

What can we learn about the management of natural resources from the management of foreign aid?

Kevin Morrison, Cornell University

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The argument in brief

- ▶ The natural resource “curse” is generated by a combination of
 - *revenues* generated by those resources
 - governments using those revenues poorly
- ▶ There are essential similarities between natural resource revenue and foreign aid
- ▶ Yet the policy mechanisms currently advocated for natural resources and foreign aid are different
 - Lessons from foreign aid indicate certain recommendations with regard to natural resources

What causes the “curse”?

- ▶ Three main problems with natural resources
 - Dutch disease
 - Price volatility
 - “Political deterioration”
- ▶ Each of these is a function of how revenues are used by the government
- ▶ Takeaway: Resource curse is a problem of institutions and governance
 - Now quite a lot of empirical evidence to support this
 - In good environments, natural resources are positive

The remaining problem

- ▶ What to do when these resources accrue to countries that have poor governance?
- ▶ Two main responses
 - Take the resources out of the hands of the government
 - ▶ Privatization, distribution to citizens
 - Leave the resources with the government but change the government's actions
 - ▶ Resource funds overseen by others

Lessons from foreign aid

- ▶ Foreign aid's similarity to natural resources now noted by many scholars
 - Also a "sovereign rent"
 - Has been linked to exactly the same problems
- ▶ For many years, donors tried two ways of avoiding problems with aid:
 - Take the aid out of the hands of government
 - Leave the aid with the government but change government's actions

Neither of these worked

- ▶ Taking aid out of hands of government through project lending
 - In a poor development environment, projects have a very limited rate of return
- ▶ Changing government's actions through conditionality
 - Without "ownership", policies are likely to be reversed as soon as possible

The “solution”

- ▶ Aid is more effective if one is “selective” about where aid goes
 - If a government is not already doing what you want, give aid to someone else
 - The various “tricks” will not work
- ▶ Implication for natural resources
 - In many places, leave them in the ground until a better regime is in place

Implications

- ▶ International community should not buy natural resources from certain resource rich countries
 - Key question: which resource rich countries?
 - Difficult politically: But that does not mean advocacy groups cannot pressure in this regard
- ▶ Key points:
 - In good institutional environments, there is no curse
 - In poor institutional environments, we should not delude ourselves into thinking the curse of natural resources can be avoided