

Tackling the Resource Curse: The Role of Democracy in Achieving Sustainable Development in Resource-Rich Countries

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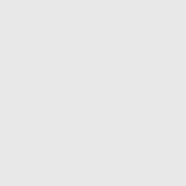
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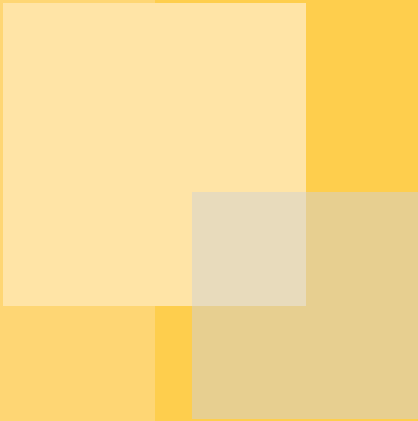
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Tackling the Resource Curse

The role of democracy in achieving sustainable development in resource-rich countries



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TACKLING THE RESOURCE CURSE

**The role of democracy in achieving sustainable development
in resource-rich countries**

Anar Ahmadov
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International IDEA resources on democracy and development

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SUMMARY

This report provides a critical survey of the academic and policy literature that investigates the role of democratic arrangements and practices in sustainable and inclusive development through the prudential governance of oil, gas and mining resources. It covers different government systems, world regions and countries. The findings suggest that if the question is ‘does democracy lead to better development outcomes in countries rich in oil, gas and mining resources?’, the ‘yes’ answer should be a very cautious and qualified one. While certain aspects of democratic arrangements and practices are empirically linked to sustainable and inclusive development outcomes, others are not—and may, under some conditions, undermine the achievement of such outcomes. Finally, several theoretical and methodological issues are identified that affect many studies in this literature and hinder making inferences from their findings. Six illustrative cases are discussed to highlight important aspects of the relationship between democracy, natural resources and development.

INTRODUCTION

A number of studies in the academic and policy literature suggest that resource-rich countries with democratic political systems are more likely than their resource-rich counterparts with less democratic systems to enjoy prudential governance of natural resources, which, in turn, makes inclusive sustainable development more likely. Drawing on the experience of natural resource management in countries like Norway and Chile, institutionalists argue that high-quality institutions, in particular the stronger legal systems and more capable state apparatuses that are commonly associated with democratic governance, are able to mitigate the perverse rent seeking greed driven by the availability of resource rents. Other studies dispute these findings. This literature largely vacillates between large-N econometric studies that point out cross-national correlations, or non-correlations, between democratic political institutions and development outcomes, and case studies that offer ideographic narratives focused on specific stories. Therefore, causal mechanisms and processes that link democracy to the prudential management of natural resources remain relatively less well conceptualized and understood from a cross-national perspective.

To fill this gap, this report aims to provide a comprehensive critical survey of both the academic and policy literature to identify patterns in the relationship between democracy, the management of natural resources and sustainable inclusive development (see Figure 1). It focuses on the potential role of various stakeholders and the democratic (and non-democratic) institutions and practices that tie them together in the governance of natural resources. It aims to pinpoint specific mechanisms that are pivotal for ensuring prudential management. The report covers different government systems, world regions and countries. Since different types of natural resources and institutional frameworks of extraction have consistently been shown to have different effects on societies, economies and politics—analysing the interaction of all of these aspects in one report results an overly ambitious task. Therefore, this study focuses on the role of oil, gas and mining resources (for a list of countries rich in these resources, see Appendix I). It draws on a multitude of examples to explore various aspects of the topic, and discusses six brief cases to illustrate the interaction between democracy, natural resources and development outcomes. Finally, gaps in the literature are identified that suggest avenues for future research.

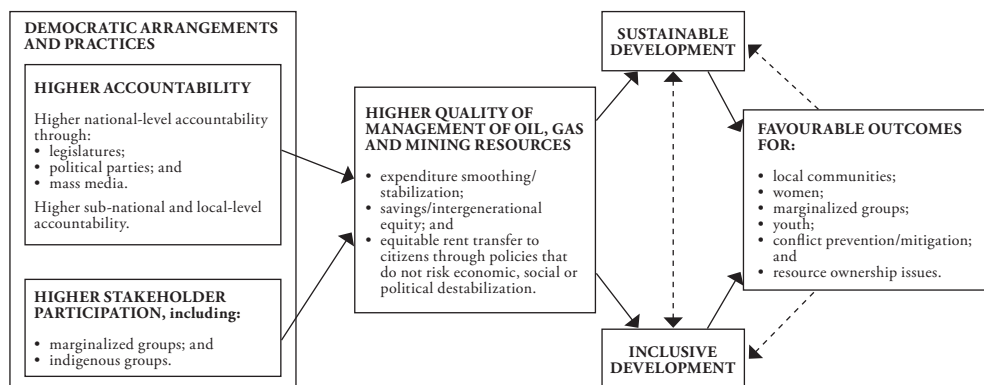
The following section outlines the study's conceptual framework. After that, the key features of the argument on the critical role of institutions are outlined to serve as the context for the more specific argument about the role of democratic institutions and practices. The next section provides a critical summary of all publicly available studies on the political economy of natural resource governance, focusing on the role of democracy in moderating the relationship between resource abundance or dependence and development outcomes. The sections that follow focus on three aspects of the

problem: development outcomes, stakeholder participation and accountability. In analysing outcomes, the study examines whether the literature suggests that countries that are more democratic have better development outcomes; particularly regarding local communities, women, youth, marginalized groups, conflict, and resolution of ownership issues. An analysis of the role of stakeholder participation in the governance of oil, gas and mining resources follows, as well as a discussion about accountability—in particular, the effect of accountability mechanisms and actors at the national and sub-national levels. Such actors include parliaments, political parties, mass media, sub-national and local governments, and civil society. The paper concludes by summarizing the benefits of specific democratic arrangements and practices, critiquing major patterns in the literature, and offering suggestions for future research.

CONCEPTUAL FRAMEWORK

The analysis begins by outlining key concepts used in the literature. Since this study is a critical survey of the existing literature rather than an original investigation based on primary evidence, it draws on conceptual and operational definitions used in this literature. While many studies fail to define their concepts, it is still possible to discern the concepts they implicitly use by looking at what empirical measures are employed as proxies.

Figure 1. Democracy’s positive effects on development? A hypothesized causal chain



While some studies seem to rely on a broad definition of democracy that includes a large array of arrangements and practices, others use measures that make it apparent that their concept of democracy is mainly institutional. The latter views democracy as a type of political regime characterized by strong checks and balances on the executive’s power, free and fair elections, and a high level of competitive political participation and contestation. A number of studies that employ this definition use the Polity IV index or its specific components, such as constraints on the executive or the competitiveness of political participation, to measure democracy (Marshall, Gurr and Jaggers 2014). Broader measures include Freedom House’s Gastil Index, which combines values on political rights and civil liberties indices that are in turn built from a larger set of indicators.

This paper draws on all studies regardless of the measures—and concepts—of democratic institutions, arrangements and/or practices they use, and pays particular attention to two key broad aspects that characterize all existing definitions of democracy: high stakeholder participation in the political process and high accountability of the actors involved. The second is particularly noted in the literature as a critical variable in determining whether or not resources are likely to produce outcomes that are favourable for the community that owns these resources. For stakeholder participation, the study

examines whether marginalized¹ and indigenous groups as well as other actors—such as civil society organizations, political parties or media—are involved in natural resource management, and whether there is a causal link between such participation and better development outcomes through prudential governance of the natural resources. The study also investigates national-level accountability, particularly the role of legislatures, political parties and media in constraining the executives (who are usually in charge of managing the oil, gas and mining resources in developing countries, given their national ownership), as well as sub-national and local-level accountability and their effects.

The focus in the literature has been on development in general. While some studies deal with sustainable development, few engage with the inclusivity aspect of development. Following the Brundtland Report, this paper defines sustainable development as development that meets the needs of the present without compromising future generations' ability to meet their own needs (World Commission on Environment and Development, 1987). It is noteworthy that while many studies agree on the importance of sustainable development, they use different measures as proxies. For instance, econometric studies commonly use measures of economic growth, such as growth of GDP or GDP per capita over a period of time (annual, medium term or long term), as a measure for sustainable development; this is done despite the possibility that this measure may only capture a certain aspect of development by, for example, ignoring income inequality or regional disparities within countries. Thus, even if development is sustainable in some regards, it may not necessarily be inclusive. Following the United Nations Development Programme, this study understands inclusive development as consisting of ensuring that all marginalized and excluded groups are included in development processes as stakeholders.

This report employs a wider concept of sustainable and inclusive development, as it includes any study that investigates the effect of democratic arrangements and/or practices on development, regardless of the measure used. The report particularly looks at the hypothesized effect of democratic arrangements and practices on a number of outcomes that we believe cannot be ignored if sustainable and inclusive development is at stake—that is, whether local communities, women, marginalized groups and youth gain from this development; whether conflict is mitigated or prevented; and whether ownership issues over resources are solved successfully, or at least mitigated thanks to the prevalence of democratic arrangements and practices.

Following the UNDP, the study uses the definition of governance as the exercise of economic, political and administrative authority to manage a country's affairs at all levels (1997: 2–3). This definition also corresponds with Fukuyama's (2013: 3–4) in viewing governance as a government's ability to make and enforce rules, and to deliver services, regardless of whether it is democratic because—while democracy and good governance are convincing in theory—the related empirical evidence is inconclusive. Thus may the governance of a country's oil, gas and mining resources be construed as the exercise of political and administrative authority to manage these resources. This authority comprises mechanisms, processes and institutions through which decisions on resource ownership, resource extraction and revenue management are made. Prudential governance (management) of oil, gas and mining resources can be characterized by at

¹ Marginalized groups include the poor, working children, victims of gender inequality, seniors, members of the LGBT community, the disabled and persons speaking a minority language (UNESCO).

least three groups of features: (1) public expenditure smoothing/stabilization of public finance; (2) savings/intergenerational equity; and (3) equitable rent transfer to citizens through policies that do not risk economic, social or political destabilization

THE ROLE OF INSTITUTIONS

A number of cross-country econometric studies argue that the quality of institutions in resource-rich countries mediates the effect of natural resources on development outcomes. In countries like Norway or Chile, which have ‘strong’ (i.e. producer- or development-friendly) institutions, natural resources are likely to lead to higher economic development. Conversely, in countries with weak (i.e. predatory or ‘grabber-friendly’) institutions, such as Nigeria or Myanmar, the resources are expected to lead to adverse development outcomes (Atkinson and Hamilton 2003; Boschini, Pettersson and Roine 2007; Mehlum, Moene and Torvik 2006; Robinson, Torvik and Verdier 2006). Based on a theoretical model, Robinson, Torvik and Verdier (2006: 450) suggest that countries with institutions that promote accountability and state competence will tend to benefit from resource booms, since these institutions counteract the perverse political incentives that such booms create, while countries without such institutions are at risk of the resource curse because the politicians’ drive to over-extract resources to stay in power is not curbed. Yet causal arrows may run in the reverse direction as well: abundance in natural resources, particularly in minerals, can affect development outcomes directly or indirectly through their effect on institutions. Natural resource wealth, particularly in oil and minerals, can engender corruption, rent seeking and social divisions (Isham et al. 2005), which in turn undermine development (Mauro 1995; van der Ploeg 2011). There are also studies that dispute the link altogether. For example, Alexeev and Conrad (2009) find that neither oil nor other minerals has a negative effect on economic development or institutional quality.

Timing and sequencing are key for the institutional argument: countries that have good institutions at the outset of resource production are likely to channel resource revenues into sustainable development (Mehlum et al. 2006; Robinson, Torvik and Verdier 2006; Thorp et al. 2012). As Okruhlik (1999: 309) argues, ‘oil enters into an ongoing process of development and into a constellation of identities. [...] The receipt of oil revenues per se does not explain development or opposition or relations between ruler and ruled.’ The manner in which the rents are deployed, however, is illustrative. The policies that are affected by resource rents therefore depend on the institutional landscape. Different institutional landscapes at the outset of the use of natural resource revenues to drive development can also explain why some autocratic regimes may break down as a result of shocks while others endure (Smith 2007).

[T]he quality of institutions in resource-rich countries mediates the effect of natural resources on development outcomes ... Yet causal arrows may run in the reverse direction as well.

Conventional measures of institutional quality refer to countries' performance with regards to the rule of law, quality of bureaucracy, corruption in government, risk of expropriation and government repudiation of contracts (Mehlum et al. 2006; Kaufmann, Kraay and Mastruzzi 2010). While better performance on each of these institutional indicators is usually linked to democratic governance, the two do not necessarily overlap (Frankel 2010).² The question then is whether democratic political institutions, or merely institutions of a higher quality, mediate the effect of oil and mining resources such that they lead to sustainable and inclusive development.

2 Frankel (2010) notes that '[s]ome correlates of democracy—rule of law, political stability, openness to international trade, initial equality of economic endowments and opportunities—do tend to be good for economic growth. But each of these other variables can also exist without democracy. Examples include pre-democratic Asian economies such as South Korea or Taiwan. Some believe that Lee Kwan Yew in Singapore and Augusto Pinochet in Chile could not have achieved their economic reforms without authoritarian powers. On a bigger scale, it is said that China has grown so much faster than Russia since 1990 because Deng Xiao Peng chose to pursue economic reform before political reform while Michael Gorbachev did it the other way around' (18).

DEMOCRACY, RENTS AND DEVELOPMENT: CROSS-NATIONAL EVIDENCE

Cross-national evidence on the role of democratic institutions and practices in ensuring sustainable inclusive development in countries rich in oil, gas and mining resources is mixed. Drawing on a data set of more than 100 countries, Korhonen (2004) finds strong empirical support for the hypothesis that a higher level of democracy is associated with higher growth in the presence of resource dependence. Collier and Hoeffler (2009) however distinguish between the effects of the electoral aspects of democracy and the checks and balance functions that democratic institutions fulfil, and their findings suggest otherwise. They find that the combination of large natural resource rents and open multiparty elections is even harmful for growth in developing countries, but that strong checks and balances neutralize this negative effect. As Collier and Hoeffler (2009) note, institutions of checks and balances are rare among resource-rich countries and can be eroded over time by resource rents (see also Jensen and Wantchekon 2004). Similarly, Elbadawi and Soto (2012) investigate the effects of a political system's degree of inclusiveness, measured by overall Polity IV scores (Marshall, Gurr and Jagers 2014), and political checks and balances, measured by the political constraints index (Henisz 2002). They find that the resource curse is more likely in resource-rich countries with low inclusiveness and weak checks and balances, and may be avoided by countries with better performance on either dimension, but that only countries characterized by both a high degree of inclusiveness and strong political constraints can channel resource rents into real income growth.

Cross-national empirical evidence suggests that democratic institutions and practices can, on average, effectively tackle corruption. Using panel data from 1980–2004 from 124 countries, Bhattacharyya and Hodler (2010) find that resource rents lead to corruption only if the quality of democratic institutions is below a certain level, namely 8.5 or less in Polity2 score.³ Arezki and Gylfason (2013) find similar evidence for a panel of 29 Sub-Saharan countries between 1985 and 2007. In turn, corruption is found to be detrimental to economic development (Bardhan 1997; Mauro 1995).

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Thus, it is reasonable to hypothesize that oil and mining resources are more likely to have negative effects on development if the producer country has not achieved democratic consolidation at the outset of production. Young democracies may not benefit from their resources. This is partly because of the reverse causality involved: since oil and

³ Note that this is quite a high threshold. For coding and calculations, see Marshall et al. (2014).

mining resources erode institutional quality and can hinder democracy, in the absence of tangible constraints on the ruling elites, policies may be reversed from development friendly to predatory. Using panel data on 46 sub-Saharan countries from 1960 to 1995, Jensen and Wantchekon (2004) find that dependence on oil and mining resources (measured as fuel, mineral and metal exports as a percentage of merchandise exports) not only impedes a country's transition to democracy but has also partly accounted for the backslide to autocratic rule after initial democratization in some resource-dependent countries such as Gabon, Cameroon and the Republic of Congo (Brazzaville). Such backslide has not been observed for mature democracies since World War II.

However, from a cross-regional perspective, oil and mining resources do not necessarily lead to less democracy. For example, Karl (1997) shows that Venezuela managed to transition to democracy in 1958 (via the Punto Fijo Pact) amid large oil windfalls. Dunning (2008) argues that oil and other mineral wealth can lead to either autocracy or democracy, but through different channels. In particular, Dunning shows that in Latin America, oil wealth fostered—rather than undermined—democracy. Dunning argues that in societies with high levels of private income inequality, as in Latin America, resource rents dampen re-distributional conflict, thus reducing societal elites' incentives to block democratization. The question of whether or not such democracies pave the way for better development outcomes is further elaborated on below.

There is some empirical evidence that even consolidated democracies may not be immune to some aspects of the resource curse. A study that combines sub-national econometric analysis of US states for the period between 1929 and 2002 and case studies of Texas and Louisiana show that higher oil and coal production as a share of state income is associated with slower economic growth, poorer developmental performance and less competitive politics (Goldberg, Wibbels and Mvukiyehe 2008). In their words, 'oil rents [...] allow political elites to maintain control over the levers of power. Thus, oil production does appear to be undemocratic, if by that one means the opposition is less likely to come to power.' (506). Their case studies suggest that this incumbency advantage is explained by a combination of low taxes and high public spending, which Ross (2001) collectively terms a rentier effect. A study of Norway from the time of its oil discovery in 1969 until 2004 finds that, while the country surpassed and maintained a higher rate of growth than its neighbours Denmark and Sweden during most of this 35-year period, a possible structural break that started in the late 1990s might be seen as symptomatic of a mild resource curse that included a decline in the manufacturing sector (Larsen 2005). Despite the institutionalization of the so-called spending rule that limits public spending to financial returns on Norway's Petroleum Fund, these years exhibited constant spending in excess of the rule, which Larsen (2005) attributes to popular pressure and electoral competition for votes.

There is some empirical evidence that even consolidated democracies may not be immune to some aspects of the resource curse.

Available empirical evidence also suggests that the presence of oil and mining resources in non-democratic countries does not mean that these resources will lead to unsustainable and/or non-inclusive development. It is remarkable that among the most-cited cases of successful

management of oil and mining resources among developing countries—Botswana, Chile, Indonesia and Malaysia—only Botswana was partially democratized at the time

of its successful management (Marshall, Gurr and Jagers 2014). Yet even Botswana's success is attributed to the general array of development-friendly institutions (including pre-colonial institutions left intact by the British that constrained political elites) and the steadiness of revenue streams from its diamond production, rather than solely to its relatively more democratic politics than many other Sub-Saharan countries (see Botswana case study).

On the contrary, a troubling finding by Collier and Hoeffler (2009: 305)—based on a regression analysis of around 131 countries between 1970 and 2001—is that in the absence of resource rents, democratic developing countries outperform autocratic ones in terms of medium-term GDP per capita growth (over four-year periods), but in the presence of large resource rents autocracies outperform democracies. These accounts echo a larger uncertainty: while political democracy can be regarded as an end in itself, its effect on economic performance is ambiguous (for different views, see Alesina et al. 1996; Barro 1996; de Haan and Siermann 1995; Doucouliagos and Ulubaşoğlu 2008; Gerring et al. 2005; Helliwell 1994; Tavares and Wacziarg 2001). Indeed, the successful economic reforms in Chile under Pinochet, Indonesia under Suharto and Malaysia under Mahathir, as well as in such non-resource rich autocracies as Singapore or South Korea, are sometimes attributed to the insulation of the ruling elites and bureaucracies from popular pressure and their use of repression (for a discussion, see Eifert, Gelb and Tallroth 2003; Frankel 2010; Gelb and Grasmann 2010).⁴

The trouble with most of these accounts of the link between democracy and development outcomes is that they are based on cross-national econometric studies. Therefore, while they can establish robust associations, their causal stories are likely to remain suggestive given the inherent inferential limitations of statistical analysis in the social sciences (Brady and Collier 2010). The question remains whether the observed development outcomes should be attributed to political regimes and practices per se or to the array of other institutions, such as property rights and rule of law. What specific features of democratic institutions and practices affect development outcomes? Careful comparative qualitative analysis can help parse out the causal mechanisms at work in these cases.

[A] troubling finding ... [is that] in the presence of large resource rents autocracies outperform democracies.

The first (and what seems to be the only) comprehensive qualitative investigation to date of the political-economic determinants of natural resource governance by Eifert, Gelb and Tallroth (2003) proposes a political-economic typology of oil-exporting countries and argues that such a classification predicts how each country manages its resources (see Table 1). They distinguish between five groups of oil-exporting countries:

⁴ Resource-rich autocracies may also be better able to attract investment. Based on a case study of Azerbaijan and Russia, Bayulgen (2005) suggests that more autocracy in developing countries that are rich in oil and mining resources may be beneficial for attracting foreign investment in the resource sector because there are fewer domestic veto players who can challenge the government's investment policies. In turn, such indirect or direct external legitimation by foreign investors can contribute to entrenching the ruling elites and hindering democratic transition.

1. mature democracies (e.g. Norway);
2. ‘factional’ democracies (e.g. Ecuador, Venezuela, Colombia and, partly, Mexico);
3. paternalistic autocracies (Saudi Arabia, Kuwait and other Gulf states);
4. reformist (modernizing) autocracies (e.g. Indonesia under Suharto); and
5. predatory autocracies (Nigeria until the early 2000s).

Oil exporters in each group differ from countries in other groups along one or more of the following four dimensions: the stability of the political framework and of party systems, the degree of social consensus, the legitimization of authority and the means by which governments (or aspiring governments) obtain and maintain support, and the role of state institutions in underpinning markets and distributing rents (Eifert, Gelb and Tallroth 2003). Different groups can share similarities in some dimensions and differ in others. These features lead to differences in five areas: the length of political horizons, levels of transparency, policy stability and quality, the political power of the sectors producing non-oil tradables and the power of interests directly attached to state spending (Eifert, Gelb and Tallroth 2003). In turn, these features have economic implications: while some encourage stabilization and saving and contribute to inclusive development via careful rent transfer mechanisms to citizens, others lead to the squandering of resources, policy distortions and a lack of economic diversification.

Table 1. Political economy classification of oil exporters

Political	Institutional	Economic
Mature democracy		
<ul style="list-style-type: none"> • stable party system • range of social consensus • strong, competent, insulated bureaucracy • competent, professional judicial system • highly educated electorate 	<ul style="list-style-type: none"> • long time horizon • policy stability, transparency • high competitiveness, low transaction costs • strong private/tradable sector, pro-stabilization interests vis-à-vis pro-spending interests 	<ul style="list-style-type: none"> • savings likely • expenditure smoothing, stabilization • rents transferred to public through government-provided social services and insurance or direct transfers
Factional democracy		
<ul style="list-style-type: none"> • government and parties often unstable relative to interest groups • political support gained through clientelistic ties and provision of patronage • wide social disparities, lack of consensus • politicized bureaucracy and judicial system 	<ul style="list-style-type: none"> • short time horizon • policy instability, non-transparency, high transaction costs • strong state role in production • strong interests attached directly to state expenditures; politically weak private non-oil sector and pro-stabilization interests 	<ul style="list-style-type: none"> • savings very difficult • procyclical expenditure, instability • rents transferred to different interests and to public through subsidies, policy distortions, public employment

Political	Institutional	Economic
Paternalistic autocracy		
<ul style="list-style-type: none"> • stable government; legitimacy originally from traditional role maintained through rent distribution • strong cultural elements of consensus, clientelistic and nationalistic patterns • bureaucracy provides both services and public employment 	<ul style="list-style-type: none"> • long time horizon • policy stability, non-transparency • low competitiveness, high transaction costs • strong state role in production • strong interests attached directly to state expenditures, weak private sector 	<ul style="list-style-type: none"> • procyclical expenditure, mixed success with stabilization • risk of unsustainable long-term spending trajectory leading to political crisis • little economic diversification
Reformist autocracy		
<ul style="list-style-type: none"> • stable government, legitimized by development • social consensus toward development • constituency in the non-oil tradable sector • insulated technocracy 	<ul style="list-style-type: none"> • long time horizon • policy stability, non-transparency • drive for competitiveness, low transaction costs • strong support for stabilization and fiscal restraint 	<ul style="list-style-type: none"> • expenditure smoothing, stabilization • state investment complementary to competitive private sector • active exchange rate management to limit Dutch disease
Predatory autocracy		
<ul style="list-style-type: none"> • unstable government, legitimized by military force of arms • lack of consensus-building mechanisms • bureaucracy exists as mechanism of rent capture and distribution; corrupt judicial system • little or no civic counterweight 	<ul style="list-style-type: none"> • short time horizon • policy instability, non-transparency • low competitiveness, high transaction costs • spending interests strong vis-à-vis private sector or pro-stabilization interests 	<ul style="list-style-type: none"> • no savings • highly procyclical expenditure • very high government consumption, rent absorption by elites through petty corruption and patronage, capital flight

Note: reproduced from Eifert, Gelb and Tallroth (2003: 89).

According to Eifert, Gelb and Tallroth (2003), **mature democracies** such as Norway are characterized by stable party systems; a high degree of social consensus; competent, insulated bureaucracies; professional judicial systems; and highly educated electorates. These political features have several institutional implications: long time horizons, policy stability, transparency, high competitiveness with low transaction costs, strong tradable sector and, therefore, strong pro-stabilization interests to counterbalance pro-spending interests. This creates an environment where public savings are more likely and expenditures smoothed, which leads to the stabilization of the public finance system as rents are transferred to citizens through social services, insurance or direct transfers.

In **factional democracies**, such as Ecuador, Venezuela, Colombia and, partly, Mexico, the instability of government and parties relative to interest groups; securing of political support through clientelism and patronage; wide social disparities and lack of consensus; and politicized bureaucracies and judiciaries entail short time horizons, policy instability, a lack of transparency, a strong state role in production, and strong groups feeding directly on state expenditures (thus, weak non-oil and pro-stabilization interest groups). The result is procyclical, unstable public spending that jeopardizes savings and transfer rents to different interests and to citizens through subsidies, policy distortions and public employment.

In **paternalistic autocracies**, such as Saudi Arabia, Kuwait and other Gulf states, while the government is stable and there is consensus in the society, the government's legitimacy is derived from a traditional role and rests on rent distribution; consensus is characterized by strong cultural elements and clientelism; and the bureaucracy provides both services and public employment. While these features lead to long time horizons and policy stability, they also result in non-transparency, low competitiveness, strong state role in production, weak private sector, and strong interest groups that benefit directly from public spending. The result is procyclical spending and the risk of unsustainable long-term spending that can lead to political crisis and an undiversified economy.

On the other hand, **reformist autocracies**, such as Indonesia under Suharto, share certain similarities with mature democracies: stability of their political framework, a social consensus that supports development, strong interest groups in the non-oil tradable sector, and insulation of their bureaucracies and/or technocracies. Similarly, the institutional implications are long time horizons, policy stability, a drive for competitiveness and strong interest groups pushing for fiscal restraint, which result in expenditure smoothing and fiscal stability; state investments that only complement those of the competitive private sectors; and prudent monetary policy to limit the 'Dutch disease' effects.⁵

Finally, **predatory autocracies**, such as Nigeria until the early 2000s, have the least development-friendly political features: unstable governments, legitimized by military force; a lack of mechanisms to build social consensus; a corrupt, rent-capturing bureaucracy and corrupt judiciary; and weak or non-existent civic opposition. These features lead to short time horizons, policy instability and non-transparency, low competitiveness, and strong support for public spending rather than stabilization. In this environment, natural resource governance is characterized by no savings, highly procyclical spending policies, and allocation of rents to elites through patronage and corruption. As Eifert, Gelb and Tallroth (2003) and Sala-i-Martin and Subramanian (2003) observe, even after transitioning to a more democratic form of governance (such as in Nigeria during Obasanjo), institutional inertia in such countries makes prudent policies—and thus sustainable and inclusive development—a difficult task.

Despite its many merits, the analysis by Eifert, Gelb and Tallroth (2003), as acknowledged by the authors, remains suggestive and inconclusive. In fact, Eifert, Gelb and Tallroth

⁵ In the 1960s, the Netherlands experienced a vast increase in its wealth after discovering large natural gas deposits in the North Sea. Unexpectedly, this ostensibly positive development had serious repercussions on important segments of the country's economy, as the Dutch guilder became stronger, making Dutch non-oil exports less competitive. This syndrome has come to be known as 'Dutch disease'. (Ebrahim-zadeh 2003)

have published further research questioning their own analysis due to three inter-related issues. First, while the five groups they identify—from mature democracies to predatory autocracies—indeed exhibit the political and institutional features and experience the economic consequences described by the authors, it is not clear whether the observed outcomes result specifically from their political regime characteristics (democratic versus autocratic) or from institutions or practices associated with democratic or autocratic forms of governance. Indeed, political features that form the criteria behind their classification are not all necessarily the features of political regimes per se. For example, mature democratic countries have highly educated electorates, but this may be due to their level of development rather than their political regimes. Similarly, interest groups in the non-oil tradable sector has little to do with political regime. These problems make the analysis cluttered, and causal inference difficult.

Second, Eifert, Gelb and Tallroth (2003) single out reformist autocracies from among autocracies as states that share important similarities with mature democracies that are conducive to development. Yet it is hard (if at all possible) to know *ex ante* whether an autocracy will be reformist, paternalistic or predatory. Reformism implies undertaking reforms, so is likely to be endogenous to natural resources. In other words, categorizing regimes as reformist autocracies signifies that the classification is done according to outcome and not according to a characteristic inherent in the regime *ex ante*. Similarly, insulated technocracies can take over, like in Indonesia, during the process of development and not necessarily before, like in Chile (Orihuela 2012). Even if they precede natural resource production, the question is why the power of technocracies gets eroded in some countries and remains insulated in others.

Third, the Eifert, Gelb and Tallroth (2003) study sheds more light on the sustainability than the inclusiveness of development. In other words, while the study shows that reformist autocracies, for instance, may be better at ensuring sustainable development, it does not tell how inclusive that development is, if at all.

This study draws on existing research to investigate different dimensions of interactions between political systems; the management of oil, gas and mining resources; and sustainable inclusive development.

OUTCOMES

Local communities

There are no studies that analyse the impact of natural resource production on local communities from a comparative, cross-regional perspective; most examine the experiences of specific countries or areas. The studies under review looked at local communities in Nigeria, Indonesia and several Latin American countries. The variety of ways in which the management of oil and mining resources can impact local communities can be grouped into three broad categories. First, natural resource production can fuel local conflict and violence by increasing the perceived marginalization of local communities (as in Nigeria). Second, resource exploitation can empower and mobilize a local community to extract concessions from mining companies (as in Peru). Third, oil and mining resources can induce rent seeking by local politicians, leading to political conflict over how these revenues are distributed (as in much of Latin America). The nature and outcomes of these processes depend on a number of context-specific factors, including the territorial organization of political power; degree of fiscal (de)centralization; ethnic heterogeneity of the local population; ownership claims on land and sub-soil resources; and pre-existing minority grievances.

Sub-national issues often involve conflict over the collection and distribution of revenues between central and provincial authorities, and between state or provincial governments and local communities. Such conflicts are often magnified by demographic complexity, legacies of colonial divide-and-rule policies, and the geographic distribution of natural resources within the territory.

Countries employ different ways of collecting and sharing resource revenues: granting sub-national governments the right to directly collect certain types of revenues, such as through local taxes, registration fees, social payments and mining licenses (as in Canada); centralizing the collection of all revenues into a single account with subsequent fiscal transfers to local governments based on a predetermined formula (as in Nigeria and Indonesia); and any combination of these practices (Haysom and Kane 2009). Sub-national

issues often involve conflict over the collection and distribution of revenues between central and provincial authorities, and between state or provincial governments and local communities. Such conflicts are often magnified by demographic complexity, legacies of colonial divide-and-rule policies, and the geographic distribution of natural resources within the territory. Open conflict is especially likely to emerge in countries in which the geographical distribution of oil, gas and mining resources is uneven (i.e. concentrated in a small number of provinces) and revenues are not equitably shared (Aguilar, Caspary and Seiler 2011). In Nigeria, where oil accounts for 65 per cent of

federal government revenues, oil is produced in only 9 out of 36 states. In Peru, 8 out of 24 regions hold 85 per cent of the revenues from the mining sector transferred to sub-national governments (Aguilar, Caspary and Seiler 2011: 1).

Sub-national issues also arise from the specificities of a natural resource industry and the activities of resource production companies. Oil and gas production, for example, is capital intensive and does not employ a large labour force. Oil-producing states thus have a characteristically low labour force participation in the oil industry. In Azerbaijan, for example, oil absorbs only one per cent of the country's workforce. Furthermore, the specificities of the oil industry in Azerbaijan include the fact that oil extraction is concentrated around the capital, Baku, and in offshore fields in the Caspian basin, where 90 per cent of the population belongs to a titular ethnicity. Nigeria, on the other hand, extracts most of its oil in the highly ethno-linguistically divided south—the Niger Delta. Despite Nigeria's transition to semi-democracy in 1999, the Niger Delta remains a hotspot of violence. The different ethnic groups in the Niger Delta started to voice discontent with their marginalized position within the federation, which is dominated by the three major ethnic groups (the Hausa, the Yoruba and the Ibo), when the country became independent in the 1950s. Around the same time, commercial oil production began in the Delta region, and initially raised hopes that oil would bring prosperity to the ethnic minorities. Yet, the extraction of oil from the Delta by joint ventures between the Nigerian state oil company and foreign mining companies—predominantly Shell—has produced massive environmental damage and led to the destruction of traditional livelihoods. In the 1970s and 1980s, a number of local community groups were formed to fight the so-called slick alliance of energy companies and the military. Ken Saro-Wiwa was a key figure in mobilizing the Ogoni people. He created a political movement Movement for the Survival of the Ogoni People (MOSOP) demanding compensation from Shell for ecological degradation and protested against the Nigerian state's control of the oil. Saro-Wiwa was summarily executed by the military in 1995, but this legacy of local mobilization has survived. A testament to this is that other ethnic minorities have used the MOSOP strategy to voice their own demands, such as social investment and jobs for locals. In the late 1990s, the Ijaw ethnic group mobilized through several ethnic-based groups to challenge the federal government's rule over the area. At the core of the conflict is the question of distribution of oil revenues, as the increase in oil revenues strengthened the government's fiscal centralism (Watts 2004).

When natural resources are located on the lands of a local community it strengthens the community's sense of entitlement to benefits and increases its political leverage with regards to extractive companies in bargaining over resource control and revenue sharing. This is aided by the generally accepted and internationally endorsed discourse in the development community demanding greater local input and participation in resource policy (Arellano-Yanguas 2011), including ILO Convention 169 on indigenous land rights ratified by most Latin American countries (and a few other countries outside Latin America) (Stocks 2005). In Peru, mining companies are required to get prior consent

[D]espite the promise of the localist policy paradigm to tackle the resource curse—including fiscal decentralization and participatory consultations with civil society organizations and mining firms—the outcome has been perverse: the money has not been well spent, and greater local participation has fuelled political conflict at the local level.

for mining operations from the local communities (the so-called social license). There, the mining industry encourages the collective action of local communities. Mining-related social movements use environmental discourse to frame their claims and to gain legitimacy. Cajamarca and Espinar, two localities where there are intensive mining operations, have experienced the social mobilization of local community groups. These groups feel they have a power that they never had before: the power to say ‘no’ to a powerful company (Arellano-Yanguas 2008: 25). The operation of the gold mining company Yanacocha in Cajamarca, Peru, has been accompanied by significant social conflicts with local communities (Arellano-Yanguas 2008: 28). Following community action, Yanacocha and other mining companies operating in the region felt obliged to disburse large payments in support of community development projects. For example, in 2005, Yanacocha donated USD 23.4 million for community projects and promised to contribute USD 45 million to the ‘mining programme of solidarity with the people’ (Arellano-Yanguas 2008: 30).

However, despite the promise of the localist policy paradigm to tackle the resource curse—including fiscal decentralization and participatory consultations with civil society organizations and mining firms—the outcome has been perverse: the money has not been well spent, and greater local participation has fuelled political conflict at the local level (Arellano-Yanguas 2011: 619). In Bolivia, Ecuador, Colombia and Peru, where most of the oil revenues seemingly benefit the regions and the bulk of resource revenues is allocated to the provincial governments and municipalities in the producing regions, issues with administrative management and a lack of transparency in revenue allocation remain despite significant efforts at decentralization (ESMAP 2005). Similarly, in Indonesia, one study finds that a more participatory model of governance at the local level was not associated with improved well-being for the local community (Sugiri and Adiputra 2011).

Whether a country becoming more democratic leads to better development outcomes for local communities depends on the extent to which democratic institutions and practices spread to sub-national political entities, and whether democratic participatory norms and rules of accountability are internalized by all relevant actors. There is an important distinction between consolidated established democracies like Canada or Australia and younger democracies like Ghana or Mexico. Established democracies seem to have more institutional barriers and other safeguards against resource misallocation and wasteful rent seeking at the sub-national level. Yet, they are not completely immune to the resource curse. If Alaska is considered a local community, the direct distribution of its oil revenues

to citizens via the Alaska Permanent Fund is said to have a negative impact on private sector investment by encouraging consumption and discouraging entrepreneurship. It has also contributed to a rentier mentality among Alaska residents and disincentivized the development of a broad-based tax system (Weinthal and Jones Luong 2006: 42).

Regarding younger democracies, the question of whether democracy matters for more equitable local development remains unanswered.

Regarding younger democracies, the question of whether democracy matters for more equitable local development remains unanswered. Two problems prevent causal inferences concerning the putative link. The first problem is the lack of measures of

democracy at the sub-national level and the absence of explicit attempts to compare local outcomes between sub-national units with varying degrees of democracy within a larger territorial jurisdiction. The second problem is the role of contextual and country-specific initial conditions (such as protracted inter-ethnic violence or ethnicity-based grievances) in impeding democratic consolidation and the difficulty of disentangling the effects of initial conditions and democratization on the quality of resource management.

Many single-case and small-N studies suffer from the contextual bias and overlook important differences between sub-national units within larger federal structures (Snyder 2001). Studies show that countries that are considered to be democratic at the national level (by standard measures of democracy) can have varied degrees of democracy at the sub-national level and even hold pockets of authoritarian rule (as in Mexico after 2000) (Moncada and Snyder 2012). In the case of Nigeria, the transition to civilian rule in 1999 brought high expectations that democracy would reduce intra- and inter-communal violence in the Niger Delta. In reality, however, the Niger Delta faction of the ruling elite had made the rounds in an attempt to co-opt the leadership of the various social movements and ethnic and communal organizations—and not in order to reduce violence, but in order to deradicalize and demobilize the organizations or use them for narrow or personal political purposes (Obi 2010). It seems implausible that the return to civil rule and procedural democracy ameliorated the perceived plight of local communities in the Niger Delta. Violence persists to this day, and has perhaps even intensified since the early 2000s (Guichaoua 2009). Although the democratic transition has not improved the management of oil wealth for the benefit of local communities, it seems premature to blame democracy for the failure to deliver local development. Decades of squandering of oil wealth by military rulers (Sala-i-Martin and Subramanian 2003), combined with structural and institutional conditions inherited from colonialism and post-independence authoritarian rule, were among the more real causes. While by holding relatively competitive elections in 1999 that inaugurated the new era of civilian semi-democratic rule at the federal level Nigeria has met the procedural criteria of democracy, if a more exhaustive definition of democracy is used, its democratic credentials are questionable. More importantly, one only needs to disaggregate the national political regime to see more subtle differences in the degree of democracy in the violence-plagued oil-producing littoral states compared to the federal government and non-oil-producing states.

The experiences of other resource-producing countries suggest a more careful understanding of democracy's presumed dividends. In Peru, democratization after Fujimori's fall in 2000 led to decentralization with a greater focus on localist policies that resulted in perverse outcomes: the inefficient sub-national management of resources, which fuelled local conflict (Arellano-Yanguas 2011). In Colombia during the 1990s, a large proportion of central government revenue, including oil rents, was earmarked for transfers to sub-national government entities involving government agencies at various levels, which fuelled political competition over rent distribution. As a result, '[w]ith weak supervisory practices and regulatory forbearance, moral hazard led local and regional entities to overspend and accumulate excessive debt.' (Eifert, Gelb and Tallroth 2003: 102). In general, as the experiences of Ecuador, Peru and Bolivia demonstrate, measures to ensure that local communities will benefit from the extractive industries have not been adequate: 'in some cases, revenues that should have been transferred to local entities for distribution in these adversely affected communities were not, and

even when they were, communities were not given a sufficient voice in deciding how they should be used' (Slack 2004: 60).

Women

The gender dimension of the resource curse has only recently been taken up in academic and policy research. With the exception of the quantitative study of oil and women by Ross (2008) discussed below, the existing research is largely qualitative and based on case studies. The impact of the oil and mining industries on women and women's experiences in relation to mining activities are not sufficiently addressed. However Jenkins (2014) proposes four main areas for analysing how mining affects women in the third world: 'women as mineworkers (both in relation to artisanal and small scale mining (ASM) and larger scale industrial mining); the gendered impacts of mining, and specifically the disproportionately negative impacts on women; women's changing roles and identities in communities affected by mining; and finally gendered inequalities in relation to the benefits of mining'.⁶

Women are mostly employed in small-scale mining and, according to World Bank estimates, women's participation in the extractive industries worldwide is low, representing less than 10 per cent of the workforce. This figure is higher for artisanal mining, where women represent 30 per cent of the workforce (for Africa, this figure is up to 50 per cent) (GIZ 2014). Women are particularly negatively affected by the impacts of mining on water and the environment; health; community displacement; and violence against women (Jenkins 2014). Mining areas, in particular gold mining sites, in Tanzania for example, are believed to employ predominantly male workers, attract female prostitution, and contribute to the spread of sexually transmitted diseases and domestic violence. However, a study by Bryceson, Jönsson and Verbrugge (2013) challenges this view by showing the complexity and multiplicity of male-female conjugal relations in those sites. Bryceson, Jönsson and Verbrugge's (2014) later study of the two artisanal mining settlements in Tanzania looks more closely at how the migration of men and women to the artisanal gold mining sites is accompanied by high risks of occupational hazards, economic failure, AIDS and social censure from their home communities. Male miners in these settlements compete to attract newly arrived young

women, who are perceived to be diverting male material support from older women and children. In other words, mining transforms family livelihoods in local communities as well as traditional notions of gender and sexual and family relations.

Oil is believed to be different from other mining sectors in that it is more capital intensive and requires large investments (usually provided by foreign mining companies), but employs few domestic

Oil can impair female work participation through two mechanisms: (1) increased government welfare transfers lead to fewer women seeking jobs and (2) the Dutch disease leads to a decline in production outside the oil sector, which in turn generates fewer jobs for women. Fewer employed women means less female political and social participation and representation.

⁶ Artisanal mining involves the labour-intensive extraction of minerals and metals such as gold and gemstones carried out by individuals and groups with limited capital investment and typically using their own resources and rudimentary tools. In Sub-Saharan Africa, this sector employs about 9 million workers (Bryceson, Jönsson and Verbrugge 2013, p. 54).

workers and, under certain conditions, can have a negative effect on women's work participation (Ross 2008, 2012). Ross (2012) argues that oil drives women out of the labour force as it encourages them to stay home. He identifies two mechanisms through which oil can impair female work participation: (1) increased government welfare transfers lead to fewer women seeking jobs and (2) the Dutch disease leads to a decline in production outside the oil sector, which in turn generates fewer jobs for women. Fewer employed women means less female political and social participation and representation. Oil generates new jobs, but only in the service sector, construction and government. Not all oil-rich countries suffer from this effect. In Western countries and, among developing countries, Mexico and Malaysia, where there are no barriers to women's employment in the service sector, oil did not have these detrimental effects. In other words, oil's effect on female work participation depends on whether women are allowed to work in the service sector. In Middle Eastern and Northern African (MENA) countries, laws prohibit women from being employed in jobs that involve contact with males. Therefore, oil reduces female work participation which in turn reduces their political influence outside the culturally and legally acceptable sectors. Consequently, oil states have fewer women in parliament than non-oil states, but this is true only in the MENA region (in other regions, the effect is not statistically significant). Because there is a striking variation in women's labour force participation across the MENA region, Ross argues, it is petroleum—not Islam—that is responsible for the difference.

Not everybody agrees. In contrast to Ross' claims, Charrad (2009) attributes women's absence from politics in the MENA region to patriarchal structures and political institutions. Norris (2009) points out that this claim does not seem to be valid beyond petroleum and outside MENA, as shown by high female participation in anti-apartheid struggles in gold- and diamond-producing South Africa and in non-MENA countries like Venezuela and Russia. In Ross' defence, however, non-fuel mining generally employs more women (e.g. in South Africa), and some states with vast oil resources, like Russia and Venezuela, lack restrictive legislation regarding women's employment in the construction and other non-tradable sectors.

Does more democracy improve women's labour force participation and political role in resource-rich states? As outlined above, using the Middle Eastern oil producers as the primary example, Ross (2008) argues that oil reduces female labour force participation and women's role in politics. Kang (2009) criticizes Ross for failing to incorporate political institutions (notably gender quotas), and finds that oil's effect on women's parliamentary representation only holds true (i.e. is significantly negative) in the absence of quotas. Since political leaders in democratic regimes are more likely to be interested in women's votes, they are more likely to spend oil revenues on social welfare, education and health care, while autocrats are expected to disregard women's demands (Kang 2009). More democratic regimes are also more likely to implement gender quotas and ensure more female representation, which can be expected to give women a stronger influence in policymaking. However, there is no research on the linkages between women's legislative representation, natural resource management and policy performance. Thus it is not known whether women's inclusion in policymaking makes any difference with regards to development outcomes of natural resource production.

Marginalized groups and youth

The impact of resource governance on marginalized groups is often mentioned in relation to indigenous groups. As discussed below, indigenous group actions often involve demands for monetary or social compensation payment by extractive companies. As a recent example, in February 2015, the Kichwa indigenous community in Peruvian Amazon River basin blocked the passage of oil company boats along the river to protest ecological pollution caused by oil spills. The community leader said they would refuse to agree to the government's relicensing of the oil concession held by Pluspetrol if the company does not agree to clean up environmentally contaminated areas and provide better compensation (Hill 2015).

The effect of mining and oil on youth is only mentioned in the literature in relation to discussions of youth mobilization and violence in the Niger Delta (see, for example, Watts 2004; Eberlein 2006). It may be theorized that, as is the case with women, by causing negative externalities on non-oil sectors, the Dutch disease might drive youth out of employment and into the streets. Unemployed youth might be more prone to join illicit activities and more easily recruited as manpower in local conflict in places like the Niger Delta or South Sudan.

Conflict

While there is abundant literature on the relationship between natural resources and development outcomes, there is very little on the role that democratic arrangements and practices play in moderating this effect. A number of influential studies and a score of replications suggest that oil and some other mineral resources, such as diamonds, are associated with armed civil conflict (Collier and Hoeffler 1998; Fearon and Laitin 2003; Ross 2004, 2006). The only study that deals with the role of democracy finds that larger natural resource rents are associated with fewer internal conflicts, and that less democratic countries are less likely to experience domestic conflict after a resource windfall than before (Arezki and Gylfason 2013). Following Fjelde (2009) and Basedau and Lay (2009), Arezki and Gylfason (2013) suggest that this is due to non-democratic governments' spending more to buy peace.

Ownership Issues

Most mineral-rich countries maintain state ownership of their resources and the exploitation of those resources since the late 1960s. Mexico nationalized its oil industry in 1938. Weinthal and Jones Luong (2006) link the ownership of oil to institutional outcomes. Privatization to domestic owners creates incentives to build strong fiscal and regulatory institutions. Jones Luong and Weinthal (2010) argue that countries are (or will be) better off if resource management is in private hands. Contrary to this, a study by Goldberg, Wibbels and Mvukiyehe (2008) uses the United States, where sub-soil resources are traditionally in private hands, to demonstrate that political leaders in oil-rich US states enjoy greater incumbency advantages than those in oil-poor ones, suggesting that private vs. public ownership does not seem to play a role.

At the sub-national level, resource ownership refers to claims on private, communal land rights or state ownership by local communities (Haysom and Kane 2009). Unsettled ownership can drive away potential investors. For instance, the diamond industry

in Angola is characterized by a weak legal and regulatory framework in relation to ownership rights, making it a high-risk spot that has been unable to attract major foreign investors (Haysom and Kane 2009).

In the case of the Nembe community in Nigeria's Bayelsa state, land rights (and therefore claims on oil royalties) are believed to belong to traditional kingship and chieftaincy authority structures (Watts 2004). In 1991, the king's authority devolved more powers to the Council of Chiefs (whose membership expanded), which now decides on Shell's oil payments. Youths of the Nembe community organized to promote local interests by using force (e.g. shutting down the oil infrastructure) to extract concessions from the oil companies. In this way, the youth groups have served as community liaison officers between the community chieftaincy authorities and the oil companies. As the benefits were substantially lucrative, other sections of community youths also organized to demand compensation from the oil companies. This led to fierce competition between youth groups and violence. Interventions by the local, and later regional, government to bring order were counterproductive. Slowly, the subversion of royal authority, the strategic alliances between the youth and chiefs, and the growing (and armed) conflict between youth groups for concessions from Shell resulted in the ascendancy of the highly militant Isongoforo ('House of Lords') group (Watts 2004: 64). Isongoforo clashed with community liaison officers in order to invent compensation cases. Isongoforo received stand-by payments from the companies (i.e. the companies hired them to ensure protection of their property). In this way, the oil firms funded these mafiosi groups. The Isongoforo forces were overthrown in 2000 in a revolution orchestrated by the chiefs, and were quickly replaced by another youth group called Isenasawo/Teme. This new group was even more violent and split into factions, producing bloody clashes. Interestingly, the democratic elections in 1999 did not improve the situation because of the complicity of the local authority—the leaders of the youth groups were expected to vote for the incumbent governor. As a result, a complex system of vigilante rule emerged, involving collaboration between chiefs, youth groups, local security forces and the oil firms. The occupation of oil flow stations (for the purpose of extortion) were often known in advance and involved collaboration with local company engineers—the youth were de facto company employees providing protection services—and the local compensation and community officers of Shell and Agip produced fraudulent compensation cases and entitlements (Watts 2004: 65).

STAKEHOLDER PARTICIPATION

Relevant stakeholders typically include the national government, sub-national units (such as provincial and local governments), local communities and workers (Haysom and Kane 2009), as well as increasingly multi-stakeholder groups like the Extractive Industries Transparency Initiative, including local and international non-governmental organizations and international financial institutions. The scope of stakeholders reflects the degree of democracy in a society. More established democracies, like Norway, have a larger group of stakeholders involved, including political parties, independent oversight bodies and a strong legislature.

In more autocratic rentier states like Kuwait, in which the majority of citizens is effectively disenfranchised and the mineral sector is state owned and highly concentrated, the number of stakeholders can be narrowed down to two: government officials (the ruling families) and several extractive firms (Weinthal and Jones Luong 2006: 38). In Botswana and Chile, the inclusion of insulated technocratic bureaucracy in the policy process is often cited as an example of fiscal discipline and overall successful management of resources (Weinthal and Jones Luong 2006; Havro and Santiso 2011). However, Botswana's success would not have been possible without a strong role of parliament and legislative oversight and the mandatory approval of the executive's public spending projects (Weinthal and Jones Luong 2006: 39).

Following the wave of decentralization across Latin America, local community groups are increasingly seen as important stakeholders. However, engaging a larger number of interests and community participation does not necessarily translate into more efficient management and allocation of resources. In Bolivia, the consultation process concerning compensation focused on the amount of compensation, which stimulated rent seeking by leaders of local communities. As a result, the incentives generated by resource endowments undermine environmental monitoring and accountability in compensation payments, and leave environmental externalities unmitigated (Haarstad 2014: 988).

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In Ecuador, the inclusion of different stakeholders made the management of oil rents even more complicated (ESMAP 2005). Due to a long-lasting tradition of interference by entrenched organized interests in the democratic process and the weakness of political institutions, the country's oil rent management tends to be highly politicized (Eifert, Gelb and Tallroth 2003; ESMAP 2005). In such factional democracies, earmarking

is pervasive. Politically powerful interests attached directly to state spending, such as bureaucratic and political elites (including local governments), public sector unions and the military, tend to capture the state. These predatory interest groups can be stronger and more continuous than political parties or governments, and try to lock in their claims on rents (Eifert, Gelb and Tallroth 2003).

Marginalized groups and decision-making processes

In Latin America, administrative and fiscal decentralization reforms and localist policies implemented since the 1980s were the key drivers behind efforts to give indigenous peoples more influence over decision-making. The benefits of resource extraction were extended to indigenous communities through the allocation of royalties to departments and provinces, a stronger regulatory framework, and direct and indirect monetary allocations to indigenous communities (ESMAP 2005). For instance, in Ecuador, according to law, at least 80 per cent of funds disbursed in this way must be allocated to fund roads and environmental projects in the respective territories (ESMAP 2005).

Even in a mature democracy like the United States, oil can become a highly contentious issue at the local level. In a North Dakota Indian reservation, the former tribal chief set up a USD 30 million savings fund called the People's Fund to be distributed to the tribe's members. Four years into the oil boom, the People's Fund has yet to make any disbursements (Sontag and McDonald 2014). This raises questions about the fund's fiscal transparency.

ILO convention 169 and inclusive participation in natural resource management

ILO Convention 169 (1991), which recognizes indigenous peoples' rights to own traditionally inhabited land and to participate in the use, management and preservation of natural resources, has been adopted in Bolivia, Colombia, Ecuador and Peru. Nigeria and Russia have not ratified the convention, but indigenous communities of both countries often reference the ILO convention as a means to frame their demands (Wilson and Swiderska 2009). The Ogoni in the Niger Delta is a good case in point. This ethnic group has historically feared assimilation into the much larger Ibo group. The Ogoni saw themselves as politically marginalized in a system of internal colonialism. Ogoniland was a significant centre of oil production, referred to as Nigeria's Kuwait, yet the road infrastructure there remained neglected. While oil was produced in large quantities in Rivers state (which includes Ogoniland), only a small fraction of revenue returned as part of the federal allocations. Oil spills have caused an ecological disaster in the territory, and the standards of living for the Ogoni people have not improved; few have access to electricity, and the community suffers from poor healthcare, extreme illiteracy, high mortality rates, etc. The leading organization representing Ogoni grievances was the MOSOP, led by Ken Saro-Wiwa, who used ILO Convention 169 to legitimize the Ogoni's claims to indigenous rights. In 1990 MOSOP drafted the Ogoni bill of rights, which demanded greater political autonomy and the right to control natural resources (Noble 1993). However, there are strong clan-based divisions within the Ogoni—in other words, there is a weak

In Latin American countries where [the] ILO Convention has been ratified, measures have been taken to distribute oil rents to benefit indigenous communities.

pan-Ogoni identity. Also, women and youth were (initially) not represented. The Ogoni/MOSOP movement declined by the late 1990s, but gave birth to other self-determination indigenous movements such as Ijaw.

In Latin American countries where ILO Convention 169 has been ratified, measures have been taken to distribute oil rents to benefit indigenous communities. In Ecuador, for example, ECORAE accumulated funds to finance several indigenous communities in the Amazon region. Colombia, which has the lowest proportion of indigenous peoples, is the only country in the region that has laws prescribing direct transfers of rents to indigenous communities (from 2001). Despite such allocations, most of these indigenous groups live in poverty and lack basic services. Regulations regarding their participation in oil rent distribution need to be better enforced and clarified, with a more equitable distribution of the benefits (ESMAP 2005).

Nevertheless, the question of dialogue in resource governance is not addressed in the academic literature. Therefore, practitioners have proposed creating a 'company-community grievance mechanism' to facilitate dialogue between companies and local communities in order to improve stakeholder engagement (see Wilson and Blackmore 2013).

Stakeholder participation, prudential governance and development

Whether higher stakeholder participation leads to inclusive sustainable development remains an untested hypothesis. Case study evidence suggests that in the absence of well-established democratic institutional safeguards, the incentives generated by large oil and mining resource rents can provide disincentives for politicians in any political system to promote inclusive sustainable development. The level of stakeholder participation is linked to a general degree of democracy, signifying that regimes that are more democratic will have a larger number of stakeholders involved. In mature democracies,

In younger democracies, multiplication of stakeholders is either a by-product of rent seeking, or a factor that might lead to such rent seeking, and there are no guarantees [that] this process will not undermine the very foundations of democracy, as was the case with Venezuela during the Punto Fijo era.

high stakeholder participation is a familiar practice, whereas in younger democracies multiplication of stakeholders is either a by-product of rent seeking, or a factor that might lead to such rent seeking, and there are no guarantees this process will not undermine the very foundations of democracy, as was the case with Venezuela during the Punto Fijo era (McCoy and Myers 2004).

Assuming that decentralization increases the number of stakeholders, some countries have experienced progress in administrative management and greater citizen participation in the management of resources due to such increases. Bolivia's administrative decentralization (which aimed to improve public administration efficiency), fiscal decentralization and devolution of power, achieved remarkable progress. More public finances and more investment projects were put under municipal authorities' control (ESMAP 2005).

In Nigeria, increasing the numbers of stakeholders after democratization does not seem to have improved oil revenue management. Instead, democracy has inspired more actors

in state and local government to compete for access to oil wealth, including through the multiplication of sub-national units (Aiyede 2009). This process has also fuelled tensions between two competing camps: those who favour derivation to the oil-producing states and those who advocate a more equitable distribution of the wealth across all states (Eifert, Gelb and Tallroth 2003). Importantly, no effective agents of restraint (such as informed civil society, consensus-based parliament or a non-oil business constituency) have emerged from this multiplication of actors; it has produced a familiar pattern of patronage-led increases in public spending. In sum:

Outcomes in the management of Nigeria's oil cycle in the new democracy are thus so far not much different from the past pattern, illustrating the fact that political institutions are shaped by a longer history than the current political regime. The key feature remains excessive and unsustainable increases in public spending on the upswing, with considerable macroeconomic instability, and little to show in growth and economic development.
(Eifert, Gelb and Tallroth 2003: 112)

In Latin America there are cases where decentralization reforms have been relatively more successful; however, the delegation to local governments is not considered to have necessarily resulted in better or more transparent management or improved development outcomes (ESMAP 2005). In Ecuador, for example, management of oil rents has become increasingly complicated since the beneficiaries have multiplied without a standard distribution pattern.

ACCOUNTABILITY

National-level accountability

There is considerable variation in whether (and how) leaders have been held accountable for their management of oil and mining resources. The key pattern is that in mature democracies, the likelihood of deviation by leaders is slim because of strong accountability systems acting through parliaments, political parties, interest groups, civil society and mass media. In less democratic societies, however, the likelihood of deviation and the probability of punishment during one's tenure in office are both relatively low. Of course, once losing their grip on power, former leaders and their associates may be subject to intense investigations and (sometimes severe) punishment, as evidenced by the fate of such dictatorial rulers as Saddam Hussein, Muammar Gaddafi and Charles Taylor. However, both Nigerian and Indonesian authorities have experienced difficulties in recovering from the former rulers' families the funds allegedly stolen by Sani Abacha and Suharto, respectively. Most importantly, the reverse causality—that oil and mining resources foster an incumbency advantage—means that many leaders in resource-rich countries are hard to hold accountable, given their dominance of the countries' political systems. Although the political systems of resource-rich countries can be unstable, this does not necessarily concern the rulers. As many cases suggest, such as Mobutu Sese Seko's 32-year rule in Zaire and Nursultan Nazarbayev's 25-year rule in Kazakhstan, economic inefficiency can co-exist with political survival for long periods of time. Using survival analysis on data on the heads of state of 26 African countries, Omgba (2009) finds that oil rents prolong leaders' duration in office.

Legislatures

In many countries that are rich in oil and mining resources, the executive branch of government manages the production and distribution of revenues. Since the wave of nationalizations in the 1970s, much of the oil and mining sector revenues have flowed into government coffers (Ross 2012). Because this flow of oil and mining rents

goes directly to executives, it tends to create an incumbency advantage (Jensen and Wantchekon 2004). Thus the effective division of power and national legislative control over the executive's management of the resources are crucial for ensuring accountability and sanctioning deviations (Ölcer 2009; Tsalik and Ebel 2003).

Using a global sample of up to 90 countries, Andersen and Aslaksen (2008) show that, while presidential republics are likely to experience the resource curse, parliamentary democracies are not.

Cross-national empirical evidence suggests that there is a variation in performance within democracies as well, with parliamentary democracies better able to avoid the

resource curse. Using a global sample of up to 90 countries, Andersen and Aslaksen (2008) show that while presidential republics are likely to experience the resource curse, parliamentary democracies are not. Their evidence also suggests that countries with proportional electoral systems are more at risk than those with majoritarian systems. Based on a sample of 53 countries, Bakwena et al. (2009) confirm the finding that parliamentary democracies perform better than presidential countries, but contrary to Andersen and Aslaksen they find that countries with proportional systems are better able to avoid the resource curse than those with majoritarian systems. Individual case studies seem to support these hypotheses. For example, Auty and Gelb (1986) show how Trinidad and Tobago's political system, which is modelled after the Westminster parliamentary system, helped it perform relatively well in governing its oil and gas resources in the 1970s and 1980s.

Norway's experience has been exemplary. Since the development of its oil fields in the late 1960s, Norway's parliament (the Storting) has been active in creating the legislative framework for the hydrocarbon sector, scrutinizing and ratifying major projects, and performing regular audits of government accounts and public sector enterprises. Given

In Ghana, legislators and civil society organizations were key in documenting and denouncing alleged government distortions in managing the country's oil revenues and presenting significant evidence to the attorney general.

its representation of a variety of groups that could be affected by oil extraction, including farming and fishery interests, the legislature has favoured moderation and long-term planning since 1974. The Storting is also said to have played an important role in insulating the country's traditional strong and efficient civil service from political pressure (Bryan and Hofmann 2007).

Although far from the experience of parliamentary control in mature democracies, in some young democracies legislatures have also been proactive in trying to ensure transparency and accountability. In Ghana, for example, legislators and civil society organizations were key in documenting and denouncing alleged government distortions in managing the country's oil revenues and presenting significant evidence to the attorney general (Mejía Acosta 2009). Overall, however, the role of legislatures in resource-rich countries that are not mature democracies seems limited at best.

Between 2005 and 2006, as part of its project on strengthening African legislatures' ability to understand and respond to challenges related to natural resource exploitation, the National Democratic Institute conducted a survey of 200 legislators in nine African countries that are rich in oil and mining resources: Angola, Botswana, Chad, the Republic of Congo, the Democratic Republic of Congo, Ghana, Nigeria, Sierra Leone and South Africa (Bryan and Hofmann 2007). The findings suggest that, while legislatures, committees and individual legislators in these countries may be proactive in trying to ensure control of the executive's management of the natural resources, their effectiveness is crippled by a large number of political, institutional and logistical obstacles.

On the plus side, the number of African legislatures that show concern and involvement in the management and oversight of the oil and mining sectors is growing. Parliaments in several countries—such as Ghana, Nigeria, São Tomé and Príncipe, and South Africa—have passed legislation aimed at sustainable and accountable governance of the

extractive sectors, and regularly solicit information to conduct investigations and hold public hearings on proposed bills. Individual legislators and groups in these countries, as well as in Chad and the Democratic Republic of Congo, take part in working groups and commissions that aim to improve natural resource management. Many legislators interviewed by the study's authors showed the necessary determination and political acumen to affect change in this area (Bryan and Hofmann 2007: 8). In several countries, particularly South Africa and Nigeria, the parliaments actively invest in improving their ability to control extractive industry activities through strengthening committee systems and research and analytical capacities. Since the early 2000s, Nigeria's National Assembly's House Public Accounts Committee and House Committee on Petroleum Resources have held audits and public hearings to investigate corruption allegations regarding the Nigerian National Petroleum Company (Bryan and Hofmann 2007: 30).

The legislatures in many African countries are formed through clientelistic networks, thus making legislators focus on delivering to their patrons and clients rather than prioritizing policies that are of nationwide relevance.

In South Africa, the final Mineral and Petroleum Resource Development Bill that significantly reshaped the country's mining sector reflected critical input from public hearings that were held in response to public concerns over low stakeholder involvement (Bryan and Hofmann 2007: 32).

At the same time, the parliaments in the surveyed countries exhibit problems similar to those in many other developing countries, and these problems undercut their effectiveness in holding the executive accountable for its management of the oil and mining sectors. First and foremost, the executive branches dominate the political frameworks, leaving the legislatures too weak to provide realistic checks and balances even if the legislators are autonomous from the ruling elites, which is rare. In many cases, the legislatures in fact function as departments within the executive that rubber-stamp the bills, which originate mostly from the executive. Legislatures are also weak constitutionally. In Congo-Brazzaville, a presidential decree can overrule the parliamentary approval of a bill, and in Ghana the parliament cannot legislate to increase the budget (Bryan and Hofmann 2007: 26). This lack of independence and powers results in a dissipation of efforts, since parliamentary investigations of irregularities related to the extractive industries—such as a legislative committee investigation of smuggling more than 1,400 carats of diamonds in Sierra Leone or an ad hoc parliamentary committee investigation of distortions between exports and imports of oil in Nigeria—frequently stop short of even producing a report (Bryan and Hofmann 2007: 32). In Angola, the parliament has no constitutional authority to investigate state-owned enterprises (Bryan and Hofmann 2007: 26).

Legislatures and individual MPs lack the resources to effectively oversee the executive and the extractive sectors.

Second, the legislatures in many African countries are formed through clientelistic networks, thus making legislators focus on delivering to their patrons and clients rather than prioritizing policies that are of nationwide relevance. Unlike, for example, Trinidad and Tobago's parliament (Auty

and Gelb 1986), these parliaments are dominated by strong regional interests; each region competes for a share of the oil and mining sector rents. Thus, proactive parliamentarians are often driven by factional interests. In such an environment, many legislators are

embedded in webs of relationships that are characterized by conflicts of interest. For example, in Ghana, some members of parliament (MPs) and ministers serve on the boards of corporations, and the majority of ministers also serve as MPs. This pervasive clientelism—and the fact that many legislators are neither independent of the executive nor elected in free and fair elections—undercuts the legislatures’ popular legitimacy.

Finally, legislatures and individual MPs lack the resources to effectively oversee the executive and the extractive sectors. Among the countries studied by Bryan and Hofmann (2007), only South Africa’s parliamentary service has sufficient resources to conduct investigations, research and analysis: it employs 969 staff members, many of whom are well trained, and has a dedicated research unit. In other countries, staffs are tiny and lack training. Each of the seven committee clerks in Sierra Leone’s Parliament serves six to seven committees (Bryan and Hofmann 2007: 28). In much-hailed Botswana, an assessment conducted in 2002 revealed that none of the parliament’s 16 committees has the specialized skills needed to adequately scrutinize the work of individual ministries (Bryan and Hofmann 2007: 32). Finally, many legislators lack the specialized knowledge and skills to be able to scrutinize the executive’s handling of the country’s oil and mining resources (Bryan and Hofmann 2007: 11).

Political parties

The empirical evidence is mixed on the role of political parties in ensuring the prudent management of natural resources. However, it seems that across developed and developing countries, programme-based political parties are less frequent than leader-, identity- or narrow-interest-based parties. In the African countries covered by Bryan and Hofmann (2007), in countries where parties have the potential to make a difference, legislative voting patterns reveal that political party loyalty prevails over concern for national issues and expediency, such as prudent natural resource governance. This is particularly acute in proportional electoral systems, because MPs are more tied to their parties than their constituents. Where a certain percentage of ministers is drawn from parliament, such as in Ghana, showing party loyalty increases the chances of being picked as a minister (Bryan and Hofmann 2007: 27).

In addition, there is some evidence that competitive multiparty systems can increase the likelihood of proactiveness by parties and individual MPs to hold the executive accountable compared to dominant-party systems, which have more cohesion between the executive and legislature (Mejía Acosta 2009). On the other hand, using panel data for 30 oil-rich countries from 1992 to 2005, Bjorvatn, Farzanegan and Schneider (2012) argue that oil rents are associated with a sharp reduction in income if there is a balance of power between influence groups. In other words, the resource curse is less likely when the government is strong than when it is weak. Their theoretical model suggests that the balance of power results in the extensive dissipation of rents because this fuels competition for power.

Broad coalitions of societal groups that have strong representation by interests negatively affected by oil and mining production may have more potential to push for prudential governance than narrowly based political parties.

However, several cases suggest that broad coalitions of societal groups that have strong representation by interests negatively affected by oil and mining production may have more potential to push for prudential governance than narrowly based political parties. Golkar, Indonesia's ruling party from 1973 to 1999, is a frequently cited example (Dunning 2005; Eifert, Gelb and Tallroth 2003; Smith 2007). Golkar represented a broad coalition of diverse interests—farmers, women, workers and youth—and thus acted as an effective agent of restraint by serving as a forum for reaching consensus and reducing rivalries over oil rent distribution (Eifert, Gelb and Tallroth 2003). Poteete (2009) notes that in Botswana, pro-growth policies were adopted not because of institutions and state development at the outset of the resource boom, but due to the broad and stable coalition.

Mass media

Finally, there is limited direct systematic evidence on the role of media in overseeing the management of oil and mining resources. However, indirect evidence is ample. The key pattern is that the role of media correlates with the larger political environment in which it operates. Using panel data on up to 150 countries for the years 1993–2008, Egorov, Guriev and Sonin (2009) show that media are less free in oil-rich countries, particularly those with non-democratic regimes. In democratic settings, media can serve as both a forum for debate and an overseer of policy development and implementation. The Norwegian case, for example, suggests that media attention was critical from the 1970s in limiting political interference in the civil service's handling of the oil and gas sectors, which could have otherwise resulted in pro-cyclical spending and the risk of the resource curse (Bryan and Hofmann 2007: 21). Similarly, in Ghana, sustained media coverage of the country's emerging oil sector activities, along with civil society involvement, significantly contributed to initial high transparency and public participation in the oil governance discussion (Gyimah-Boadi and Prempeh 2012: 98).

A free media can be seen as an important vehicle for increasing transparency. However, the available research questions the assumption that transparency alone can cure the resource curse. In a regression analysis, Kolstad and Wiig (2009), using Freedom House data on press freedom as a proxy for transparency, find that transparency has no statistically significant effect (either separately or interacting it with rule of law variables) on economic growth.

Sub-national and local-level accountability

The literature on the local management of natural resources argues that, while local communities may not be effective or efficient managers per se, they can still do better than central governments. The literature does not suggest excluding central governments, but co-management, which implies that resources are managed in concert by a variety of stakeholders at the sub-national and local levels in coordination with the central government (Ballet, Koffi and Komona 2010). Indeed, there is some evidence of the benefits of decentralization of governance for natural resources such as forestry and fisheries. The proponents of decentralization argue that local provision of public goods is generally more efficient, flexible, equitable, accountable and participatory, largely because the local communities have more information about local institutions, the environment and the population's needs (Andersson, Gibson and Lehoucq 2004: 421).

The record on the relations between national and sub-national units regarding the governance of oil and mining resources is mixed and largely depends on the context. While there are some positive developments, the discussion below focuses on problematic issues.

REGIONS, RESOURCES AND RENTS

The type of formal governmental system—federal, confederal or unitary—does not seem to directly affect the level of tension associated with how the benefits/profits from natural resource production are distributed to the local population. While federal states such as Brazil and Nigeria transfer substantial amounts of natural resource revenues to their sub-national units, Mexico allocates less than 20 per cent. At the same time, unitary Bolivia and Peru transfer up to 55 per cent of their extractive sector revenues to the sub-national governments (Arellano-Yanguas and Acosta 2014: 5).

What does seem to affect the level of tension regarding oil and mining resources is socio-geographic cleavages, particularly ethno-linguistic fractionalization and regionalism in resource-rich developing countries. At the same time, the causal arrows can run both ways: while ethnic fragmentation can increase the likelihood that the oil and mining revenues result in rent seeking and impede sustainable and inclusive development, the revenues can also create new tensions or exacerbate existing ones among different ethnic groups or regions.

The case of Nigeria is instructive. Since independence, the country has exhibited a high degree of competition among regional groupings formed along ethnic lines. Ibo elites dominated the eastern provinces, while Hausa-Fulani leaders held the northern and Yoruba leaders the western provinces. The tension-increasing revenue transfers from the south to the north of the country can be traced back to colonial times. When oil and gas production began during the 1960s and 1970s, it fuelled political competition to control the revenue flows. This, in turn, has resulted in the proliferation of issues that undermine any efforts to achieve sustainable and inclusive development (Auty 2008; Gelb and Grasmann 2010).

In some resource-rich developing countries that have tensions between the centre and the regions (or among different regions), central governments' response has been to soothe them with some form of fiscal decentralization. But the way in which such decentralization is carried out does not contribute to sustainable and inclusive development. This is because of two primary reasons. First, rather than being guided by a combination of equity, fiscal prudence and socio-economic development concerns, fiscal decentralization and redistribution are heavily politicized. For example, some evidence from Latin America's resource-rich countries suggests that in federal states the central governments transfer significantly more to regional than to local governments. In Brazil, the transfers are 45 per cent to regional and 21 per cent to local or municipal governments, and in Nigeria it is 36 and 18 per cent, respectively.

However, in unitary systems, such as in Peru and Indonesia, the ratio is reversed: in Peru, it is 12 per cent for regions and 43 per cent to municipalities, and in Indonesia it

is 3 and 12 per cent, respectively. Bolivia's central government gradually moved from a more equitable distribution of 37 per cent each to central and regional governments and 26 per cent to municipalities to fewer transfers to regional governments (Arellano-Yanguas and Acosta 2014: 5). Drawing on Falletti (2010), Arellano-Yanguas and Acosta (2014: 5) suggest that, when pushed or incentivized to decentralize, national elites prefer to decentralize toward the local level, because local-level elites pose less electoral or financial threat to them than

regional leaders. In Nigeria, the federal elite's ability to retain power in the regions is sometimes explained by a process of 'fissiparous federalism', whereby new administrative units are created and given increased autonomy so as to erode the potential for separatist uprisings (Banks 2014: 195; Guichaoua 2009). In some cases, there is collusion between specific regional elites and the central government (Aguilar, Caspary and Seiler 2011).

In some resource-rich developing countries that have tensions between the centre and the regions (or among different regions), central governments' response has been to soothe them with some form of fiscal decentralization. But the way in which such decentralization is carried out does not contribute to sustainable and inclusive development.

The second way that decentralization fails to contribute to sustainable and inclusive development is through decentralization or revenue-sharing formulas that encourage rent seeking by regional leaders who are not necessarily accountable to their populations. This also has an effect on other areas, such as bureaucratic quality. For example, Nigeria's regional leaders have backed indigenization policies because it gives them more access to rent streams (Auty 2008). Rent seeking at the sub-national level also undermines reform at this level because stabilization and economic restructuring are rightly perceived as threatening vested interests (Auty 2008). In Indonesia, rent seeking resulted in the proliferation of district-level mining permits. A study revealed that of the 10,500 permits issued (more than 60 per cent for coal), the director general of minerals and coal has sufficient information on only about 4,000, and therefore cannot adequately collect revenue from them; hence there is large-scale rent dissipation (Aguilar et al. 2011: 16). Donations from mining companies in Mongolia are off-budget revenues that sub-national governments tend to conceal in order to avoid cuts from the central government (Aguilar, Caspary and Seiler 2011: 27). Off-budget expenses create distortions in the economy and support corruption.

In sum, much of the existing evidence suggests that resource-related decentralization reforms in resource-rich developing countries are ineffective largely because they fail in two related areas. First, they are usually not accompanied by effective measures to create or foster accountability institutions at the sub-national or local levels. Second, they fall short of designing institutions that align the incentives of sub-national or local leaders with the preferences of their constituents (Andersson, Gibson and Lehoucq 2004).

CONCLUSION: TAKING STOCK OF EVIDENCE

In recent years, a consensus has emerged in the academic literature and policy circles that better quality institutions—including rule of law, capable bureaucracy and strong horizontal accountability mechanisms, and other correlates of democracy broadly defined—can mitigate the perverse incentives generated by natural resources and help to put them into productive uses to achieve positive results. In other words, good (and more democratic) institutions can turn resources into a blessing. Institutions are prescribed as a panacea to cure countries from the resource curse.

Our analysis has shown that countries with long-lasting democratic traditions have indeed managed to avoid the resource curse. When democratic institutions are well-embedded, like in Norway, prudential management of natural resources follows. There, the institutional stakeholders involved in resource governance are strongly integrated into the wider web of competent and capable state institutions, and enjoy the attitudinal endorsement of democracy by an educated citizenry. Actors have very little latitude or interest in changing the existing democratic order, while the stable party system encourages consensus and inter-temporal stability in policymaking. However, even in established democracies that are believed to be unaffected, there are certain signs (such as symptoms of Dutch disease in the Netherlands and Norway) and manifestations on the margins of the system (e.g. the case of Tex G. Hall in North Dakota) that indicate the simmering potential of resources to turn into a curse and suggest that even consolidated democracies may not be immune to at least some aspects of the resource curse.

When democratic institutions are well embedded, like in Norway, prudential management of natural resources follows.

Beyond the realm of mature democracies, the role of institutions and democracy in correcting or curing the resource curse is ambiguous.

Issues with the dominant theoretical models

While intuitive and appealing as a policy recommendation, the ‘institutions matter’ argument appears problematic on two accounts. First, the theoretical and empirical model from which it was derived suffers from inferential and evidential shortcomings. Second, a closer scrutiny of the literature, covering a broad range of countries over a significant timespan, shows that outside the world of mature democracies, the presumed dividends of implementing democracy have rather mixed empirical support and generalizability, vary by type of institution, and depend very crucially on the country’s specific circumstances.

A caveat is in order. The latter does not imply that more inclusive and accountable institutions should not be adopted or promoted, but merely stresses that institutional development takes time and interacts with ex ante conditions (such as clientelist and neopatrimonial practices), and that new institutions or institutional innovations might themselves be altered by the expansion of oil and mining production and assume a

Causal links between resources, institutions and developmental outcomes are multi-dimensional, complex and interactive.

shape that was not initially intended. Also, it is important to note the difficulty of transplanting institutions that are shown to have worked in one country context, given the differences in countries' ethnic composition, historical legacies and other features.

Causal links between natural resources, institutions and developmental outcomes are multi-dimensional, complex and interactive. The logic underpinning the institutions matter thesis does not sufficiently account for the possibility that political institutions themselves can be shaped (or in some cases, even altered) by the influx of resource rents; one of the arguments advanced by the rentier state theory. Furthermore, it overlooks the powerful effect of path dependency and the role of confounding structural and contextual variables.

While many studies reviewed in this report do not explicitly describe their theoretical frameworks and ontological assumptions, the majority are rooted either in the modernization paradigm or, more restrictively, in new institutional economics. The use of modernization as a guiding theoretical framework sometimes results in viewing and interpreting observed social outcomes in resource-rich countries against the background of linear progressive development, with a heavy emphasis on changes in income per capita as a proxy for such development and an expectation that such changes are pivotal for transitioning to a democratic political structure. The reliance on new institutional economics as an often-implicit guiding paradigm entails a heavy reliance on institutions as the key—and sometimes the only—critical causal variables for explaining economic performance, and an emphasis on rationality and efficiency as guiding principles. Some studies can be characterized as structuralist in that they tend to ascribe a seemingly disproportionate causal role to economic structure, natural resources or institutions. While the role of the latter is hardly deniable, other contextual factors—such as the diffusion of ideas, elite agency or contingency—also affect the outcome.

Methodological issues in the literature

A number of methodological issues in the literature reviewed for this report apply to both quantitative and qualitative studies and significantly affect the findings of several studies. Four particularly prevalent issues are described below.

Many econometric studies on the topic employ measures that are either poor proxies for the underlying concepts that these studies aim to examine, or suffer from endogeneity/reverse causality issues.

1. *Measurement:* Many econometric studies on the topic employ measures that are either poor proxies for the underlying concepts that these studies aim to examine, or suffer from endogeneity/reverse causality issues. First, as Stevens and Dietsche (2008: 61)

point out, measures of the quality of institutions, for example, that are based on International Country Risk Guide's political risk indicators represent subjective expert interpretation of country risk components, and are not designed for comparative research purposes. Second, many studies of the resource curse have for a long time employed—and still do—measures of natural resources that assess resource dependence rather than abundance (e.g. share of primary exports in GNP or oil exports to GDP ratio) and are not immune to endogeneity issues. Resource dependence may be driven by the presence of conflict or the result of poor development, rather than a cause of these (Ross 2008). Similarly, many studies, including Collier and Hoeffler (2009), use economic growth as the dependent variable in models with resource rents as explanatory variables, but economic growth can be easily driven by the amount of resource rents, thus leading to biased estimates. While nuanced econometric methods, such as the instrumental variable approach, can partly tackle this problem, few studies use such methods consistently and carefully (for a critique, see, for example, Glaeser et al. 2004). Many studies face missing values issues, but fail to report how they deal with this issue. Finally, research designs that pull together all-countries and all-years samples risk making generalizations that ignore critical differences in forces that underlie different types of political regimes (Ulfelder 2007).

2. *Correlation vs. causation*: While correlation is a necessary condition for establishing causation, it is not sufficient to imply one. Regression analysis in social sciences that uses observational data can be extremely useful for establishing covariations between variables, but is weak in dealing with causality (Brady and Collier 2010; Freedman 2006). As with much of the research in economics and some political science and sociology research, some econometric studies reviewed in this report seem to equate correlation with causation.

3. *Case selection*: Qualitative studies on the topic are often ideographic in-depth investigations of single cases. While a useful exercise on its own, such an approach inhibits theory development—which involves identifying patterns of relationships among studied variables across various cases—and a failure to understand such patterns complicates subsequent attempts to help various communities. In addition, such studies rarely explain why particular cases (rather than others) were selected for comparison. For example, such nuanced studies on the topic as Eifert, Gelb and Tallroth (2003) and Thorp et al. (2012) use illustrative cases, but seem to make generalizations that may not be warranted.

4. *Ill-justified policy advice*: It is troubling that some authors, far from taking a cautious stand given the methodological limitations of many existing studies, do not shy away from offering questionable policy advice that assumes their findings are valid. For example, Frankel (2010: 17) notes that elections can be a sham, and that such leaders as Robert Mugabe, Hamid Karzai and George W. Bush have each claimed to have been elected without having earned a majority of their public's votes. From this observation, he infers that Western-style or 'one-man one-vote' elections should receive less priority in developing countries than the fundamental principles of the rule of law, human rights, freedom of expression, economic freedom, minority rights and some form of popular representation (Frankel 2010). It is unclear how these latter principles can be credibly upheld without elections—which are the fundamental mechanism of modern, delegative democracy (direct democracy is hardly possible beyond the municipal level in many countries) that allows the public to choose its agents and hold them accountable for their performance.

Which aspects have what effects?

Thus, if the question is ‘does democracy lead to better development outcomes in countries rich in oil, gas and mining resources?’ then the ‘yes’ answer should be very cautious and qualified. The findings of this report suggest that while certain aspects of democratic arrangements and practices are likely to be empirically linked to better—that is more sustainable and inclusive—development outcomes, others may not (or may even, under some conditions, undermine such outcomes). These findings should be taken cautiously given the theoretical and methodological issues outlined above.

Parliamentary involvement has varying influence. Natural resources seem to be better managed where the parliament has an older and stronger tradition, more institutional powers to balance the executive, and greater autonomy from corporatist and clientelistic interests. However, in most developing countries, legislatures’ capacities and expertise tend to be extremely limited (only the Parliament of South Africa has reasonable capacities).

The empirical evidence regarding **political parties** is mixed. Parties that are more programmatic are more likely to push for prudent management, and this is more likely in mature democracies than in regimes dominated by autocratic or personalistic parties. Political parties that are backed up by (or reflect) a broader coalition of societal forces also seem to be more successful at promoting economic growth.

There is limited direct systematic evidence regarding **mass media**, but indirect evidence suggests that media tends to be less free in oil-rich countries. Mass media can be an important tool for ensuring transparency and public scrutiny of revenue allocation.

The record on **sub-national and local-level accountability** is mixed, and largely depends on country context, including the presence or absence of socio-geographic cleavages and ethno-linguistic divides.

Oil and mining resources have varying **impacts on local communities**, depending on the context and degree of sub-national democracy. In some places with high levels of ethnic heterogeneity, oil and mining resources can fuel local conflict and rent seeking, while in other places they can empower the bargaining position of the local community. More democracy at the national level does not necessarily mean that there is more democracy at the sub-national level, or translate into better management of natural resources at the local community level.

Women suffer more from natural resource production than men. Mining has negative consequences for women’s health, and engenders occupational hazards, AIDS and prostitution. Oil tends to reduce female labour participation and political representation in countries with gender discriminatory laws, but only in the absence of gender quotas.

There is scant research on the impact of mining operations on **youth**. There are only a few studies on how youth are deployed in local conflicts in places like the Niger Delta, perhaps driven by unemployment outside the oil sector.

Ownership/indigenous groups. State ownership is seen as a precondition for the resource curse, as there are many negative effects associated with how fuel and other

resources concentrate power in the state. However, whether the opposite (privatization) is a solution remains disputed.

At the sub-national level, disputes over ownership claims often fuel communal violence. The implementation of ILO Convention 169 may have granted entitlements and financial benefits to indigenous groups in some countries, but it has not markedly improved their material well-being or community participation.

More democratic regimes have a larger number of (more constrained) **stakeholders**. However, in new democracies, higher stakeholder participation and the inclusion of additional groups complicate decision-making, and may not necessarily improve oil revenue management. In certain cases, a greater number of stakeholder participants either results from or leads to greater rent seeking.

APPENDIX I: COUNTRIES RICH IN OIL, GAS AND MINING RESOURCES

Table 2. Countries rich in oil, gas and mining resources

	USD 50 per capita				USD 100 per capita			
	1970s	1980s	1990s	2000s	1970s	1980s	1990s	2000s
Albania		6	3	1		3		
Algeria	10	10	10	10	10	10	10	10
Angola		5	10	10		5	10	10
Argentina	9	10	10	10	6	10	10	10
Australia	10	10	10	10	10	10	10	10
Austria	6	6		4	2	2		
Azerbaijan		9	10			9	10	
Bahrain		10	10	9		10	10	9
Bolivia	7	9	4	10	6	3		7
Botswana	1	2		6		2		6
Brazil		8	4	10				8
Cameroon	1	9	1	7		5		
Canada	10	10	10	10	10	10	10	10
Chad				6				5
Chile	10	10	10	10	10	10	10	10
China				6				3
Colombia	6	10	10	10	2	9	7	10
Congo, Rep.	7	10	10	10	6	10	10	10
Croatia			6	10			1	4
Cuba		2		8				5
Denmark		9	10	10		7	10	10
Dominican Rep.	3		3		1		1	
Ecuador	7	10	10	6	6	10	9	6

	USD 50 per capita				USD 100 per capita			
	1970s	1980s	1990s	2000s	1970s	1980s	1990s	2000s
Egypt	4	10	10	10	2	10	7	10
Equatorial Guinea		7	10			6	10	
Gabon	10	10	10	10	10	10	10	10
Greece		5		2				
Guyana	10	9	5	4	8	3		
Hungary	6	10	2	4	6	7		
Indonesia	3	6	5	10	1	1		4
Iran	10	10	8	10	10	8	8	10
Iraq			3	9	10	10	6	9
Ireland	3	8	1	2		2		2
Israel	6			5	5			1
Italy		3		2				
Jamaica	10	10	10	7	10	10	6	
Kazakhstan		8	10			8	10	
Kuwait			5	8	10	10	10	8
Liberia	10	8			10	4		
Libya			1	10	9	10	9	10
Malaysia	6	10	10	10	3	10	10	10
Mauritania	8	3	1	8				5
Mexico	7	10	10	10	6	10	10	10
Mongolia			4	6				4
Netherlands	10	10	10	10	10	10	10	10
New Zealand	5	10	10	10	1	9	9	10
Nigeria	7	10	10	10	3	6	9	9
Norway	7	10	10	10	6	10	10	10
Oman	10	10	10	10	10	10	10	10
Papua New Guinea	5	10	10	10	4	8	10	10
Peru	10	10	1	6	5	10	1	5
Poland			2	6				3
Qatar				10	9	10	9	10
Romania		3	8	8		3	5	2

	USD 50 per capita				USD 100 per capita			
	1970s	1980s	1990s	2000s	1970s	1980s	1990s	2000s
Russia			7	10			7	10
Saudi Arabia	10	10	10	10	10	10	10	10
South Africa	6	10	8	9	6	10	2	6
Sudan				7				2
Syria	6	10	10	10	2	9	10	10
Thailand				9				4
Trinidad and Tobago	10	10	10	10	10	10	10	10
Tunisia	6	10	6	6	3	6		1
Turkmenistan		9	10			9	10	
United Arab Emirates	7	10	10	10	7	10	10	10
Ukraine			1	9				
United Kingdom	6	10	10	10	6	10	10	10
United States	10	10	10	10	10	10	8	10
Uzbekistan		9	10			7	10	
Venezuela	10	10	10	10	10	10	10	10
Vietnam				6				3
Yemen, Rep.		10	10			8	10	
Zambia	9	3	1	4	5			

Note: numbers indicate the number of years in each decade in which a country received USD 50 or 100 constant per capita in rents from oil, gas, coal and minerals.

Source: Authors' calculations based on data from World Bank (n.d.).

APPENDIX II: ILLUSTRATIVE CASE STUDIES

Below, six brief illustrative case studies are discussed in order to highlight some aspects of the relationship between democracy, natural resources and development, rather than explicitly test specific hypotheses (as would be the case if this study were a comprehensive qualitative empirical inquiry rather than a critical survey of the literature). Therefore, the cases were not selected according to a most-similar or most-different systems design. Rather, these six were chosen because they best illustrate the different experiences of countries rich in oil, gas and mining resources around the world, with different levels or types of democracy. Particular attention was paid to political regime institutions and practices and their effects on development outcomes, thus avoiding conflating political regime with a host of other institutional characteristics. Attempts were also made to avoid conflating outcomes with causes, such as adopting a category like reformist autocracies. Given space limitations, the analysis necessarily proceeds in brush strokes.

Botswana

Botswana's management of its natural resources is usually hailed as a success story that is attributable to its strong, relatively democratic, political institutions (Acemoglu, Johnson and Robinson 2002; Gelb and Grasmann 2010; Sarraf and Jiwaji 2001). The country started the production of diamonds in the early 1970s and is currently the second-largest diamond producer in the world, after Russia. In 2012, diamonds accounted for around 40 per cent of its GDP and 80 per cent of its exports (Battistelli and Guichaoua 2012). Unlike in many other mineral producing countries in Africa and elsewhere in the developing world, Botswana's government was largely able to follow a cautious domestic absorption policy and sustain the growth of its non-mining sectors during the long boom period by supporting its rural economy (mostly export-oriented cattle production), which employed the majority of the labour force. While the country's elite dominated cattle production, the government also supported smallholders through self-sufficiency food policies. Botswana's leaders largely avoided bloating public sector employment, accumulated higher foreign reserves relative to its GDP, sustained relatively modest welfare commitments and kept its exports more diversified (Auty 2001, 2008). Instead of sustaining large state enterprises, the government strove to nurture private firms by attracting foreign direct investment. Botswana's government was also consistent in its policy of converting diamond rents into human capital (through education and health spending) and economic infrastructure (Auty 2008).

Acemoglu, Johnson and Robinson (2002) suggest that these development outcomes can be traced back to Botswana's inclusive traditional institutions, which were fomented before the discovery of diamonds and were not altered during colonial rule because of the British policy of benign neglect. These institutions constrained the political elites and protected the private property rights of the powerful cattle producers,

whose interests could suffer if the government's economic policies triggered Dutch disease effects. Thus, after the resource discovery, these institutions acted as a strong counterweight to potentially imprudent policies. Some studies argue that the political process since independence has been underpinned by traditional concepts of dialogue embodied in village councils (*kgotla*) and a commitment to harmony (*kogisano*) (for a summary, see Bryan and Hofmann 2007). Gelb and Grasmann (2010: 18) also suggest that post-independence political leaders were willing to place national interests above tribal interests. According to them, this was manifested in the ruling elite's re-assignment of sub-soil mining rights from tribes to the central state, thus heading off tribal contestation for revenue and cementing a common national interest (Gelb and Grasmann 2010: 18).

However, a closer examination of this case reveals a more complicated picture, as a number of scholars, including area specialists, provide alternative perspectives. First, some studies attribute Botswana's prudential governance of natural resources to its unusual rent stream and its ethnic homogeneity rather than (solely to) its institutions at independence. Auty (2001) and Dunning (2005) argue that the government was able to manage the rent stream more easily than in countries rich in other minerals due to the relative stability of diamond prices and the country's unusual, stable partnership with DeBeers, a leading global diamond company.

Second, Botswana's economic performance since independence may not be such a remarkable success story. Battistelli and Guichaoua (2012: 73) point to the country's lack of economic diversification; high rates of unemployment; and significant levels of poverty, inequality and HIV/AIDS infections. They argue that, despite improving citizens' livelihoods to some extent, the government maintains a huge paternalistic state that lacks a 'real and sustainable human development project'. An earlier study by Auty (2001) noted the public sector's tendency to dominate the creation of formal employment, and Pegg (2010) shows that Botswana in the 2000s indeed suffered from many symptoms of the Dutch disease.

Finally, and more fundamentally, some accounts question whether Botswana's political system should be characterized as democratic. Battistelli and Guichaoua (2012) argue that diamond resources progressively led to the centralization of political and economic power. The ruling Botswana Democratic Party has not lost a single election, and has dominated the political system since independence in 1966. Since the opposition is very weak, checks and balances on the executive and political competitiveness are effectively weak (Bakwena et al. 2009). Good and Taylor (2008: 751) argue that Botswana's political regime is characterized by illiberal authoritarianism and presidentialism with elitist top-down structures. They point out that Botswana's political regime may be much less of an outlier in terms of its level of democracy if seen against the background of democratization in neighbouring countries, including Namibia and South Africa.

Ghana

Previously a very modest oil producer, Ghana's discovery of the Jubilee oil field in 2007 put the country in the international spotlight. For many domestic and international stakeholders and observers, the key question is whether the country will be able to avoid the pitfalls of development led by natural resources and sustain its widely celebrated

democratic political system. A significant increase in the extraction of oil, coupled with the country's already sizeable gold production, has been seen as a concern.

In the last two decades, the country has been able to build a stable and competitive two-party system. Since the restoration of democracy in 1993, political power has been transferred peacefully through free and fair elections five times. Unlike many of its neighbours, Ghana has enjoyed civilian control over the military, a vibrant civil society, strong respect for freedom of speech and association, and a vigorous mass media, consisting of more than 150 private radio stations and 20 television operators in 2009 (Gyimah-Boadi and Prempeh 2012: 96). The political arena is dominated by two competing national parties—the National Democratic Congress (NDC) and the New Patriotic Party (NPP). The parliament has a strong opposition presence that has served as a counterweight to the executive; it enjoys vibrant deliberations, scrutinizes legislative proposals and international agreements, and exercises a degree of government oversight (Bryan and Hofmann 2007; Gyimah-Boadi and Prempeh 2012). Together with its diversified and robust economy, these characteristics of its political system have led some observers to conclude that Ghana may have a structural immunity to the natural resource curse (Kopiński, Polus and Tycholiz 2013: 583)—in other words, that its strong democratic arrangements and practices and diversified economy are likely to entail the prudent governance of oil rents, which in turn would lead to favourable development outcomes.

Indeed, after the discovery of the Jubilee field, there have been some positive developments, including improvements in the country's legal framework, increased transparency and accountability, and measures to boost the non-mineral sectors (Kopiński, Polus and Tycholiz 2013). Gyimah-Boadi and Prempeh (2012: 98) suggest that the sustained involvement of organized civil society and media throughout the ensuing legislative process made the development of the initial legal framework for oil governance in Ghana exceptionally participatory and transparent. Civil society coalitions, such as the 13-member Public Interest and Accountability Committee watchdog, have intensely monitored the central government's management of oil-related activities, which has sent strong signals to the government. The Civil Society Platform on Oil and Gas, a coalition of more than 100 civil society organizations formed in 2010, was able to impact the final legislation (Gyimah-Boadi and Prempeh 2012). Some local initiatives were also launched. The Asutifi sub-national project—a partnership between two Ghanaian organizations and the Natural Resource Governance Institute (formerly the Revenue Watch Institute) involving a gold-producing district in central Ghana from 2009 to 2011—increased awareness, contributed to increasing trust among various stakeholders, and fostered the participation of citizens and community-based organizations in developing the local development plan (Boampong 2012).

However, there is some evidence that oil revenues may erode the same democratic institutions that are said to contain their mismanagement, and that Ghana's politics is messier than usually portrayed. First, the expectation of large oil windfalls from Jubilee has fuelled partisan rivalry, as both parties have aimed to capture as much of the windfall rents as possible, as soon as possible. This was evidenced in the NPP's rapid movement from discovery to production in less than four years and the NDC's post-election amendment that allows the immediate collateralization of oil revenues—letting the government borrow money abroad using oil as collateral. Civil society organizations were not able to stall this amendment. This allowed the government to contract, for

example, a sizeable USD 3 billion loan from the China Development Bank, which was secured by 15 years' worth of oil revenues and was in excess of the maximum 10-year period allowed by the amendment (Gyimah-Boadi and Prempeh 2012: 100).

Second, the government's handling of oil revenues and related public sector opportunities is increasingly inefficient and characterized by patronage and the exclusion of many stakeholders, while the parliament, civil society and media lack effective levers. Government reporting of sizeable transfers from early oil receipts to the Ghana National Petroleum Company are also opaque. The surge in public sector employment opportunities that resulted from the oil boom has given an impetus to patronage politics. Jobs, consultancies, directorships, civil service posts and construction contracts are reallocated almost entirely on the basis of party loyalty after a party turnover in government (Gyimah-Boadi and Prempeh 2012: 101). Against the background of an already-strong presidentialism, the parliamentary oversight of the executive's governance of the mining sector is severely limited. The parliament lacks sufficient resources to effectively monitor, evaluate and counterbalance the executive's handling of the resources (Bryan and Hofmann 2007; Gyimah-Boadi and Prempeh 2012). While some media are independent, others are closely aligned with specific political parties and individual leaders (Gyimah-Boadi and Prempeh 2012).

Finally, patronage-driven politics and inefficiency at the sub-national level (the Asutifi project, for example) prevented the institutionalization of practices that would ensure the prudential governance of natural resources and public accountability. In fact, instead of acting as a democratizing factor, local politics fostered a lack of public accountability when traditional chiefs, to whom a significant portion of mining royalties accrues, resisted such institutionalization (Boampong 2012).

Indonesia

Indonesia during the Suharto era is among the most-cited cases of a low-income, resource-rich country that managed its resource rents prudently and achieved sustainable development, despite early political instability and increasingly authoritarian rule. From the mid-1970s, the Suharto administration adopted broad-based development policies. Oil income was used to develop natural gas resources for exports to Japan and as a fertilizer production input. Subsequently, domestic agricultural producers—the most sizeable economic group in the country at the time—received fertilizers at subsidized prices and were able to significantly boost their yield, helped also by the development of disease-resistant and high-yield varieties of rice. The administration followed cautious fiscal policy and restrained spending during the boom years through bureaucratic controls, rather than as a result of parliamentary or civil society pressure, creating a surplus and doubling the country's reserves. During the bust years in the early 1980s, the government did not hesitate to cut development spending, end projects, cut subsidies and allow currency devaluation (Gelb 1988; Gelb and Grasmann 2010). As Gelb and Grasmann (2010: 19) note, this cautious and flexible macroeconomic management was implemented without a dedicated fund, without transparency, and even in violation of a balanced-budget fiscal rule. What factors can explain the prudential governance and relatively favourable development outcomes in Indonesia?

Eifert, Gelb and Tallroth (2003) classify the Suharto period as an example of reformist autocracy. According to them, such types of autocracies are constrained by their

political mandate to make real improvements in the welfare of the poor, and tend to have autonomous, competent and politically insulated technocratic elites (Eifert, Gelb and Tallroth 2003). These two factors then lead to the adoption of efficient policies of economic diversification and growth. Indeed, the Suharto administration's economic policies were shaped mostly by a stable team of technocrats known as the Berkeley mafia (Gelb and Grasmann 2010). However, it is less clear why they were given leeway, and why other autocracies don't do the same. If the answer lies in the alleged constraint by the political commitment to the welfare of the poor, two further questions are raised. First, why should an autocratic political regime feel constrained by a commitment to the poor if it is indeed autocratic (that is, it possesses enough power and resources to rule single-handedly) while the poor are likely to lack effective levers of power? Second, given the empirical evidence that poverty and autocracy were generally associated in the second half of the 20th century (Przeworski et al. 2000), why are other autocracies not constrained by similar mandates? In addition, as discussed elsewhere in this report, it is hard (if at all possible) to know *ex ante* whether an autocracy will be reformist, paternalistic or predatory.

Three views either modify this idea or provide an alternative perspective. The first, contained in Eifert, Gelb and Tallroth (2003), is that these outcomes may have been due, as in Botswana and Norway, to broad coalitions of societal groups likely to be negatively affected by oil and mining production, particularly those in the non-oil tradable sector. Partai Golongan Karya (Party of the Functional Groups in Indonesian, or simply Golkar), Indonesia's ruling party from 1973 to 1999, is a frequently cited example. Golkar represented a broad coalition of diverse interests—farmers, women, workers and youth—and thus acted as an effective agent of restraint by serving as a forum for reaching consensus and reducing rivalries over oil rent distribution (Eifert, Gelb and Tallroth 2003; Dunning 2005; Smith 2007).

The second view attributes Indonesia's adoption of prudent policies that enabled sustainable development to ideological factors (specifically the victory of counter-revolution over nationalist and communist forces in 1960s) and to geopolitical factors, such as the country's strategic Cold War location—resulting in good relations with the United States—and its proximity to Japan (Rosser 2007).

A third perspective suggests that the prior development of a non-resource private sector and the presence of politically weak (but economically potent) groups can shape elite incentives for economic diversification and subsequently affect the prospects of development. Dunning (2005: 459) argues that the colonial legacy had left Suharto with an unusual ability to mitigate the political risks of economic diversification by entering into public-private partnerships with politically weak but economically important members of the Chinese ethnic minority. Suharto's use of this group to diversify the economy significantly reduced the political risks of diversification.

Nigeria

With petroleum discovery dating back to 1956, Nigeria is the leading oil producer in Sub-Saharan Africa. It is also one of the paradigmatic examples of how the poor management of natural resources, exacerbated by intense ethno-religious divisions and deep-rooted corruption, can produce poor development outcomes. Despite possessing huge oil wealth, about half of all Nigerians lived in poverty in 2010 (World Bank n.d.).

The adult literacy rate for 2008–2012 was 51 per cent (UNICEF ND). Infant mortality is still high, and increased 20 per cent between 1990 and 2005 (Gboyega et al. 2011: 34).

Military leaders and democratically elected civilians alike seem to have been equally incapable of implementing institutional change that would prevent the wasteful spending (and oftentimes outright squandering) of petroleum revenues and benefit the populace at large. While the transition to democracy presented a unique opportunity for Nigeria's leaders to bring about much-needed reforms in all sectors of governance, including management of the extractive industry, that promise remains largely unfulfilled. The provision of public services such as basic healthcare and education is deemed to be a shocking and disastrous failure (HRW 2007: 2).

Nigeria's society is highly divided along ethnic and religious lines; the three largest ethnic groups are the Hausa-Fulani (north), Igbo (southeast) and Yoruba (southwest). These politically salient cleavages determine the strategies of political parties, most of which have regional bases and influence distributional conflict in Nigeria.

Most of Nigeria's post-independence history, except for a brief democratic interlude in the period 1979–83 and the eventual return to democracy in 1999, is a period of highly unstable autocratic rule dominated by military regimes. In 1985, General Babangida (north) came to power by ousting Major-General Buhari (Hausa-Fulani). Babangida promised to hand power over to civilians, but postponed democratic elections. He was succeeded by the military governments of Generals Abacha and Abubakar (both northerners) (1993–99), whose systems of governance were characterized by particularly unabated forms of grand corruption and predation (Lewis 1996). In the first relatively competitive elections held in 1999, Olusegun Obasanjo (Yoruba) (1999–2007), who in the past served as military head of state, was elected president. Obasanjo's election was surrounded by enthusiasm for a better future, but reforms he initiated stalled. After the presidency of Umar Musa Yar'Adua (north), Goodluck Jonathan (south) was elected president in 2010.

Oil, which accounts for 90 per cent of the country's overall exports, is the central pillar of Nigeria's political economy. During its first oil boom (1974–78), Nigerian military governments used oil wealth to visibly disperse the rent across ethnic groups by investing in infrastructure and education, which absorbed almost half of public investment (Auty 2008: 10). Similarly, the military government of Babangida distributed the oil revenues to regime loyalists and elite coalition members. As a result, billions of dollars in discretionary funds supported flagrant self-aggrandizement by the military and permitted the dissemination of patronage to the political class, whereas social spending and subsidies were spent to appease a restive urban population and create new states and local governments to satisfy myriad ethnic claims (Lewis 1994: 338). As a result, according to the World Bank's estimates, in 1990–91 alone, approximately USD 2.1 billion in petroleum revenues were diverted to extra-budgetary accounts. In general, the nearly 30-year-long rule of military officers in Nigeria was marked by the plundering of public funds. It is believed that as much as USD 12.2 billion in oil revenue disappeared during General Babangida's rule, and General Sani Abacha is said to have personally looted up to USD 3 billion. This system of grand corruption was replicated throughout the government and public sector, as many government officials at all levels followed their leaders' example by looting whatever public resources to which they had access (HRW 2007: 17).

The oil rents, which increased from USD 20 billion in 2000 to USD 47 billion in 2008 (Gboyega et al. 2011:10), are distributed via a highly centralized system of fiscal federalism that was restored in 1999. According to the existing revenue-sharing formula, all oil fiscal revenues collected at the federal level are put into a single account, the Consolidated Revenue Fund, and then shared among the federal, state and local tiers of government. This makes the federal government the locus of power, as access to oil wealth depends on proximity to Abudja. Nigeria's fiscal federalism is complicated by clashing claims over oil distribution and demands from producing states in the south to receive a larger share (currently set at 13 per cent) and the poor fiscal discipline of sub-national governments (Ahmad and Mottu 2002: 18). The federal model has been constantly evolving toward the multiplication of sub-national units (Nigeria currently has 36 states plus the federal capital) in order to incorporate neglected ethnic groups because approximately half of the country's population belongs to an ethnic group other than the dominant three (Gelb 1988).

During his second term, President Obasanjo installed a small team of technocrats that aspired to improve macro-economic management and strengthen fiscal transparency. A number of anti-corruption initiatives have been implemented (Gelb and Grasmann 2010) that have produced some progress in transparency in the federal management of fiscal revenue (Magrin and van Vliet 2009). Various government ministries and agencies, as well as legislative oversight committees, now monitor the execution of the budget. However, despite these checks, there is still very little effective monitoring of public expenditures in Nigeria (Gboyega et al. 2011: 33). Corruption remains rampant.

Finally, although some important steps were taken to enhance transparency at the start of the democratic era, these measures have not been associated with equitable development, and have had very little positive impact on living standards for the majority of Nigerians. The economy is excessively dependent on oil. Violence, illegal bunkering and oil theft in the oil-producing regions remain serious problems (Gboyega et al. 2011).

Norway

Norway's experience is often cited as an example of successful natural resource management. To other countries facing the challenges of oil revenue management, the Norwegian Model is presented as the model of best practices (Thurber, Hults and Heller 2010). The country has a high per capita GDP, is placed on top of the UNDP's ranking of Human Development (Cappelen and Mjøset 2009) and has one of the least corrupt governments in the world. For decades after its oil discoveries in the late 1960s, Norway was not only able to avoid the ailments commonly associated with natural resource dependence, but also managed to outperform its Scandinavian neighbours on economic growth indicators (Larsen 2005).

What made Norway immune to the resource curse? Scholars typically highlight the role of its high-capacity institutions and checks and balances prior to the start of oil production in the 1970s. Moreover, setting up certain institutional mechanisms for the transparent and equitable distribution of wealth ensured sustainable development over the longer term and helped avoid the negative effects associated with oil price volatility. In this regard, the Norwegian Parliament acted as a strong accountability and consensus-building mechanism. The Norwegian oil savings fund (Pension Fund) also

played a key role in fiscal management and smoothed the impact of oil boom-and-bust cycles. Strong institutions prevented rent seeking by politicians and public sector office holders and ensured the equitable distribution of oil wealth. Other factors that aided Norway include the presence of strong business interests in the non-oil tradable sectors that supported the pro-stabilization policy stance and recognized the importance of restraint in public expenditure. Norwegians also share egalitarian values, trust their politicians and efficient bureaucracy, and are generally consensus oriented (Eifert, Gelb and Tallroth 2003). In sum, as *The Economist* (2006) put it:

Norway, after all, was a rich, efficiently administered country long before Statoil produced its first drop of oil. It had plenty of educated citizens to help staff and regulate the company, a free press, well-funded police and impartial courts to guard against corruption. Norway also had demanding voters to limit waste and inefficiency.

The decline in oil prices in the mid-1980s hit Norway hard, and the government responded by calling for a series of policy measures to maintain stability. This process of formulating policy was broad based and included major stakeholders from all political parties, labour unions, business associations and the expert community. The government adopted a set of counter-cyclical fiscal management policies by which all groups agreed to abide. This shows the benefits of learning from past errors and consensus-oriented policymaking with the participation of all major stakeholders. Considering long-term demographic changes (e.g. an aging population), Norway implemented a major policy change in 1990 by installing a state oil fund (later renamed the Norwegian Pension Fund) to act as a buffer against the fluctuations in oil prices and to stockpile reserves to ensure intergenerational equity. The Pension Fund, which is an integral part of the budgetary process, aims to promote government savings and intergenerational preservation of wealth (Velculescu 2008).

In the electoral campaign of 1997, different parties had diverse views on how much oil wealth should be spent. While the then-governing Labour Party argued in favour of cautious public spending, several smaller opposition parties advocated larger public layouts for social welfare. As oil prices began to rise in the early 2000s, pressure mounted again to increase public spending, especially by local governments, which are in charge of most education and health expenditure. As oil wealth accumulated in the Pension Fund, these pressures were difficult to resist (Eifert, Gelb and Tallroth 2003). This once again shows the debates that all governments in oil-rich states face regarding whether to expand fiscal expenditure or approach revenue management cautiously. Even Norway, which has generally managed its revenues successfully with a view toward future generations, could not avoid such pressures.

Venezuela

Having one of the world's oldest oil industries, which dates back to the 1920s, Venezuela has experienced swings between democracy and autocracy; from the dictatorship of General Juan Vicente Gómez to a short democratic interlude (the so-called *trienio*

adeco, 1945–47) to the dictatorship of Marcos Pérez Jiménez and (re-)democratization in 1958 and back to authoritarianism under president Hugo Chávez. Irrespective of these macro-political changes, the country's vast oil wealth has been managed less than adequately. Given its enormous development potential, Venezuela has performed poorly under both democratic governments and autocratic rulers.

Once in power, General Pérez Jiménez used income from expanding oil exports to increase public spending on construction projects, following the declaration of the policy of sowing the oil (*sembrar el petróleo*) (Karl 1997). In 1958, a popular uprising toppled General Jiménez, and the leaders of three pro-democratic parties—the social democratic AD (*Acción Democrática*), the Christian Democratic COPEI (the *Partido Social Cristiano de Venezuela*), and the Left centrist Republican Democratic Union (*Unión Republicana Democrática*) negotiated a peaceful transition to democracy that would last for the next 30 years. This Punto Fijo system, as it came to be known, was consensus based; it allowed organized interests to participate in policymaking through corporatist mechanisms, and was generally designed to foster power sharing and cooperation. At the centre of the Punto Fijo democracy stood the two deeply entrenched political parties, the AD and the COPEI, which were broadly committed to democratic principles but operated as clientelistic party machines consisting of multi-class patronage networks (McCoy and Myers 2004: 3). The key features of this Venezuelan 'partidocracy' were: (1) a constitutionally weak presidency, (2) limits on immediate presidential re-election, (3) absence of term limits on legislators that enabled party members to develop long-term careers in Congress, and (4) a proportional representation (PR) electoral system for legislative elections (Monaldi et al. 2006). These elements, along with the functioning of centralized and disciplined parties, helped consolidate the party system during the 1960s and 1970s.

In principle, similar to the dictatorship of General Jiménez, the policies adopted by the Punto Fijo administrations resulted in the largely wasteful spending of oil resources. The prudent fiscal policies of the first three administrations were replaced by a spending spree during the administration of Carlos Andrés Pérez (1974–79), which was marked by an oil boom. His administration invested heavily in existing state enterprises and opening up new ones. A large portion of the spending was covered by borrowing due to the government's belief that the oil revenue would cover the foreign debt later. The government used public expenditures to construct highways, offices, hotels and other items requiring high-cost physical capital investments (Karl 1997; Gall 2006). Because of government inefficiency, fiscal expansion fuelled corruption and waste. This, in turn, undermined the legitimacy of the 'pacted democracy' and forestalled the collapse of the party system two decades later (Karl 1997). Like Pérez Jiménez before him and Chávez three decades later, Andrés Pérez I, who announced his programme Gran Venezuela in 1974, concentrated all decision-making power in his own hands and essentially ruled by decree during his first year in office (Gall 2006). He expanded public sector employment by creating new public enterprises while discouraging any debate about the chosen developmental course. By the end of his administration, the opposition was asking: Where has the money gone? When world oil prices plummeted in the early 1980s, Venezuelan oil revenue decreased by 60 per cent. The government responded by borrowing abroad. As a result, foreign debt began to accumulate, increasing fourfold to reach USD 33 billion by the late 1980s (Gall 2006).

In another surprising twist of events, Andrés Pérez, who was responsible for state interventionist policies and resultant corruption in the 1970s, re-emerged in the late 1980s as the AD party candidate with the new programme of neoliberal reforms *El Gran Viraje* ('the great turnabout'). The reform package, which included the highly unpopular measure to double fuel prices, came with the IMF-negotiated policies called the *paquetazo*. The austerity measures hit the general public hard, and protests and riots in Caracas' streets followed in 1989 during which 400 people were killed in the events known as the *Caracazo*.

This all added discontent to the already unpopular AD-COPEI rule, and by the election in 1998 the edifice of the entire Punto Fijo system collapsed. Colonel Hugo Chávez came to power amid the deep crisis of the 1959–98 democracy. His presidency coincided with an unprecedented oil boom that generated a whopping USD 1 trillion in total revenue (Corrales 2012). Bolstered by oil windfalls, Chávez launched a project of radical transformation to replace the existing party-based democracy with a new, Bolivarian republic. This transformation produced a political system characterized by extreme presidentialism, neopopulism and remarkable personalism. Oil revenues allowed Chávez to assault democratic institutional checks and centralize authority in his own hands. Chávez spent billions of oil money on social programmes, yet much of the funds were allocated on the basis of partisan loyalty rather than any universalistic principles. Thus resources were often used to reward the regime's cronies in order to cultivate a sense of loyalty to the president. Social benefits presented as gifts from the president stimulated populist beliefs and paternalistic attitudes.

This changed dramatically after the April coup and a two-month strike in 2002–03, which indicated the strengthening of political opposition forces to Chávez's rule. These events triggered radical steps from the government and prompted it to implement a socialist welfare model (Ellner 2011). Just months after the opposition lockout, as oil prices surged in late 2003, Chávez launched social programmes in the areas of healthcare, education and food distribution. Massive expenditures followed the surge in oil prices in the early 2000s, despite the IMF's advice to restrain fiscal expansion. Funds for these programmes were provided through opaque and non-budgetary mechanisms of transferring billions of oil revenue from the state oil company to special funds under the president's control (e.g. the National Development Fund) (Penfold-Becerra 2006: 5). This presented opportunities for corruption. The country is ranked at the bottom of the Corruption Perception Index, and state agencies in Venezuela are notorious for their weak competence and mismanagement. It is not even clear how much the government has spent. In 2007 alone, the national oil company spent USD 14.4 billion on social programmes, up from USD 6.9 billion in 2005 (Alvarez and Hanson 2009). Some of this money was used for political purposes such as buying votes, and some was distributed to the poor sections of the population. As such, social spending helped Chávez strengthen electoral and political support from these sections of the population that were previously politically excluded (Penfold-Becerra 2006).

ACRONYMS AND ABBREVIATIONS

AD	Acción Democrática (Chile)
ASM	artisanal mining
COPEI	Comité de Organización Política Electoral Independiente (Venezuela)
GDP	gross domestic product
ILO	International Labour Organization
International IDEA	International Institute for Democracy and Electoral Assistance
MENA	Middle East and North Africa
MOSOP	Movement for the Survival of the Ogoni People (Nigeria)
MP	member of parliament
NDC	National Democratic Congress (Ghana)
NPP	New Patriotic Party (Ghana)
UNDP	United Nations Development Programme

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A number of studies in the academic and policy literature suggest that resource-rich countries with democratic political systems are more likely than their resource-rich counterparts with less democratic systems to enjoy prudent governance of natural resources, which, in turn, makes inclusive sustainable development more likely.

This report focuses on the potential roles of stakeholders and institutions in the governance of natural resources. It aims to pinpoint specific mechanisms that are pivotal for ensuring prudent management. It draws on a multitude of examples and includes six case studies that illustrate the interaction between democracy, natural resources and development outcomes.