

The Search for
Responses to
**RESOURCE
CURSE**

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Introduction

Africa is rich in natural resources, and efforts are increasingly being made to ensure that these resources play a positive role in the development and growth of Africa. As mineral resources and oil are finite and therefore not sustainable, African countries can use them to kick-start their developmental agendas and to serve as the continent's springboard into industrialisation, as occurred in Europe and North America as well as in Asian countries such as Indonesia. The efficient management of revenue from these commodities can contribute significantly to fighting poverty, improving the socio-economic conditions of all citizens and promoting diversification of the economy in African countries.

It is clear from the levels of poverty that exist in most resource-abundant African countries that African governments – with the exception of a few such as Botswana and South Africa – have generally managed their countries' resources badly.

The literature today points to robust empirical evidence for a negative relationship between natural resources wealth and economic growth, especially in Africa – the so – called resource curse. The World Bank, International Monetary Fund (IMF) and numerous influential scholars are now involved in finding solutions to the resource curse problem. Compiling best practice models when it comes to resource management is therefore important. But, does such a model exist and can it be replicated in other countries? Are there certain conditions that would lead to the better use of mineral resources?

Natural resource wealth and development

There are two main views in the literature regarding the impact of natural resources on a society and economy. The first view is the conventional wisdom on the relationship between development and natural resources. It argues that natural resources are advantageous for development: “The possession of a sizable and diversified natural resource endowment is a major advantage to any country embarking upon a period of rapid economic growth.”¹

This observation was made by people such as Norton Ginsburg and other mainstream economists in the 1950s, and was based on the rapid development and growth seen at the time in such countries as the United States (US), Australia and Britain. But Norton fails to consider the role played by mineral resources in the development of Canada or Australia “the

minerals-led industrialisation in those countries was not driven by mineral resources endowment per se, but by an “overall transformation in business and financial organisation, education, research and knowledge development, human capital accumulation and infrastructure expansion”²

As some African countries struggled with economic development in the 1970s and 1980s and the World Bank was implementing its structural adjustment programmes, neo-liberal economists such as Bela Belassa – without revisiting the argument – maintained that what natural resources had done for other countries was true for African countries too: “Natural resources could facilitate a country’s industrial development by providing domestic markets and investable funds.”³ The neo-liberal economists failed, however, to consider the changing internal and external environment within which the extraction and management of Africa’s natural resources was happening. In Africa the extraction happens in conditions where “human capital creation and accumulation is neglected, governments are not responding to the need of the poor, social infrastructure is weak, economic policy dysfunctional, rent-seeking prevails, corruption reigns, public income is squandered by an elite in power and those close to it, and wars of attrition and conflicts are common.”⁴

The second view, which is a total opposite of the first, maintains that natural resource abundance is associated with various negative development outcomes. The unpredictability of the international commodity markets in the late 1980s brought about a new observation that rather than being a blessing, natural resource abundance increases the likelihood that countries will experience negative economic, political and social outcomes, including poor economic performance, low levels of democracy and civil war.

The author of *The Paradox of Plenty, Oil Booms in Petrol States*, Terry Lynn Karl,⁵ calls this phenomenon the “Midas touch myth:” oil promises that it will make you rich, but instead it makes you poor. It is the paradox of rich countries with poor people.

The conventional wisdom of the 1950s has today been reversed and replaced with literature on the resource curse, which suggests that “resource rich countries are performing worse than those with smaller endowments – quite the opposite of what might have been expected.”⁶

It is important, however, to recognise that a resource curse is not necessarily the outcome of resource abundance, as this view seems to suggest. Various political and social forces mediate the relationship between natural resource wealth and development outcomes, and these forces are shaped by historical, cultural and other dynamics that are specific to each country. This will explain that neighbouring countries such as Botswana and Zambia, both mineral producing countries, have different experiences with their economic performance. But these forces are not seriously considered in many of the discussions and models dealing with the topic. This is why Andrew Rosser criticises scholars of the resource curse

school for being reductionists and asking the wrong questions when it comes to reversing the resource curse.⁷

Rosser argues that:

rather than asking why natural resource wealth has fostered various political pathologies and in turn promoted poor development performance, they should have been asking what political and social factors enable some resource abundant countries to utilize their natural resources to promote development and prevent other resource abundant countries from doing the same.⁸

Rosser's position is that as we search for solutions we must pay careful attention to the latter question, not only because it will enhance our understanding of when natural resource abundance is associated with poor development outcomes but also because it will generate useful policy recommendations for addressing the resource curse. The approach in this paper follows Rosser's proposition, which we find useful and constructive.

Natural resource management in Africa: a critique

The management of natural resources in Africa in general provides one with enough evidence to suggest that natural resource abundance is associated with negative development outcomes. Put differently, in many instances the management of natural resources on the continent confirms the link between natural resource extraction and the resource curse.

From east to west and north to south, Africa is blessed with abundant natural resources. In most cases, however, these resources have been badly exploited, and instead of contributing to growth, development and poverty eradication they have done the opposite. The situation has been exacerbated by weak and in some cases no proper sector regulations. The result in many instances has been:

- the uncontrollable exploitation of resources;
- lack of transparency and accountability in the management of the sector;
- the misappropriation and looting of sector revenues;
- an absence of basic organisation in the sector;
- a lack of predictability for both national and foreign investors; and
- the absence of monitoring capacity and evaluation of the sector, which is contributing to destructive environmental behaviour that produces land degradation and environmental problems such as water and air pollution.

In the worst cases, poor resource management has fuelled wars – DRC, Sudan, Angola, Liberia and Sierra Leone – and created much instability in areas such as Nigeria's Delta region and in eastern DRC.

It is argued in this paper that the absence of strong governance benchmarks in Africa's extractive industry is the main cause of bad resource management in Africa, the end result of which is rent-seeking rather than development and growth.

The world is replete with examples of countries that have managed their natural resources successfully, leading to economic growth and development. International examples in this category are the US, Australia, Britain, Canada and Norway, while South Africa and

Botswana stand out in Africa. However, there are numerous examples of resource-rich African countries that lack positive management models.

Wheeler found that during the 1970s, countries in sub-Saharan Africa that were rich in minerals grew slower than those that were not.⁹ Furthermore, evidence suggests that the economic problems facing some resource-abundant countries have gone beyond poor levels of economic growth to include poor performance in other sectors of the economy, especially agriculture. Such countries have also been characterised by weak export diversification, poor savings performance, wage dualism, high unemployment, high external indebtedness and high export earnings instability.¹⁰

Some of the factors that negatively influence the management of resources in Africa are outlined below.

Regime type

There is a nexus between the level of effective resource management and the level of democracy that exists in a country: resource-abundant African countries that manage their resources badly usually also have low levels of democracy. The situation in Africa thus provides convincing evidence that the way in which resources are managed is influenced by the political environment.¹¹

Without discounting the effect on weak exporting states of, for example, a skewed export structure and unfavourable international terms of trade, the biggest problem facing these states is the way they utilise the revenue from their resources – small as it may be.

The main reason for the resource curse in Africa is that the political elite in weak democracies or weak governance zones are able to capture the revenue generated from resources and use it to promote rents. In an undemocratic country, rent seeking and rent protection by the ruling elite create a concentration of power around the sources of revenue and favour the formation of an unhealthy symbiotic relationship between the resource extraction companies and government leaders.

When the management of high government offices is premised on the need to control resources for a few individuals, such political power becomes an end in itself. Controlling resource extraction and revenues thus becomes critical to the regime's survival, and contracts and access are given to friends and pro-regime companies. The political elite use all possible means to maintain their monopoly on resource exploitation, including corruption, involvement in illegal groups (local and international) and even war. And instead of being invested in social projects, revenue from the extractive industry is used to build a corrupt network to maintain the regime.

The nature of the regime in power thus seems to be a decisive factor in determining whether resource endowment is a blessing or a curse for a particular country. It seems that in the

absence of democracy and good governance, one cannot implement western business models or aspire to improved management of the extractive industry and the revenue generated therefrom. In fact, lack of transparency and accountability pose the greatest danger to any management or business model. Revenue from resources is often squandered on “prestige projects”, pilfered by corrupt officials or used by undemocratic governments to repress political opponents. This is one of the main reasons why living standards in Africa’s resource rich countries are lower now than they were at independence.

Resources and war

The management of resources in Africa has triggered conflict due to the unfair distribution of wealth. The continent’s recent history includes civil wars (Liberia and Sierra Leone), vast human rights abuses (these continue across West Africa with the exception perhaps of Ghana and Senegal), internal ethnic and regional rivalries, and interference by the world’s great powers (the new great powers are scrambling to exploit Africa’s resources through their multinationals).

War, or the threat thereof, and instability mean that a country’s revenue and resources are diverted away from social and economic upliftment programmes, and are instead used to purchase arms. For example, when the ruling regime in Chad was threatened by a rebellion, President Idris Déby decided unilaterally to dip into oil revenues that were being kept in the Future Generation Fund.

Tax collection structure

Africa’s governments that tend to manage properly their revenue from extractive industries are those with a transparent and accountable tax regime, and those that are capable of collecting the taxes due to states.

Policy and implementation challenge

It would be wrong to assume that since resources are not contributing to the upliftment of societies in resource-rich countries, these countries lack progressive laws and policies. African countries in fact now have progressive mining codes and mining legislation . The problem, however, is the gap that exists between policy and implementation – for reasons enumerated above or simply due to lack of capacity.

Weakness of the World Bank Model

In many countries, the laws and mining codes were drafted and supported by the World Bank. There are weaknesses in the World Bank mining model, the most serious of which is that it aims at minimising risk to foreign companies by automatically attaching to exploration rights (automaticity) even when mineral reserve is well established. Automaticity must, however, be eliminated in low risk areas (for example, areas where the presence of minerals is already known) if African countries are to maximise the contribution of their mineral

resources to sustainable development. A delineation licence or auction system in low-risk areas would promote competition and ensure that licences are granted to companies based on their contribution to infrastructural development, up or down stream investment, equity, rent-sharing and other development objectives.

Inability to control revenue volatility

The inability to control the volatility of revenue is a serious problem. Auty¹² and Mikesell¹³ in fact offer revenue volatility as a possible explanation for the resource curse. Price volatility is a big problem, making it extremely difficult for governments to follow a prudent fiscal policy. While Botswana seems to have found a solution to the problem (discussed in detail later), in many countries windfall revenues from fluctuating prices are consumed rather than invested,¹⁴ especially in those countries that lack democratic systems and good governance. These countries often engage in excessive consumption as a consequence of bad decision-making.

Another problem that can be linked to the price volatility, especially for African countries, is the unfair international trade regime which favours investors more than exporting countries.

Strategies to improve resource management in Africa: learning from the experiences of Botswana and Norway

A successful resource management model is one that has avoided or overcome the resource curse. Most models that have worked have relied on a responsive and accountable state, and this is in fact a prerequisite for good and sustainable resource management, along with the elements of democracy and good governance. Countries around the world that have succeeded in utilising their natural resources efficiently have used models that combine economic, political and social factors. Economically, successful resource-rich countries have emphasised putting in place a sound macroeconomic policy, which is necessary in helping to avoid the Dutch Disease (the seeming relationship between the exploitation of natural resources and a decline in the manufacturing sector).

Stiglitz¹⁵ suggests that the most important questions facing a resource-rich country include the following:

- How fast should the resources be extracted and how should the revenue be used?
- Should the country increase its cash flow by borrowing?
- What institutional reforms should be adopted to ensure that appropriate macroeconomic decisions are put in place?

Botswana and Norway case studies give us a series of lessons:

The first lesson from Botswana and Norway, which produce minerals and oil respectively, is that sound and forward-thinking economic policies do play a critical role in ensuring successful resource management, which will allow future generations to benefit from the extraction of exhaustible natural resources. Botswana has used fiscal discipline. One of the characteristics of the mining industry is that it is cyclic, with prices often rising and falling over a very short period of time.¹⁶ It is the absence of forward looking policy that sees many developing countries, pressed to attract investors during depression periods, enter into con-

tracts which benefit the multinational companies more than the countries where mining is taking place.

The Botswana miracle: a rare success story in Africa

Diamonds were discovered in Botswana in 1967, just a year after the country obtained its independence. Since the significant discovery, the Botswana government has relied on a set of policies aimed at avoiding fiscal deficits.

Its key instrument in this regard is the Sustainable Budget Index (SBI). This stabilising tool ensures sustainability in the way that revenue from diamonds is utilised. The SBI measures the ratio between consumption expenditure and non-resource revenue. As long as the SBI is less than one, the government is sure that natural resource capital is not being consumed. The strategy has worked well in Botswana so far. The government has avoided excessive spending in the good times and has cut spending drastically when the diamond price has fallen.

In 2000, Botswana introduced a new variable tax revenue. Through this, the country is been able to obtain increasing tax revenue during periods of high commodity prices.

The second lesson is national control. Norway has relied on national companies to maximise revenue for the state. It seems from the Norwegian case that whoever controls the resource sector has substantial power.

The Norwegian model

The government of Norway initially selected an approach similar to what is happening in Africa today whereby foreign companies carried out all the petroleum extraction activities on the Norwegian continental shelf. This extraction happened, however, within an environment of accountability and transparency.

The model evolved over time, though, with national companies becoming the main investors in the sector. Norway created wholly owned oil companies to control the extraction of oil and to maximise revenue for the state. The two main oil companies are Statoil and Norsk Hydro.

Unlike the complacency and mismanagement seen in African national companies (such as Angola's Sonangol) the Norwegian model encourages competition and cooperation between its local oil extracting companies. This competition has pushed the companies to acquire better and more advanced technological, organisational, managerial and commercial expertise, and has ensured substantial revenue for the state.

The Norwegian model is successful because it has achieved control of the exploitation of oil and its redistribution on behalf of the Norwegian people. Importantly, the model is also predictable and transparent, two critical elements that are the result of the clear organisation of activities and division of roles and responsibility between the different state departments and oil companies. This clarity of responsibility and rules has ensured that important social considerations – such as environmental issues, inspections, the monitoring of benefits to accrue to the state and the Norwegian people, technological upgrades and staff training – are safeguarded, and that any benefits are passed on to the society as a whole.

Although the companies compete they must also cooperate in order to maximise the value in the production licence they have been awarded.

Weinthal and Jones Luong argue that countries that sell their natural resource sector to domestic interests have greater bargaining power than those that sell the sector to foreign investors.¹⁷ They argue that:

whereas the bargaining power of foreign investors declines once their capital and costs are sunk, domestic investors maintain their bargaining power vis-à-vis the state because both need the other in order to survive, enabling them to reach a compromise or find that their interests have converged over time.¹⁸

Botswana has also moved to ensure some level of control in the extraction of its minerals. The government of Botswana has invested in all mining companies operating in Botswana as the table below shows.

The Government of Botswana Investment in Mining¹⁹

- 50% interest in Debswana, jointly owned with De Beers
- 50% interest in Botash (soda ash producer)
- 15% interest in Tati Nickel Mining
- 15% interest in De Beers
- 33% interest in BCL limited (copper-nickel mine)
- 50% interest in DTCBotswana

A good comparative example of how control has played out is the case of Russia and Kazakhstan. Both sold their oil sectors, to domestic and foreign investors respectively. While in Russia the domestic companies are helping to foster the development of an increasingly viable tax regime, in Kazakhstan the tax regime has become volatile and overly reliant on foreign businesses.²⁰ Rosser argues that similar reasons explain Indonesia's success in overcoming the resource curse.²¹ A positive involvement by national companies enhances returns for the state.

The third lesson is that a critical prerequisite for successful resource management is political will. That is, the political elite must support and work towards the establishment of a model whereby the maximum proceeds of a country's petroleum or mining activities are passed on to the people and to society as a whole.

The fourth lesson is that managing natural resources does not simply entail managing extraction and the revenues therefrom; it also involves managing a complex portfolio of assets including buildings and machinery. Other factors such as resource policy, fiscal policy, economic policy, political factors, institutions, governance structures, human resources, technology, revenue distribution, labour laws and the environment all play a role in ensuring that resource endowments are a blessing and not a curse. The examples of Botswana and Norway show that natural resources are "governance-intense" assets.

The fifth lesson is the need to have in place a functional state that can mitigate against factors leading to a resource curse, such as rent-seeking behaviour, weak state capacity, and weak institutions. State capacity is crucial as it impacts on the state's ability to formulate policies and implement them, as well as its ability to collect taxes from the extraction of its resources.

The sixth lesson is the need for the transparent and fair distribution of revenue. This minimises opportunities for corruption and misappropriation as windfall revenue stays out of the hands of public officials.

Characteristics of success

Successful models around the world have the following characteristics:

Responsible government

- A leadership that respects the rule of law and work for the interest of citizens in negotiating contracts and in the utilisation of revenue is paramount for any successful mineral resource management.
- Government must be transparent not only on revenue management but throughout the entire value chain from the negotiation of contracts to issues of revenue utilisation. For this to happen there must be check and balances in the system.

Internally driven

- Successful resource management models are generally those that are developed domestically, taking into account the local realities and country dynamics. In many cases the models used in Africa have been generated abroad, especially by such organisations as the World Bank and IMF.
- The World Bank is increasingly taking a great interest in playing an oversight role in resource management; but is the Bank suited for such a role? The World Bank is there to lend money to governments, and was not designed to be a primary agency charged with monitoring the implementation of the projects it helps fund.
- African countries should also be wary of oil or mineral companies, which have a reputation across the continent for their belligerent disregard for community structures and for the health and safety of communities on the ground.

Competent core of bureaucrats and technicians

- It appears that the presence a highly qualified bureaucrats assists a country substantially in avoiding the resource curse. In Botswana these competent bureaucrats comprised both expatriates and talented black South Africans driven north by apartheid.

- An International Council on Mining and Metals (ICMM) research report found that similar groups of capable bureaucrats played critical roles in Chile where they were called the “Chicago Boys”, in Indonesia where they were called the “Berkeley Mafia” and in Malaysia where they were called the “Backroom Boys”.²² An important question that the ICMM research poses is why political and socio-economic circumstances and foresight have been less favourable to the formation of such groups in other countries.

Knowledge of the quantity and quality of resources

- It is important to have an idea of the country’s natural resource potential and of the lifespan of the mines, since resource development decisions made today will impact on the society for generations to come. Establishing these policies requires at the outset an understanding of the quantity and quality of the country’s resource endowment, its commercial viability, expectations for future production and sustainability, how much extraction companies are making and how much governments (including municipalities) are collecting from these extractions. This exercise reveals how states that rely on natural resource extraction address issues of poverty, inequality and sustainability.

Strong democratic principles

- A sustainable model cannot exist outside of democratic principles. This suggests that one cannot expect improvements in the management of resources by relying simply on the goodwill of the government, international institutions or investors. Good governance is crucial.

Presence of strong oversight

- A strong civil society is critical in forcing government and companies to respect legislation. This is now being observed across the continent with many civil society organisations embracing new movements such the Publish What You Pay (PWYP) campaign and the Extractive Industries Transparency Initiative (EITI). This suggests an awareness that “business as usual” must change and that Africans cannot improve the management of their resources without new efforts. In Nigeria, for example, the Upper House of the National Assembly has passed the EITI Bill.

Consultation with citizens and communities

- The involvement of citizens is integral to the process of improved management since local communities are both the problem and the solution to local level resource management. Shyamsundar, Araral, and Weerarantne argue that increased local control of natural resources motivates long-term investment and favours management accountability and performance.²³

- Lack of consultation has seen an increase in social unrest among communities that feel excluded and believe they are not benefiting from the extraction of resources. An example is the U'wa community's battle against oil companies in Colombia.²⁴

Creation of future funds or trust funds

- An important issue in natural resource management is how to ensure that the interests of future generations are protected. Norway and Kuwait are examples of countries that have established functioning trust funds to address this issue, while in Africa, Botswana, Chad, Equatorial Guinea and Mauritania have established similar funds with varying degrees of success.

Regional common standards

- It is important for African countries to cooperate, develop and implement common minimum standards with regard to the exploration, exploitation and management of Africa's natural resources. This is critical in presenting a common front vis-à-vis powerful multinationals that are vying to access Africa's resources. Common natural resource management and governance strategies could go a long way towards controlling resource exploitation and lessening Africa's resource dependence.

Challenges

There are a number of challenges facing governments when it comes to resource management in Africa:

- Governments are faced with the challenge of creating a viable, integrated and diversified industry as well as sustaining the wealth they generate without compromising environmental, social and cultural considerations and ensuring a regulatory framework that encourages wealth production. The challenge is how to create and sustain mineral wealth without compromising environmental, social and cultural aspects.
- Governments must invest windfall revenue in order to ensure lasting wealth. They are faced with the challenge of deciding how much should be saved and how much should be invested, and in what.
- Another major challenge is to ensure that revenue from mining is distributed equitably and in a way that balances and manages conflicts and concerns both at local and national levels. Government must also decide on the form of allocation that would best promote sustainable development by focusing on poverty alleviation. This raises the further challenge of ensuring that extractive and exploitative natural resource-based activities are fully integrated into community development planning in order to maximise their contribution to sustainable livelihoods in the areas where these resources are extracted.
- Ensuring sound governance and a stable macroeconomic environment are essential if government wants to curb rent-seeking and corruption, to manage the adverse impact of resource rents, currency appreciation and commodity price volatility, and to enhance citizens' interest in wealth conservation. Transparency and clarity in the way that mineral rights are granted and in the management of exploitation – including its effects on labour, the environment and industrial development – are important challenges that must be dealt with.
- The availability of domestic capacity and expertise will determine whether a country can overcome many of the other challenges involved in resource management. The natural

resource sector is complex and sophisticated and requires high-level technical and managerial capacity. The extractive sector tends to be capital intensive and uses little unskilled or semi-skilled labour. The challenge, therefore, is in building competence in the area of natural resource management at all levels – that is, at community, local government, provincial government, national government, civil society and company levels. State capacity is critical since government must be able to understand and monitor the extraction sector. The state must also have the capacity to:

- 1 formulate, implement and monitor policies and laws;
- 2 create a system that maximises internal revenue for exploration and exploitation;
- 3 promote value-added industries prior to export; and
- 4 ensure that coordination exists between the mining sector and other sectors of the economy.

Another challenge is that of predictability. In this regard, all stakeholders must understand the legal framework which sets conditions and rules for the extraction of resources. The way in which legislation is framed can either hinder or promote better management of the extractive industry and the revenue therefrom.

Natural resources are in most cases not renewable, and mines will inevitably close. Clear strategies are therefore needed to deal with this eventuality and plans must be in place to ensure sustainable economic growth after the depletion of resources.

Conclusion

The challenge for Africa today is to ensure that its natural resources are utilised in a way that contributes to pro-poor growth and progress towards Millennium Development Goal targets. It is therefore not surprising that the management of these resources and the myriad associated issues, especially the revenue accruing from them, are under considerable scrutiny.

An important question being asked at present is whether the innovative approaches emerging on the continent in managing natural resources and the wealth they generate are making a demonstrable difference.

This brief overview of how countries are managing their resources and the challenges faced by resource-rich countries suggests that there is no broad theory that can fit all cases, and no single and simple explanation of what steps need to be taken to create a resource “blessing” rather than a resource “curse”. We can conclude, however, that the proper management of resources is required to ensure growth and development on the continent, and that finding a suitable management system or model to match a country’s specific circumstances remains a huge challenge.

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