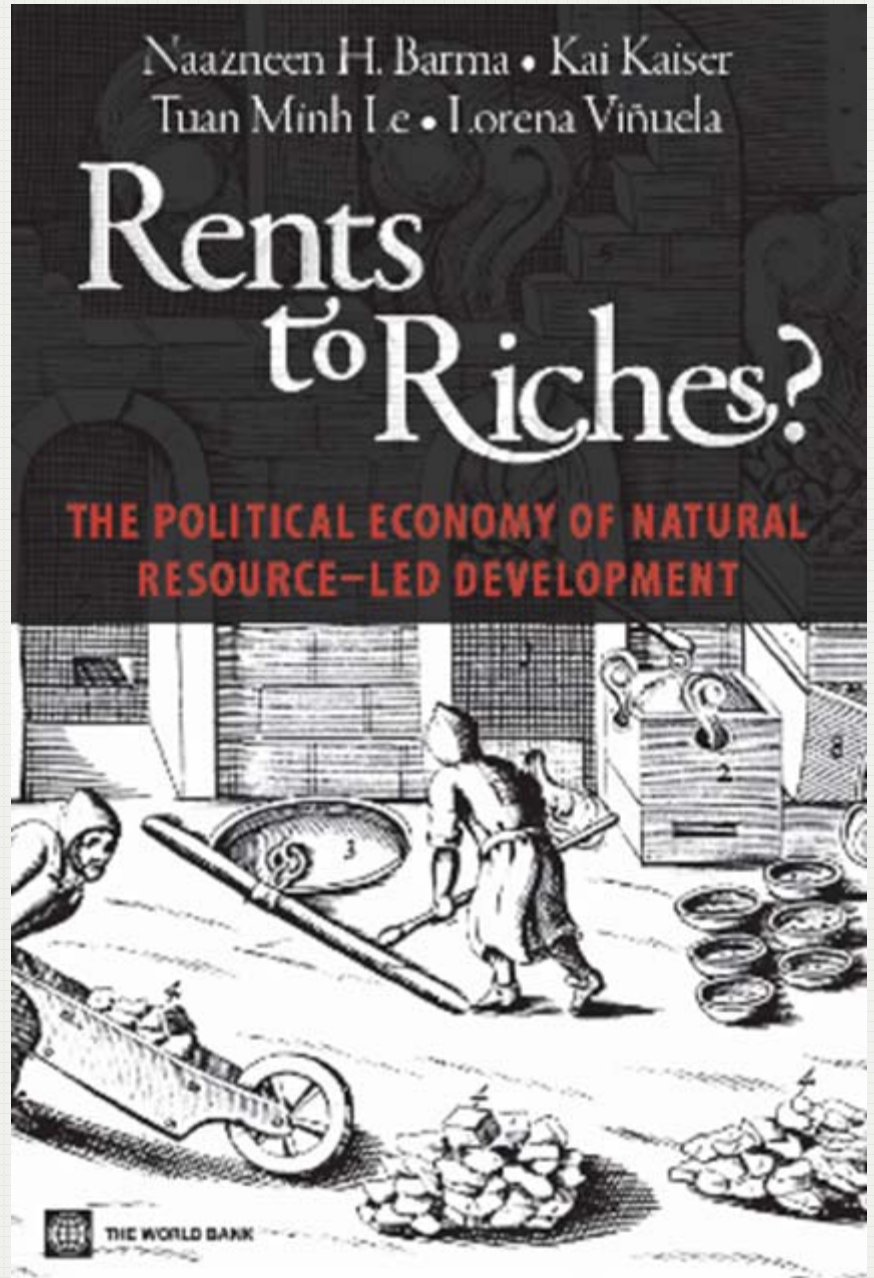


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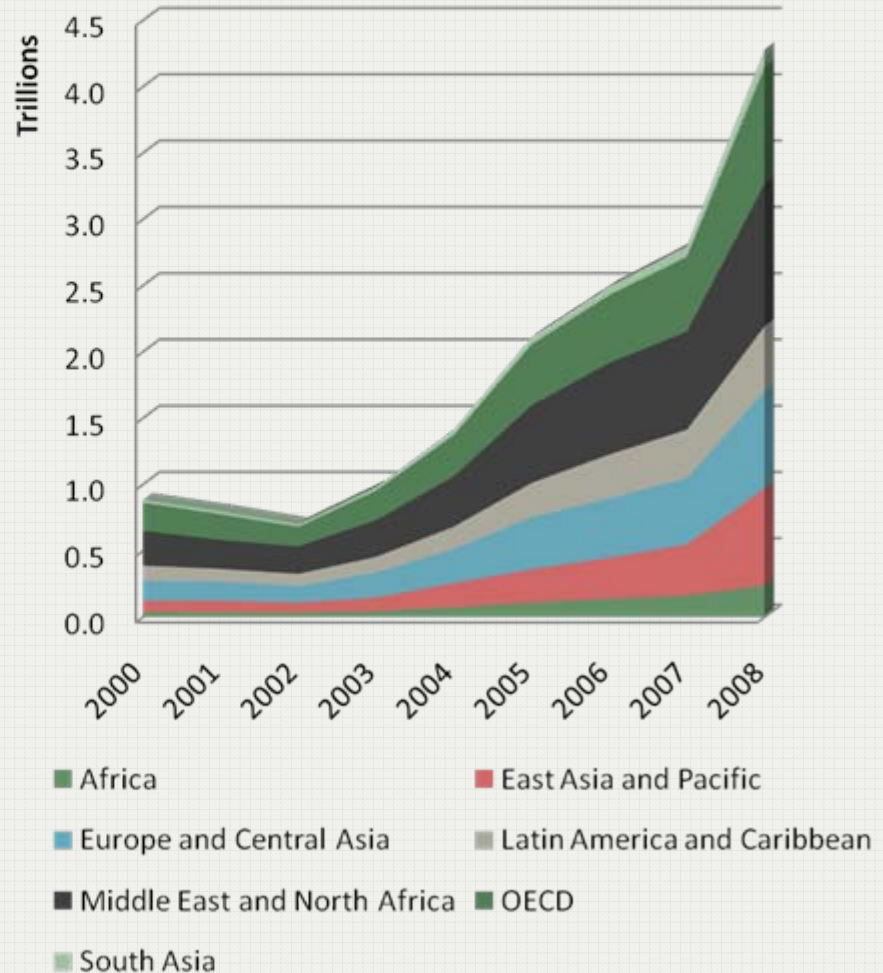
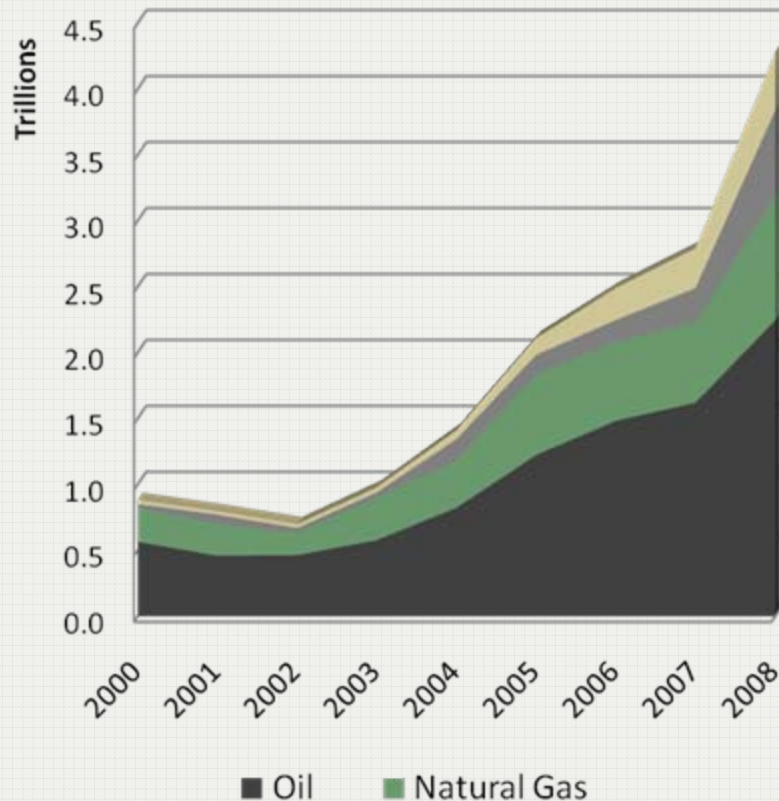
Assistant Professor
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February 28, 2012





Extractive industry rents are growing worldwide with exploration pushing into frontier areas



Source: World Bank *Wealth of Nations* Database



Institutional quality is central to the dynamics of the resource curse

- **Resource curse:** Developing countries rich in natural resources grow more slowly than those that are resource-poor
- Resource-dependent developing countries suffer from poorer levels of institutional quality than they should, given income levels
- Institutional quality and the resource curse are mutually constitutive
 - Institutional quality will most likely *condition* the quality of economic policy and natural resource management
 - Natural resource extraction might even bring about an *erosion* in governance

"Oil is the devil's excrement."

— Juan Perez Alfonso, former Venezuelan Oil Minister and OPEC co-founder, in the 1970s

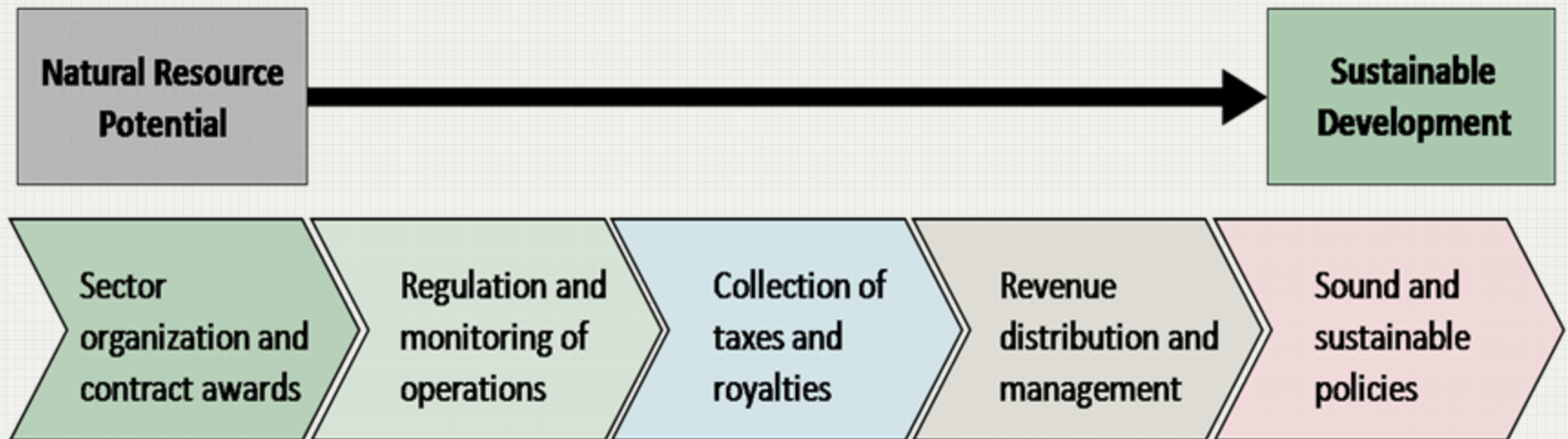


Resources shape a country's political economy through the 'rentier effect'

- Natural resources yield extraordinary rents and turn countries into 'rentier states'
- Resource rents affect the state's patterns of revenue collection and spending in specific ways
 - Windfall rent streams reduce the need for non-resource taxation, attenuating administrative capacity-building and weakening the tax-accountability linkage
 - Public office and public resources become valuable political-economic commodities
 - Natural resource extraction provides a number of channels to distribute rents; these distributive patterns constitute the 'rentier effect'

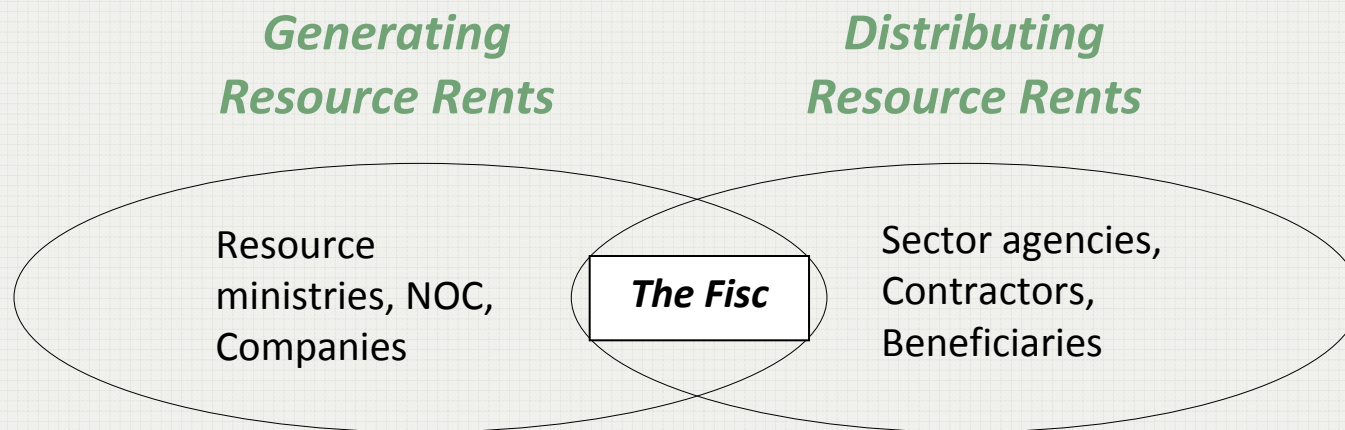
The natural resource management value chain illustrates the cross-cutting nature of the challenge

Why are the governments of resource- rich states so often unable to implement the corrective policy measures available to mitigate many of the patterns that cumulate into the resource curse?





The micro-political economy of the resource curse rests on how rents flow through the system



- How effectively does a government generate resource rents?
 - Enabling framework for hydrocarbon production or mineral extraction
 - Design of the fiscal regime and administrative capacity
- How effectively does the government invest resource wealth in a sustainable, pro-development manner?
 - Public investment prioritization, distribution, and implementation



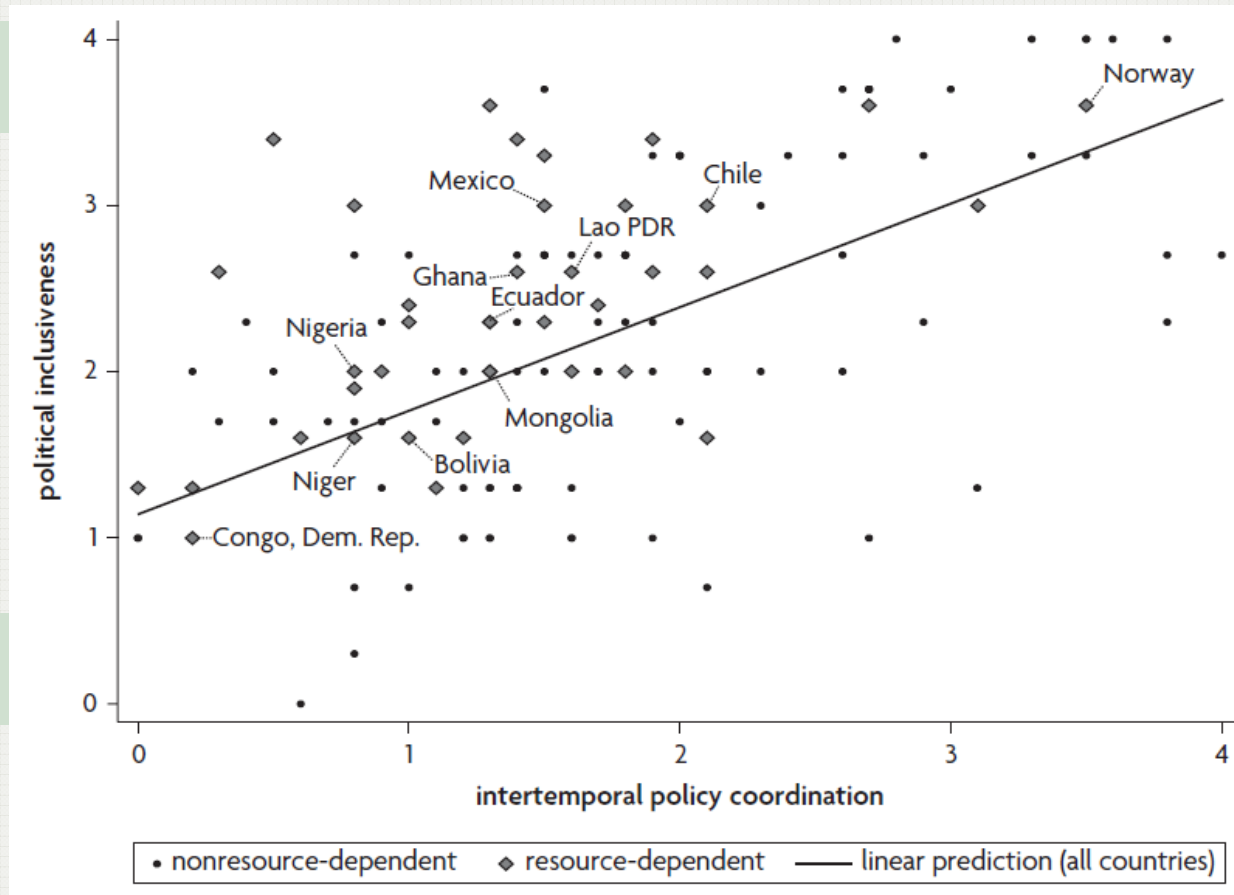
Two political economy dimensions help explain how a country performs in rent generation and distribution



Numerous data sources can be triangulated to sketch the feasible policy space for reforms

Clientelist
Pluralism

Patrimonial
Government



Programmatic
Pluralism

Hegemonic
Government

Source: laDB Public Policy Attributes (PPA) "Intertemporal Policy Coordination" variable;
French Development Cooperation Institutional Profiles Database (IPD) "Political Inclusiveness" variable.



Cambodia—patrimonial rule

- Weak intertemporal credibility: short time horizons and winner-takes-all politics
 - Low political inclusiveness: Cambodian People's Party dominance
 - Elite capture of rents
 - Lack of legal framework, capture of National Petroleum Authority
 - Rent distribution benefit elites
 - Off-budget rents, procurement system used for rent distribution
- Reforms:** public financial management; demand-side approaches





Laos—hegemonic government

- Stronger intertemporal credibility: longer time horizons from stable one-party rule
- Low political inclusiveness: elite-oriented political networks
- Elite capture of rents, with modest revenues
 - Political involvement in contracts has heightened investor confidence
- Some portion of rents transformed into public goods, but also private goods for elites
 - Weak public investment planning; powerful governors



Reforms: legal/regulatory framework; public investment systems



East Timor—clientelistic pluralism

- Weak intertemporal credibility: political instability and cycles of violence
- Increasing political inclusiveness: broad-based parties and elections



- Good rent generation, but weakening
 - Criteria-based contract bidding → more secretive consortia deals
- Some degree of rent distribution to population through budget
 - Consumption spending high, weak procurement system

Reforms: enclave capacity-building in petroleum sector; public financial management



Mongolia—(moving towards) programmatic pluralism

- Stronger intertemporal credibility: longer time horizons from multiple democratic transitions
- Increasing political inclusiveness: broad-based party competition (but electoral rule changes)



- Fair performance on rent generation, subject to instability
 - Licensing system subject to multiple points of discretion
- Significant rent distribution to public through social transfers and public investments in infrastructure, but leakages also high

Reforms: accountability reforms; legal/regulatory reform



Moving from analysis to action with 'good-fit' reform options tailored to context

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Three principles of incentive-compatible intervention for transforming rents into riches

- Extend time horizons, enhancing intertemporal credibility
 - Simple, non-discretionary regulatory framework can help to minimize investor uncertainty and ensure bargains (state-investor) and policy compacts (state-society) are adhered to and enforced
 - Enhancing transparency builds greater credibility and lowers risk
- Mobilize stakeholders and enable collective action, increasing inclusiveness
 - Empower third-party audit and oversight (international, local levels) to ease information asymmetries across the value chain
 - Distributing decision-making authority helps to build in checks and balances and foster cooperation across agencies
- Enclave institutions and capacity, building limited functionality in natural resource management, complemented with contracting-in

DISCUSSION