revenue sources have moved in almost opposite directions in recent years. As discussed above, the general thrust of the natural resource literature has been to take the

money out of the hands of the government, or at least attempt to change the way the government uses it. In the aid community, by contrast, the movement has been toward ensuring governments have “ownership” over the way they spend the resources, which has implied a move toward giving foreign aid to those countries that already have good institutions and policies in place, as opposed to trying to change the behavior of governments.¹

Why has the foreign aid community moved in this direction? The answer is essentially that for decades donors tried tactics very similar to those that are now being recommended for natural resources—attempting to change governments’ behavior or bypass them completely—and found them to be largely unsuccessful. Donors’ efforts in this regard took one of two forms: policy conditionality or projects. Given the parallels with natural resource policy recommendations, it is useful to review the experience with both of these.²

Policy conditionality—attempting to change a government’s policies in exchange for money—has been one of the more controversial aspects of foreign aid practice over the past few decades. Underlying the ideas of both the practitioners of it (most donors) and its critics (many non-governmental organizations) has been the assumption that these conditionalities actually work—that is, the assumption that governments actually implement the policies required by foreign donors. In fact, while there are certain instances in which these conditions have probably influenced a government to act in a specific way, studies have largely concluded that these conditions have no systematic influence on policy (Alesina and Dollar, 2000; Burnside and Dollar, 2000; Collier, 1997; Easterly, 2005; Morrison, 2009; Mosley, et al., 1995; World Bank, 1992b).

There are two principal reasons why conditionality has not worked in general. The first is on the recipient side—simply put, there are strong political forces in place opposed to the policy conditions. If this were not true, conditionalities would of course usually be unnecessary: the policy would already be in place. Opposition may be in the executive branch or outside it, but either way it is likely to continue even if the policy is instituted at first. As such, policies adopted because of conditionalities are often reversed. This raises the problem on the donor side: donors have strong incentives to continue to disburse funds even if conditionalities are not met. These incentives can be political, such as the need to support a government for strategic reasons; or they can be economic, such as the need to keep domestic private sector actors happy because they receive aid-financed contracts. These incentives can even be bureaucratic, such as the need for aid agencies to disburse all their funds in order to get the same amount of funds the following year. Regardless of their origin, these incentives often mean that aid is disbursed regardless of whether or not conditions are met.

The other donor approach to making aid more effective—bypassing the government and implementing projects instead—has similarly led to disappointing

¹ It should be noted that while much academic and policy-oriented work has emphasized the benefits of this approach, many donors continue to deliver aid in more traditional ways.

² Much of the following draws on Kanbur, et al. (1999).

results.³ Three problems have beset these projects. First, aid that goes to finance projects is largely fungible, in the sense that it simply enables a government to take money it would have spent on that item (for example, a school) and spend it on another item (Feyzioglu, et al., 1998). In this way, while donors may say they are funding a school, their money may simply free up the government to spend its money on other priorities (arms, for example). Second, taking the money out of the hands of the government hinders the building of a capable state, which is a necessity for development if historical experience is any guide. Proliferation of projects funded by dozens of different donors has made it extremely difficult for governments to monitor what is going on in any given sector, and the transaction costs tend to undermine bureaucratic quality (Knack and Rahman, 2007).

Third, and perhaps most important for comparison to natural resource revenues, there is now a fair amount of evidence regarding the inability of projects to succeed in the context of a poor policy environment (Easterly, 2002; World Bank, 1992a). The reason is fairly intuitive. If a donor builds a road, for example, in a country where there is no funding for maintenance from the government, or where the economic policies do not encourage business, the road is likely to be ineffective in spurring economic development.

As Kanbur et al. (1999) have argued, the implication of these various problems besetting aid is that the recipient government needs to be supportive of whatever policy or project is in question, if aid is to be successful. When that support is not in place, it is generally better to give the aid to another country. And when that support is in place, it is best just to give the government the money with no strings attached. While there is still variation in the degree to which donors follow this policy, the recent “Accra Agenda for Action”, the result of an agreement of donors and developing countries at the Third High Level Forum on Aid Effectiveness, declared “Donors agree to use country systems as the first option for aid programmes in support of activities managed by the public sector”.⁴

What are the implications of this literature for natural resources? Essentially the aid literature provides a framework by which to understand the pessimistic prospects for the various policy proposals put forward for avoiding the “resource curse”. For example, consider the proposals to take natural resources out of the hands of the government. Privatization of the resources—one of the ways to do this—has experienced the same type of problems that have plagued project-based aid. In the absence of a good institutional environment—such as a developed legal system, a tax administration to collect revenues, and a corporate governance regulatory structure—privatizing the resources has led to a few people getting very rich and countries as a whole seeing little benefit (Stiglitz, 2007). While some may argue that in the longer term the newly rich will

³ It is worth re-iterating here that this discussion principally focuses on poorly governed countries. In the discussion of these ideas during the African Task Force, several participants associated with donors highlighted that many projects have no intention of “bypassing” the government, and in fact are designed in close cooperation with the government. While these projects may be more successful in the context of a well governed country, the argument here is that they will be far less successful in a poorly governed country.

⁴ See <http://www.oecd.org/dataoecd/58/16/41202012.pdf>.

begin to demand better institutions, there is no particular historical or theoretical reason to expect this (Hoff and Stiglitz, 2005).

Transferring natural resource revenues in lump-sum form to citizens—another way of taking the resources out of the hands of the government—is similarly unlikely to succeed. As Sachs (2007) argues, what poor countries need to develop are infrastructure and primary health and education, services that must be provided by the government. Transferring resources to citizens in the absence of good governance is unlikely to result in any wide-scale development of the country. Such development requires a functioning government.

It should be noted that while much of the discussion here has focused on the economic impacts of these mechanisms for dealing with natural resources, there are also reasons to doubt their ability to improve the political situation in a country. For example, one might expect that taking money out of the hands of an authoritarian regime—by distributing the money to citizens, for example—would help to destabilize the regime. I have shown, however, that even if one assumes that the arrangement works perfectly (e.g. there is no corruption), under a broad set of conditions this type of arrangement will not destabilize the dictatorship (Morrison, 2007). The reason is that this spending will essentially defuse demands for regime change from lower and middle income citizens who would benefit under a democracy.

The foreign aid literature also indicates that the other set of policy mechanisms—aiming to change the way governments use natural resource rents—is also unlikely to be successful. The message of the aid effectiveness literature has been that in the absence of “ownership” on the part of the government—that is, without the government supporting the policies of its own accord (which would make such efforts unnecessary in any case)—any policies put in place on the basis of “conditions” are likely to be reversed. Even if one sets up a natural resource fund to finance social spending, for example, the implication is that eventually this fund will be raided by the government for other purposes (Humphreys and Sandbu, 2007).

Because of the apparent importance of ownership for the effectiveness of aid, one of the principal initiatives of the past decade in the foreign aid community has been to foster this ownership in various ways. Most significantly, the World Bank and International Monetary Fund now require “Poverty Reduction Strategy Papers” (PRSPs), documents outlining the government’s poverty reduction policies that are drawn up in consultation with NGOs, the private sector, and other important actors in society. The Bank and Fund hoped that this “deliberative” approach would lead to sustainable, owned policies that donors could support (World Bank, 2002: 240). However, though there are some social science theories that indicate this may be possible under certain conditions, these conditions are extremely rigorous (for example, complete equality among participants in the deliberation), and it is not surprising that the experience of the PRSP in generating this kind of ownership in practice has been disappointing (Morrison and Singer, 2007).

Perhaps the best (or worst) example of these problems in the case of natural resources has been the most elaborate attempt to shield natural resource revenues from bad governance: the Chad-Cameroon pipeline project overseen by the World Bank. Despite what the what the Bank calls “an unprecedented system of safeguards assuring that the revenues are used to reduce poverty”, there have been major problems of noncompliance with the Bank’s various desires since the project began in 2000 (Pegg, 2006).⁵ Chad’s President Idriss Déby spent \$4.5 million of his country’s \$25 million “signing bonus” on his military. The IMF (2003) found that the government was not allocating sufficient funds to health, education, and other priority sectors. And the group that monitors Chad’s compliance with environmental and social safeguards found that the government was not following the country’s PRSP (International Advisory Group, 2004). In 2005, Déby amended his country’s revenue law to spend more on the military—in direct violation of Bank conditions. While the Bank protested initially, it eventually capitulated. Most recently, in March 2008, Déby used a state of emergency decree to suspend Chad’s compliance with the remaining Bank conditions with regard to poverty spending. Finally, in September 2008, the Bank decided to cancel the project.

In sum, the most elaborate measures designed to date to change the way a government uses its natural resources failed drastically in Chad. The 2005 standoff is particularly indicative of the similarities between this experience and donors’ experience with aid conditionalities. Chad was in the midst of political turmoil and approaching an election. Despite its qualms about Déby, the World Bank and its major shareholders probably preferred him to the alternatives, or to an unstable country (Bank Information Center, 2006). The agreement to resume lending to Chad happened just after a U.S. State Department visit to the country, and just before the national elections. In sum, just as with foreign aid, a variety of conflicting interests have rendered ineffective the attempts to make these resources promote development in a clearly anti-development environment.

IV. Policy Implications

The message of the preceding sections is that the economic and political environment determines the effects of both natural resources and aid. The policy implications for natural resources therefore differ depending on what kind of an environment is present in a given country. For well governed countries, the message is that if one takes the proper precautions—which are now fairly well known (Humphreys, et al., 2007a) and illustrated by the countries discussed above—one need not worry about a “resource curse”. In fact, the evidence seems to indicate that well governed countries should expect to benefit from their natural resources.

The much larger problem is what to do when a country is not well governed. While there is certainly a continuum of countries between “well governed” and “poorly governed”, it is helpful to begin by discussing very poorly governed countries. It makes little sense to make policy recommendations for such governments, for they will not heed

⁵ The quotation is from the World Bank’s website on the Chad-Cameroon pipeline: <http://go.worldbank.org/RQSFYMZPE0> (accessed October 8, 2008).

them. The important policy recommendations are therefore for the international community, whose role in purchasing and helping to develop the resources in these countries is integral to these governments benefiting from them. The message of the literature on aid effectiveness is that the international community should be quite skeptical that policy instruments can prevent natural resources from having negative effects in these countries, both economically and politically. The prospects of changing a government's policies are dim, and the ability of projects to spur development without a beneficial policy environment are similarly poor. But then what can be done with natural resources in these environments? Again, it is useful to consider the aid community's response to this same question.

Following the implications of the research reviewed above, some donors have begun to try to implement the principle of "selectivity", by which they mean that recipient countries should receive more aid if they already have good policies in place. This idea took particular hold of the donor community after work by Craig Burnside and David Dollar at the World Bank showed that aid was more effective in certain policy environments (Burnside and Dollar, 2000; World Bank, 1998). This work has generated a large response, with some scholars confirming their results and others arguing that their results are not robust (Easterly, 2003 provides a good review). However, as writes one of their critics, William Easterly (2007: 645), "whether the Burnside and Dollar results hold (specifically whether aid has a positive effect on growth when policies/institutions are good) is something of a red herring regarding the issue of selectivity. The idea that aid money directed to governments would be more productive if those governments had pro-development policies and institutions is very intuitive."

With this perspective, the answer to the natural resource problem in extremely poorly governed countries seems straightforward, if somewhat difficult to imagine in practice: unless governments have pro-development policies in place, their natural resources should be left in the ground (Stiglitz, 2007). While the international community cannot (short of military intervention) prevent a government from mining its natural resources, it does have leverage in terms of purchasing. Without a market in which to sell the resources, poorly governed countries will not be able to benefit from those resources.

Nevertheless, there are several problems that have arisen with regard to the idea of selectivity in the donor community. One of the first issues with this approach, of course, is deciding which policies and institutions are pro-development. While at one point there was some agreement regarding the policies necessary for economic development, this consensus began to evaporate in late 1990s (Stiglitz, 1998), and now there are reasonable arguments that even looking for such a consensus is misguided (Rodrik, 2007, for example, argues that development strategies should vary quite a bit from country to country). In the foreign aid context, Kanbur et al. (1999) have argued that donors should decide for themselves what kind of policies they want to support. The United States, for example, has done this in the form of its Millennium Challenge Corporation, an agency that doles out part of the U.S. aid budget along criteria meant to reward good policy performance (Radelet, 2003).

The same principle can work for natural resources. In fact, there is an example of the extreme form of this principle. Since 1997, for example, the U.S. has prohibited American energy companies from trading with the Sudanese government. The Executive Order instituting these sanctions cited Sudan's "support for international terrorism, ongoing efforts to destabilize neighboring governments, and the prevalence of human rights violations, including slavery and the denial of religious freedom." Secretary of State Madeleine Albright said the sanctions were intended to "deprive the regime in Khartoum of the financial and material benefits of U.S. trade and investment, including investment in Sudan's petroleum sector."⁶

Of course, given domestic and world politics, it is unlikely that rich countries will take actions to cut off natural resource transactions simply because governments do not have good development policies and institutions in place. Nevertheless, the selectivity approach with regard to natural resources can help focus attention on rich countries that are essentially encouraging the resource curse. Increasingly, the development community is focusing not just on aid policies, but also on trade, migration, and other policies that affect developing countries. Perhaps the best known example of this is the Center for Global Development's Commitment to Development Index, which evaluates rich countries in terms of their contribution to development.⁷ Importantly, in the Index's evaluation of donors' aid policies, it downgrades countries for giving aid to corrupt and undemocratic regimes. However, the analysis of rich countries' trade policies includes no such devaluation. The numbers and theory presented here indicate that these policies may be just as important.

While instituting sanctions may be the equivalent of not giving aid—in terms of depriving a government from revenue—it is certainly an extreme action, and several objections can be raised.⁸ First, sanctions may give bad governments an "excuse", and a way to rally citizens around themselves. Second, often sanctions hurt citizens more than they hurt governments. Third, if these sanctions are instituted bilaterally, the resource-exporting countries will simply find other markets. And fourth, developing countries own their natural resources, and no country has the right to deny them the ability to sell them. These important points are addressed in some detail in the longer version of this paper on my website.

I have considered in-depth the issue of natural resources in the hands of very poorly governed countries because in many ways this is the most difficult issue (and the topic of our workshop), and also where the aid literature seems to point most clearly toward the need for a reversal of current policy trends with natural resources. However, given the important concerns about sanctions discussion above, and despite my responses to them, sanctions should be used only in extreme cases.⁹ Clearly there is a larger group

⁶ See <http://www.eia.doe.gov/cabs/sanction.html>.

⁷ See http://www.cgdev.org/section/initiatives/_active/cdi/.

⁸ These objections were raised by various members of the Africa Task Force during discussion.

⁹ A less extreme option is to prevent the leaders of these countries from attaining international visas (Ross, 2008).

of “middle” countries, between those that are well governed and those that are extremely poorly governed. As one moves along this range toward better governed countries, there are a variety of other ways of interacting with resource-rich developing countries. The first might be considered “trade but no aid”. This would be the step up from sanctions, and it would involve no sanctions but also no assistance to the country in terms of developing its resource sector. Given the experience of the World Bank with Congo, it is probable that this should have been at most the approach there.

As one moves further up the ladder, at some point donors would reach a point where they feel comfortable enough with the country’s governance that building up the country’s capacity in the resource sector makes sense. In addition to providing technical assistance in terms of lessons learned from other countries in successful management of natural resources (some of which were discussed above), one of the important elements of this capacity should center on transparency. This element has been emphasized by the Extractive Industries Transparency Initiative (EITI), which argues that oil companies and oil-producing governments should publish what they pay and receive during extractive industry transactions, to enable citizens in both selling and purchasing countries to make informed decisions. However, confirming the discussion above about ownership and the importance of the governance environment in terms of the success of initiatives, merely pledging to comply with the EITI criteria is not enough—twenty-four countries have pledged to adopt the transparency measures but not a single one has fully complied (Ross, 2008).¹⁰ In general, one should not expect poorly governed countries to implement transparency measures easily.

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¹⁰ In yet another parallel between natural resource revenues and foreign aid, similar transparency measures are being encouraged for foreign aid. For example, a website has been set up by the government and donors in Mozambique to publicize the details of aid the country receives (www.odamoz.org.mz). According to Oxfam America, the United States consistently fails to submit up-to-date information, and the website receives no information at all from China, Korea, Brazil, Russia, or India.

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