13. Evidence-based Reflections on Natural Resource Governance and Corruption in Africa

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13.1 Introduction

In this contribution I provide a comparative empirical perspective regarding governance in Africa, with a particular focus on the challenges in managing natural resources. At the outset I note that this perspective is selective, thus not exhaustive, and that obviously serious challenges in national governance prevail in countries in every region of the world, not just Africa. Further, there is significant variation in the quality of governance across countries within each continent, Africa included. Even within each country there is significant diversity across institutions and, in larger economies, across regions and cities.

The perspective here is empirical in that it is evidence-based, reviewing some relevant indicators across time and space, and this perspective includes the nexus between political, economic, and institutional dimensions of governance. An illustration of this link is the particular issue of state capture (Kaufmann, 2012)—undue influence by the private sector in shaping the policies, laws, and regulations in a country—which is related to the phenomenon of “legal corruption” (Kaufmann and Vicente, 2011). As a growing number of countries have formal elections, the ways

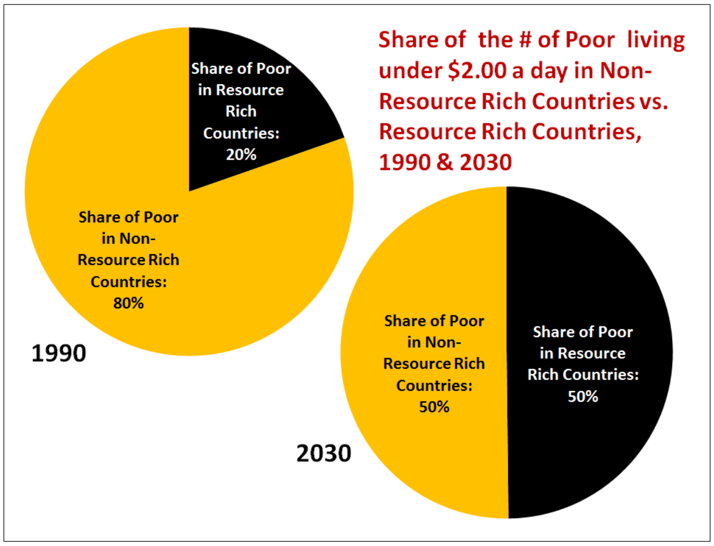
*Eric Li provided valuable research assistance.

political and electoral finance have evolved is associated with these forms of capture and corruption.

In the past we have studied the challenge of state capture (and legal corruption) in advanced, transition, emerging, and developing economies. Politics clearly emerge in this work in general, and also more specifically in countries rich in natural resources—particularly oil but also gas, metals, and minerals. State capture has been associated with the so-called “resource curse,” although, as indicated below, the notion of a curse is misleading because the nefarious consequences of resource riches are not predetermined: good governance is possible, as demonstrated by some resource-rich countries.

Unfortunately, the sobering reality is that most resource-intensive countries face major deficits in governance, and that in those countries the poor are not benefitting from resource wealth with inclusiveness, and social progress has been impaired. As we observe in Figure 13.1, in 1990 only about 20 percent of the world’s poor were living in resource-rich countries. If current trends continue (that is, unless institutions and governance improve), by 2030 half the world’s poor will live in resource-rich countries as currently classified.[1] In fact, the numbers of people living below the poverty line in resource-rich countries have not declined—they continue to hover at about 1 billion people worldwide—and they are not expected to decline in the next 15 years unless governance improves. This pattern contrasts sharply with the past and expected trends in countries that are not rich in natural resources, where the decline in poverty has been dramatic and is expected to continue.

Figure 13.1: Share of the Poor Living Under US$2 a Day, 1990 and 2030 (projected, assuming current trends)

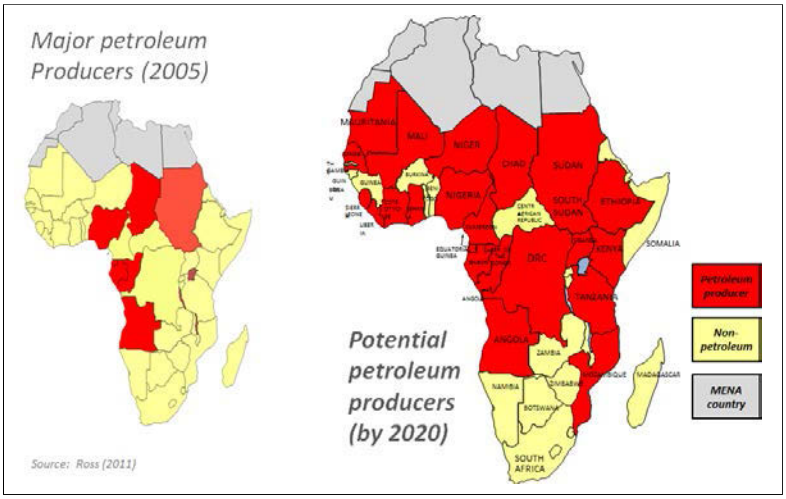


Source: Brookings Poverty database and estimations.

The challenge of poverty reduction for Africa is dire; much of the needed progress is still pending in this resource-rich continent. Much of the international development focus on Africa has centered on the magnitude and effectiveness of aid. But total official aid inflows, net of loan repayments, to Sub-Saharan Africa are only about US$30 billion a year. Contrast that with the resource rents merely from oil and gas in Sub-Saharan Africa, which have totaled about US$400 billion a year and have often been mismanaged.

Oil, gas, and mining have gained in importance in Africa's economic development and, as we see in Figure 13.2 for the case of oil, are expected to become even more prominent. In fact, all but a very few of Sub-Saharan African countries are either resource-rich or prospectively so, given recent exploration and discoveries.

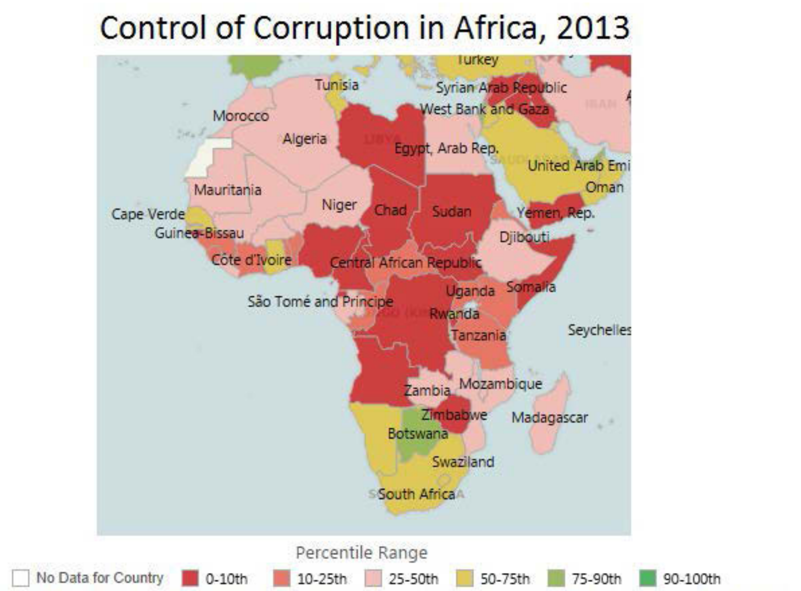
Figure 13.2: Actual and Prospective Petroleum Producers, Sub-Saharan Africa



13.2 Empirics and challenges of governance in natural resources

For assessing the quality of management of natural resources in any country, understanding the broader governance environment at the national level is critical. The evidence is clear that the overall governance challenge in Africa is also dire, generally speaking. Yet it is important to focus on the specifics and the variations across countries and components. First, Figure 13.3 depicts a governance map showing the control of corruption in Africa. Data are drawn from the most recent measured year in the Worldwide Governance Indicators (WGI).[2] In this dimension of governance –corruption--, many countries rate poorly and are depicted in red in the figure; others exhibit serious challenges in corruption (pink), while a few face lesser challenges (yellow). Botswana performs rather well.

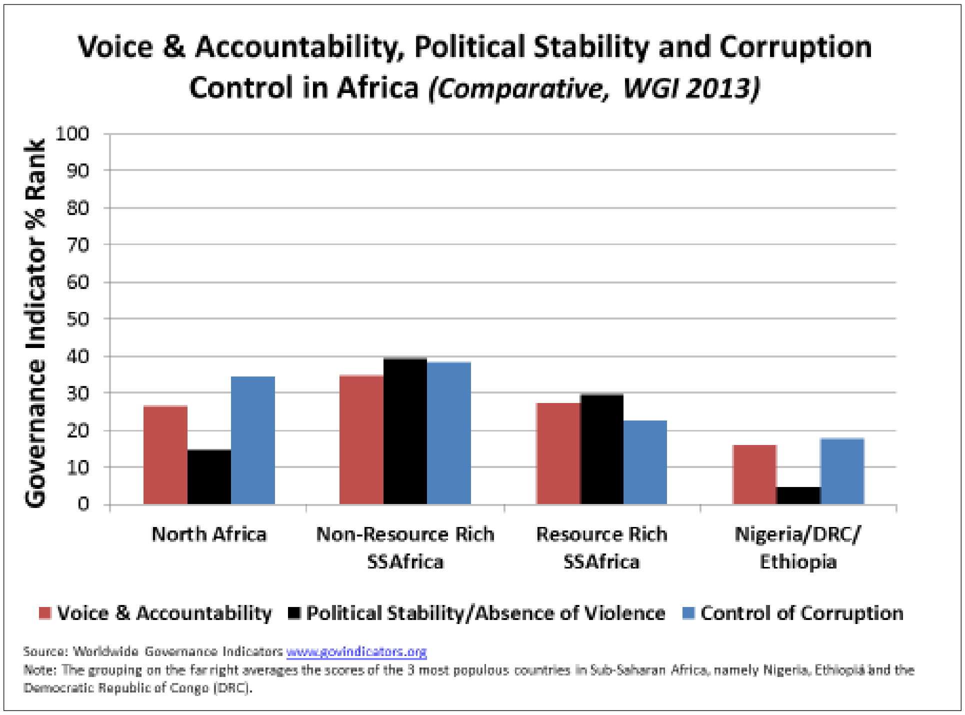
Figure 13.3: Control of Corruption in Africa, 2013



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical
The Worldwide Governance Indicators are available at: www.govindicators.org

The challenge of national governance is also evident when focusing on other components of the WGI, such as voice and accountability (which include political and media freedoms as well as civil liberties) and political stability/absence of violence. Alongside the indicator for control of corruption, these components are depicted in Figure 13.4. The juxtaposition not only suggests the overall extent of the challenge across the various indicators in Africa, but also points to some differences: resource-rich countries perform worse than other countries, and within resource-rich countries, the largest countries in terms of population, namely Nigeria, Ethiopia, and the Democratic Republic of Congo—which together account for almost 40 percent of the population in Sub-Saharan Africa—face acute governance challenges.

Figure 13.4

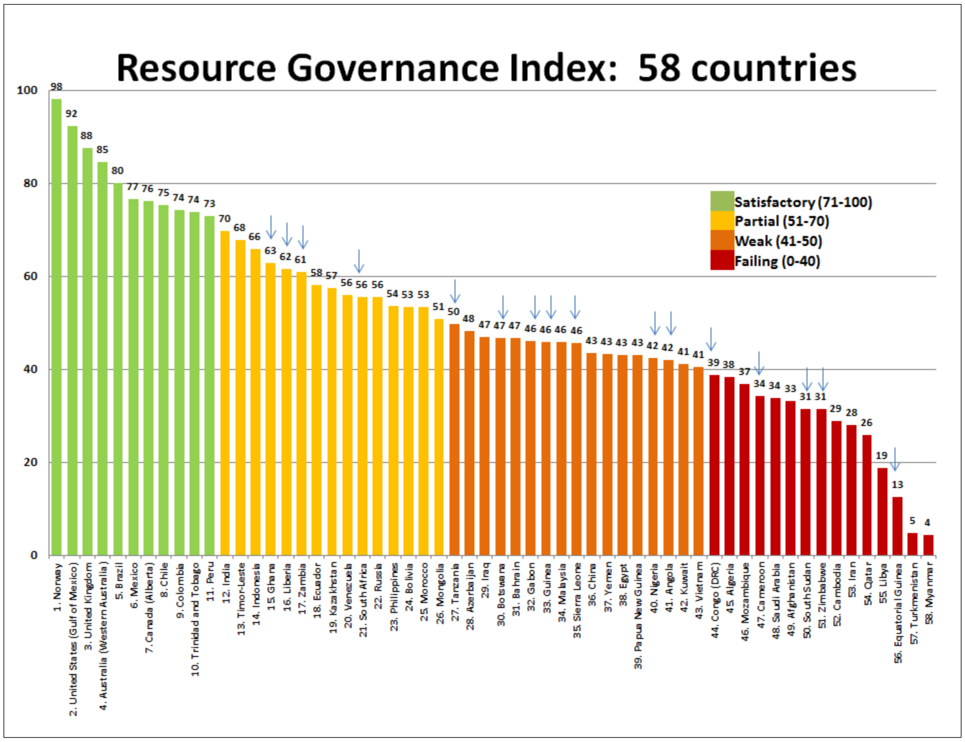


Other governance components, such as the quality of rule of law and regulations, show some similar patterns for the countries in the continent. There is a literature about the links between natural resource riches and poor governance (Ross, 2012). Natural resource rents are generated by a very concentrated product—oil, gas, or minerals—that is a magnet for capture. Its concentrated riches provide a disincentive to regular political transitions. Some modicum of autocratic stability is abetted by incumbents buying support and placating their opponents by distributing resource rents. This has major implications for politically induced distribution, as well as for accountability, because often the opposition is silenced through this buyout financed by the largesse of natural resources.

Several other links between natural resource wealth and governance have been highlighted. A government's reliance on extracted revenues as opposed to taxes has an enormous impact on public accountability and government effectiveness. Another major challenge for governance arises from the instability of natural resource revenues. More generally, resource intensity often discourages investment in diversification of production and of exports, causing the so-called Dutch disease (Corden, 1984).

Yet generally it is important to underscore that the prevalence and manifestations of these challenges vary from country to country. Some countries have managed to successfully address or bypass them.

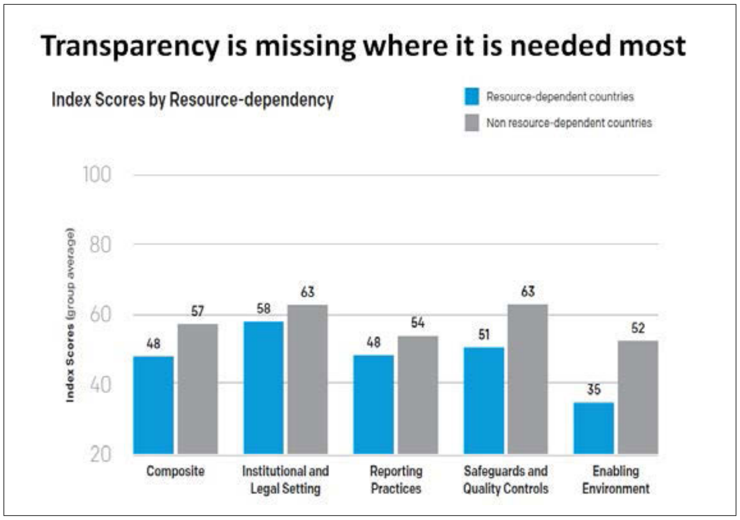
Figure 13.5: Resource Governance Index: 58 Countries



The RGI covers 58 countries that are particularly relevant to a discussion of governance and natural resources, and focuses on dimensions of transparency and accountability, drawing from scores of different variables that have been gathered using in-depth questionnaires answered by experts. We note that there is very high variance among these 58 countries, which include 16 in Sub-Saharan Africa, denoted by arrows in Figure 13.5. First, the figure makes clear that in general there is a governance deficit regarding transparency and accountability in natural resources: only 20 percent of the countries covered by the Index perform satisfactorily. It is noteworthy, however that there *is* such a set of countries to show what is possible, and that among them are some emerging countries: having satisfactory performance is not the exclusive domain of richer countries.

Neither do all wealthy countries perform satisfactorily. Some indeed, particularly the Gulf countries, are not managing their natural resources in the most transparent and accountable manner. And many emerging and developing countries exhibit poor governance in natural resources. This is particularly true of the more resource-dependent countries (Figure 13.6)—which arguably need good governance the most.

Figure 13.6: Transparency is Missing Where It Is Most Needed



For a more thorough diagnostic that is useful for decision makers in a country, it is important to drill down beyond aggregates and composites. The RGI permits this by focusing on key components of transparency and accountability in extractive industries and on specific variables within each component:

The actual disclosure of information by government agencies (i.e. Reporting Practices) is the direct indicator of transparency in practice.

Institutional and Legal Setting is the degree to which laws, regulations, and institutional arrangements facilitate transparency, accountability and open/fair competition.

Safeguards and Quality Controls indicate the presence and quality of checks and oversight mechanisms that encourage integrity and guard against conflicts of interest.

Enabling Environment looks at the broader governance environment on measures of accountability, government effectiveness, rule of law, corruption, and democracy.

Focusing on these specifics reveals that even countries that on average face enormous challenges can make progress, and have done so. This can be seen from Figure 13.7, where many countries have rather different values (colors) across different components of the index, and also from the country illustration for Guinea in Figure 13.8.

Figure 13.7: Resource Governance Index for 58 Countries

Composite and Component Scores

RGI Results for the 58 countries

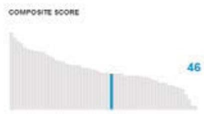
Rank	Country	Resource Measured	Composite Score	Institutional and Legal Setting	Reporting Practices	Safeguards and Quality Controls	Enabling Environment
1	*Norway*	Hydrocarbons	98	100	97	98	98
2	United States (Gulf of Mexico)	Hydrocarbons	92	88	97	89	90
3	United Kingdom	Hydrocarbons	88	79	91	83	93
4	Australia (Western Australia)	Minerals	85	88	87	65	96
5	Brazil	Hydrocarbons	80	81	78	96	66
6	Mexico	Hydrocarbons	77	84	82	81	53
7	Canada (Alberta)	Hydrocarbons	76	67	72	74	96
8	Chile	Minerals	75	77	74	65	87
9	Colombia	Hydrocarbons	74	75	73	91	58
10	*Trinidad and Tobago*	Hydrocarbons	74	64	83	86	52
11	Peru	Minerals	73	88	83	56	55
12	India	Hydrocarbons	70	60	72	83	61
13	*Timor-Leste*	Hydrocarbons	68	77	82	70	28
14	*Indonesia*	Hydrocarbons	66	76	66	75	46
15	Ghana	Minerals	63	79	51	73	59
16	*Liberia*	Minerals	62	83	62	71	31
17	*Zambia*	Minerals	61	71	62	72	37
18	*Ecuador*	Hydrocarbons	58	70	64	65	28
19	*Kazakhstan*	Hydrocarbons	57	62	58	76	32
20	*Venezuela*	Hydrocarbons	56	57	69	67	18
21	South Africa	Minerals	56	69	31	75	72
22	*Russia*	Hydrocarbons	56	57	60	62	39
23	Philippines	Minerals	54	63	54	51	46
24	*Bolivia*	Hydrocarbons	53	80	47	63	32
25	Morocco	Minerals	53	48	60	56	42
26	Mongolia	Minerals	51	80	39	49	48
27	*Tanzania*	Minerals	50	44	48	68	42
28	*Azerbaijan*	Hydrocarbons	48	57	54	51	24
29	*Iraq*	Hydrocarbons	47	57	52	63	9
30	*Botswana*	Minerals	47	55	28	53	69
31	*Bahrain*	Hydrocarbons	47	38	40	59	58
32	Gabon	Hydrocarbons	46	60	51	39	28
33	Guinea	Minerals	46	86	45	43	11
34	Malaysia	Hydrocarbons	46	39	45	39	60
35	*Sierra Leone*	Minerals	46	52	47	59	24
36	China	Hydrocarbons	43	43	46	46	36
37	*Yemen*	Hydrocarbons	43	57	46	52	16
38	Egypt	Hydrocarbons	43	40	44	48	40
39	*Papua New Guinea*	Minerals	43	59	34	50	38
40	*Nigeria*	Hydrocarbons	42	66	38	53	18
41	*Angola*	Hydrocarbons	42	58	43	52	15
42	*Kuwait*	Hydrocarbons	41	28	43	36	57
43	*Vietnam*	Hydrocarbons	41	63	39	31	30
44	Congo (DRC)	Minerals	39	56	45	42	6
45	*Algeria*	Hydrocarbons	38	57	41	28	26
46	*Mozambique*	Hydrocarbons	37	58	26	37	37
47	Cameroon	Hydrocarbons	34	63	33	25	17
48	Saudi Arabia	Hydrocarbons	34	30	35	31	38
49	*Afghanistan*	Minerals	33	63	29	38	8
50	South Sudan	Hydrocarbons	31	80	17	35	8
51	Zimbabwe	Minerals	31	48	23	56	6
52	Cambodia	Hydrocarbons	29	52	13	46	20
53	Iran	Hydrocarbons	28	26	33	26	23
54	Qatar	Hydrocarbons	26	15	14	20	66
55	Libya	Hydrocarbons	19	11	29	15	10
56	*Equatorial Guinea*	Hydrocarbons	13	27	14	4	4
57	*Turkmenistan*	Hydrocarbons	5	13	4	0	3
58	Myanmar	Hydrocarbons	4	8	5	2	2

Satisfactory Weak
Partial Failing

Notes: (1) Resource-rich countries, as defined by the IMF, appear in italics.

Figure 13.8: Resource Governance Index for Guinea

Guinea’s mining sector overall performance on the RGI



Rank (out of 58)		Score (out of 100)
33	COMPOSITE SCORE	46
5	Institutional & Legal Setting	86
33	Reporting Practices	45
41	Safeguards & Quality Controls	43
49	Enabling Environment	11

To explore all data and compare scores, use the **RGI Data Tool.**

Satisfactory · Partial · Weak · Failing

Guinea’s mining sector

	Institutional & Legal Setting (20%)		Reporting Practices (40%)		Safeguards & Quality Controls (20%)		Enabling Environment (20%)
	Indicator		*Indicator*		*Indicator*		*Indicator*
1	Freedom of information law	1	Licensing process	1	Checks on licensing process	1	Accountability & democracy (EIU Democracy Index & WGI voice and accountability)
2	Comprehensive sector legislation	2	Contracts	2	Checks on budgetary process	2	Open Budget (IBP Index)
3	EITI participation	3	Environmental and social impact assessments	3	Quality of government reports	3	Government effectiveness (WGI)
4	Independent licensing process	4	Exploration data	4	Government disclosure of conflicts of interest	4	Rule of law (WGI)
5	Environmental and social impact assessments required	5	Production volumes			5	Corruption (TI Corruption Perceptions Index & WGI control of corruption)
6	Clarity in revenue collection	6	Production value				
7	Comprehensive public sector balance	7	Primary sources of revenue				
		8	Secondary sources of revenue				
		9	Subsidies				
		10	Operating company names				

By 2012, Guinea had made significant progress in building and strengthening its institutions and legal framework, but that is yet to be translated into other components of transparency and accountability. And Guinea’s broader enabling environment, captured in the fourth RGI component and covering overall issues of rule of law, corruption, and government effectiveness, points to major pending challenges. The further specifics by subcomponent of the Index point to further achievements and challenges. For instance, in the case of contracts, at the time the data were gathered for the Index (in 2012), Guinea was not performing well in terms of disclosure, hence the red color rating shown in Figure 13.8. Since then, however, Guinea has released more information and is now more transparent.

13.3 A holistic approach to assessing governance in extractives: the Natural Resource Charter

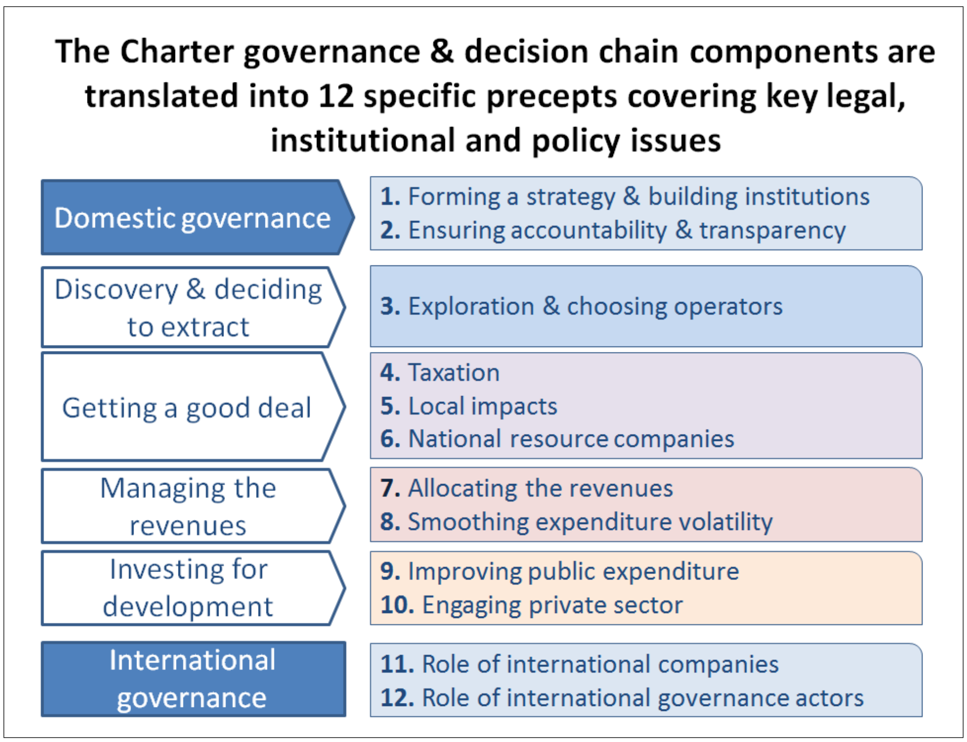
To comprehensively assess and advise on natural resource governance, a thorough approach and tool has been developed: the Natural Resource Charter (NRC)[3], a set of principles to guide governments' and societies' use of natural resources so these economic opportunities result in maximum and sustained returns for a country's citizens. The Charter outlines tools and policy options for governments and civil society in order to avoid the mismanagement of diminishing natural riches, and ensure their ongoing benefits. The key governance and accountability dimensions are integrated into the technocratic economic decision-making stages along the chain, from the decision to extract until investment in development, as summarized in Figure 13.9.

Figure 13.9: Key Stages of the Natural Resource Charter

The Charter looks at the whole value and decision chain. In essence, one has to look at key decision making from a policy standpoint: from the initial discovery of resources and the decision to extract, then to getting a good deal, then to managing natural resource revenues, and finally to investing for sustainable development. That is the technocratic decision-making chain, for which effective policymaking and effective economic decisions are crucial and which has to be overlain by a government framework. Domestic governance issues are crucial in terms of accountability, transparency, and civil society participation by NGOs, think tanks, academics, and so on. This is in addition to the whole international governance framework.

These overarching stages are then unbundled into a set of twelve specific precepts covering in depth the key governance and policymaking aspects in the extractives chain. They are spelled out in Figure 13.10.

Figure 13.10: Natural Resource Charter: Governance and Decision Chain Precepts



We see the progression of these precepts along the decision-making chain, starting with the first one, focusing on forming a strategy and ensuring accountability and transparency, which pertains to the issue of governance. It moves on to public finance issues like taxation, local impact, issues involving national resource companies, allocating revenue, managing volatility, and public expenditure, and finishes with the very important role of international companies and international governance actors.

This intellectual framework has been adapted into a benchmarking (or diagnostic) framework that is being applied in a number of countries including Tanzania, where the government is implementing it.

13.4 Corruption matters

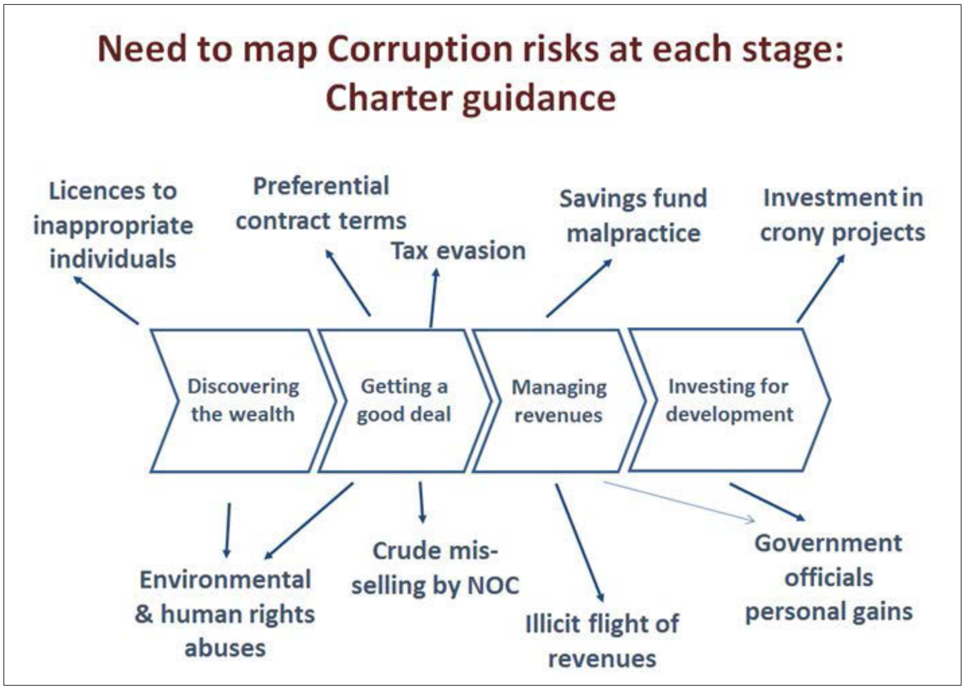
In contrast with a few decades ago, writing about corruption, and measuring it, have ceased to be taboo or fringe undertakings subject to major sensitivities. Awareness of the challenge of corruption has increased significantly, supported by the efforts by many organizations including the international NGO, Transparency International. Yet, when it comes to the complex politics of implementing strategies and programs that address corruption in a country, much progress has yet to be made.

Much also needs to be done to find rigorous ways of analyzing corruption and its main determinants in a country, and to translate such analysis into a coherent strategy and action program that addresses the institutional failures and key factors behind corruption. This challenge starts from the recognition that corruption is largely a (costly) symptom of underlying weaknesses in governance and institutions, which one has to understand in depth.

The pending analytical and strategic challenge of corruption is evident in the case of natural resources. For the extractives sector, the Charter in principle offers an overall framework that could help a country make inroads in controlling corruption, but specific work lies ahead to rigorously specify the different manifestations of corruption and the types of vulnerabilities and determinants that prevail at every stage of the natural resource value and decision chain.

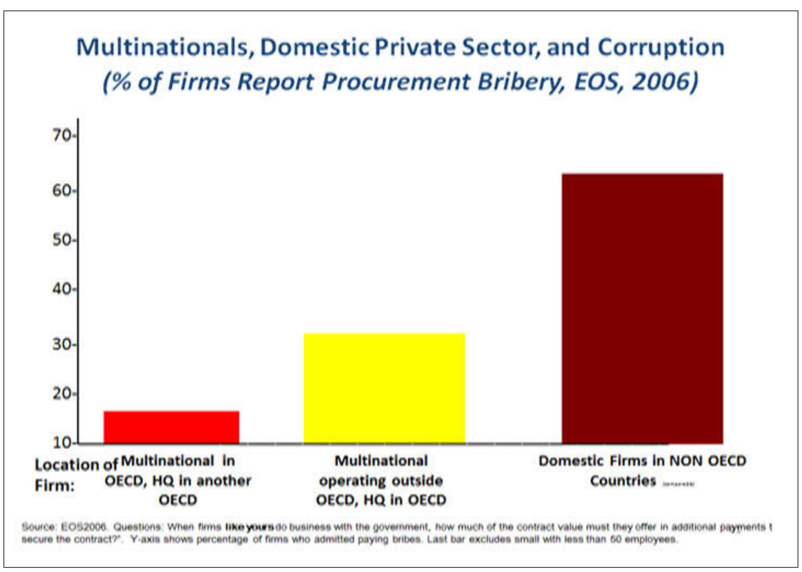
Figure 13.11 points to the myriad manifestations of corruption and illustrates how some key points of vulnerability to corruption can be mapped into the Charter decision chain. In analyzing corruption vulnerability in a specific country, each type of vulnerability to corruption would need to be associated with particular institutional factors and key actors, and would imply different action programs.

Figure 13.11: Mapping Corruption Vulnerabilities in the Extractives Chain



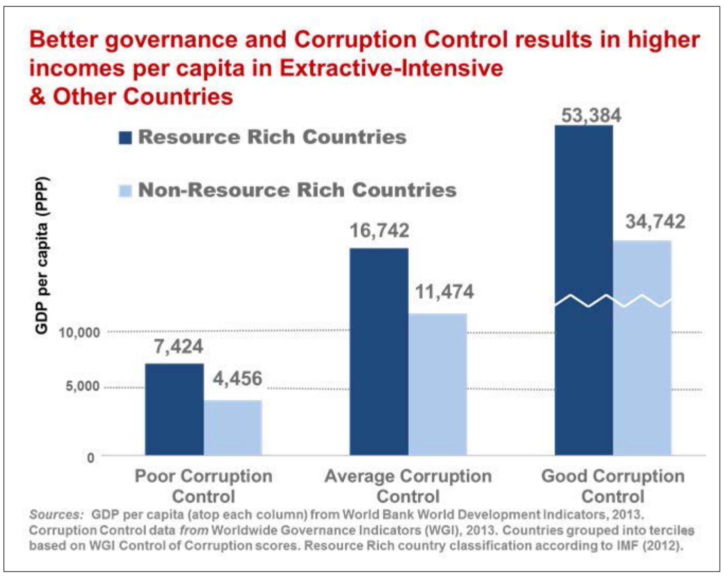
It is also important to consider the transnational dimension of bribery and corruption, and thus the fact that many multinational companies still engage in corrupt practices abroad (Figure 13.12). There is evidence (OECD, 2014) suggesting that such bribery from companies to public officials may be particularly prevalent in natural resources.

Figure 13.12: Bribery and Corruption in Procurement



The evidence is clear that improved governance and anti-corruption measures are associated with significant development gains; our past research suggests that on average worldwide, a 1-standard deviation improvement in governance (such as corruption control and rule of law) is causally linked to a three-fold increase in a country's per capita income in the long term. As Figure 13.13 shows, these large orders of magnitude are no smaller in resource-rich countries: if anything, the "development dividend" from improved governance may be even larger for countries that are rich in extractives. In other words, from the perspective of development, being awash in natural resources is not a substitute for good governance.

Figure 13.13: Governance and Per Capita Income Growth

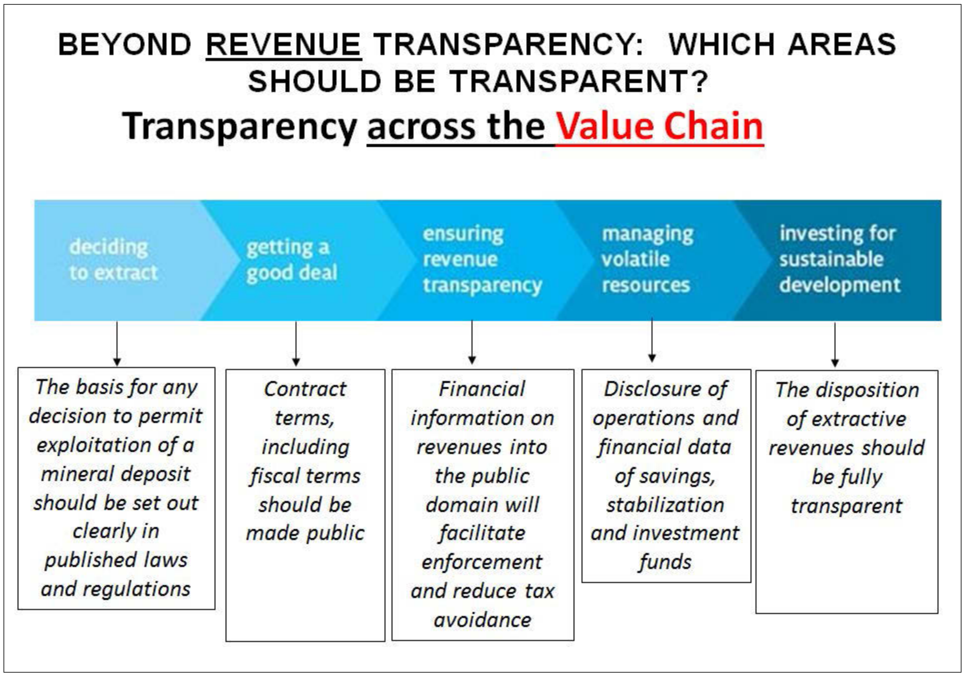


13.5 Transparency and beyond

In addressing corruption—and more generally enhancing accountability and governance—in natural resources, one should not underestimate the importance of transparency. International initiatives such as the Extractive Industries Transparency Initiative[4] and mandatory disclosure requirements in the European Union and United States have made important contributions towards greater transparency in natural resource revenues, as have a number of individual-country initiatives.

Yet rigor and details are again important, since transparency is multi-dimensional and involves different issues at different stages of the value chain that go well beyond the initial global initiatives on transparency of revenues. A simplified[5] unbundling of the various transparency challenges across the chain is depicted in Figure 13.14.

Figure 13.14: Transparency Challenges Across the Value Chain

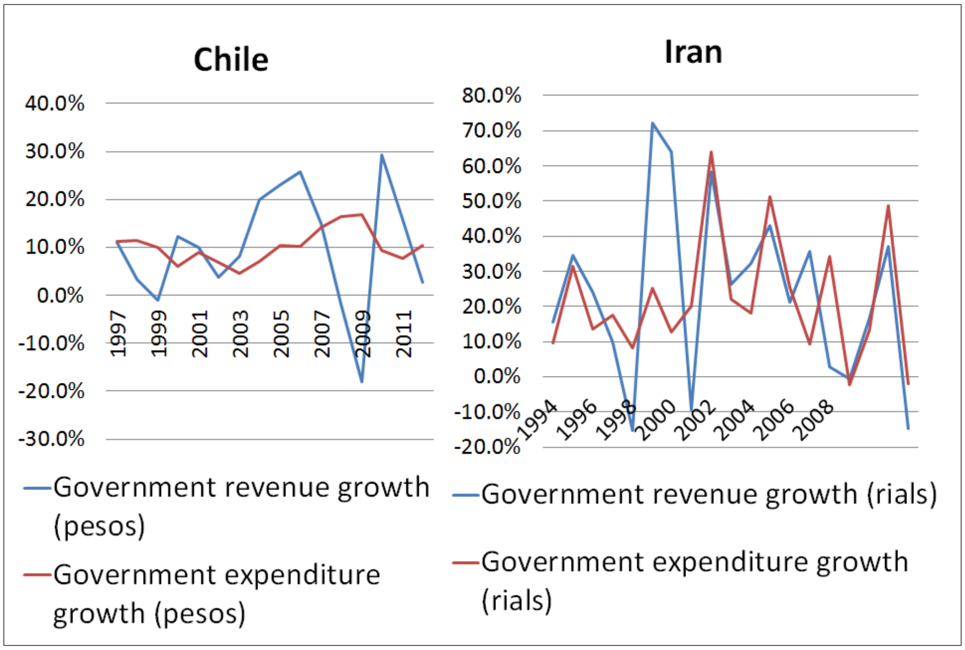


Transparency is necessary, but even if it is comprehensive it is insufficient. Critical complementarities (and thus interactive effects) imply that pursuing transparency alone will likely yield disappointing results. If the rule of law is lacking, disclosures may take place but not be fully followed up with sanctions: in essence, a regime of transparency with impunity. If civil society and basic liberties are repressed in a country, transparency will not translate into accountability and thus disclosure-induced pressure to implement reforms will be lacking. Hence, basic institutions associated with the rule of law also need to be in place, as does an enabling environment for civil society and the media to function without censorship and repression. Unfortunately, in many resource-rich countries such an institutional framework is largely lacking, and often deteriorating.

Beyond transparency, other important aspects also require a detailed and rigorous approach, starting with the decision to extract natural resources and continuing to the many decisions that follow, such as the terms of contracts and fiscal regimes, or decisions on macroeconomic management that affect how to manage volatility and how to manage resources for investment and socioeconomic growth.

Differences in how volatility has been managed (or not) are illustrated in Figure 13.15, contrasting the case of Chile with those of Iran, Gabon, and Congo.

Figure 13.15: Budgetary Revenue and Expenditures in Selected Resource-Rich Countries



Source: Natural Resource Governance Institute.

The charts in Figure 13.15 depict the trends in government budgetary revenues (blue line) and expenditures (red line). In all resource-rich countries, revenues are naturally highly volatile, given fluctuations in price and volumes. The question is whether such countries have macroeconomic countercyclical policies and instruments in place to manage such volatility and to smooth expenditures. For Chile, the smoothing of government expenditures is clear, sharply contrasting with the cases of Iran, Gabon, and Congo, where the enormous volatility in public expenditures essentially dovetails the revenue pattern, illustrating these countries' subpar macroeconomic management frameworks.

In this context, it is worth considering institutional initiatives such as natural resource stabilization funds—provided, however, that these can be properly designed, governed, and implemented (as in Chile), because in poorly governed settings they may end up exacerbating the problem (Bauer, 2014).

13.6 Conclusion

For scores of resource-rich countries around the world, and for most countries in Africa, extractives are much more than a traditional economic sector. How these resources are harnessed has major implications for a country. Coupled with the prevailing governance deficit in most countries, this hints at why the governance of natural resources is arguably the development challenge of our generation.

In moving away from a narrow focus on the extractive industries, it is important to explicitly assess the key national development and macroeconomic implications of a country's natural resources, and utilize a comprehensive governance framework for analysis and diagnostics, such as the Natural Resource Charter, complemented with use of data and indicators and an analysis of the political economy and corruption vulnerabilities.

Corruption needs to be viewed through a different lens than the traditional focus on bribery and the notion that corruption is the driver of governance ills. Instead, corruption is often a costly symptom of broader institutional weaknesses rather than the fundamental determinant of governance failure, although forms of high level political corruption and capture are also a determinant of governance failure. Indeed, the focus on corruption needs to also shift to encompass various manifestations, including quasi-legal forms of corruption, leakages of public funds, asset stripping and stealing, and the like. In many settings, major institutional reforms are still pending regarding procurement and customs, as well as regarding tax policy and administration. Political finance is highly vulnerable to corruption and capture.

In this context, the proper set of analytical tools to assess the corruption vulnerabilities in the extractives sector is yet to be fully developed. Yet more generally, where there is political will, the implementation of benchmarking diagnostic tools such as the Natural Resource Charter offers a way to help address more comprehensively the challenge of natural resource governance.

To address corruption, enhancing transparency is necessary, even if not sufficient in itself. In natural resources, the Extractives Industry Transparency Initiative (EITI), which many African countries have joined, offers a path forward. Advances in transparency also need to be complemented with a similar focus on voice and accountability challenges—including basic liberties and civil society participation, which are missing in many countries. Progress on rule of law is also critical, lest transparency reforms fail to deliver because of impunity. The power of technology and new data frontiers is also key, and evidence-based policy analysis is important for more effective policymaking.

Beyond the technical assessments, much of the challenge ahead in addressing the governance challenges will be of a political nature. The declines in the prices of oil and mining products have major implications for Africa, not the least the challenge of maintaining macroeconomic stability in the face of dwindling revenues, as well as further obstacles in attracting investors. Yet they also present a unique opportunity to implement much needed governance reforms, which do not garner political support in times of boom. Lower oil prices offer the opportunity to eliminate costly subsidies. There is also an opportunity to implement broader reforms in public finances, such as expanding the tax base and enhancing the efficiency of public expenditures, as well as addressing corruption and waste in many oil and mining state enterprises.

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Endnotes

1 That is, without considering any countries yet to be found to be resource-rich.

2 See http://info.worldbank.org/governance/wgi/index.aspx#home.

[3] See http://naturalresourcecharter.org/

[4] See https://eiti.org/

[5] And thus only illustrative, for purposes of designing action programs.