Breaking the Resource Curse: The Role of Natural Resource Funds

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Abstract: Studies have shown that the paradox of “the more resource-rich the poorer” otherwise known as “resource curse” has been prevalent in many countries endowed with natural resources. This arises from resource funds mismanagement. To mitigate this trend, a revenue management strategy called Natural Resource Funds (NRFs) - a government owned special-purpose vehicle to ensure effective management of the country’s natural wealth was embraced in some nations. This paper critically reviewed the roles of NRFs in breaking the resource curse. The Systematic Quantitative Assessment Technique (SQAT) was adopted in identifying and reviewing sixty-seven (67) peer reviewed journal articles that had researched on NRFs in the last decade. The findings were that NRFs have played an effective role in some advanced countries (Norway, Finland, Chile), while they have failed, especially in Africa, Middle East and Latin America due to poor institutional framework and governance. A globally set code of resource governance was recommended to strengthen the role of NRFs and enhance their effectiveness. Resource revenue maximization other than revenue utilization would be a good area for future research.

Key words: Natural Resource, Resource Curse, Revenue Management, Paradox of plenty, Dutch Disease

INTRODUCTION

An island nation in the South Pacific called the Republic of Nauru discovered a rich deposit of the mineral called phosphate which was expected to set the nation on the upward trajectory of growth from being one of the world poorest nations on per capital income level in the 1970s to a rich nation (Onifade, 2017; Oversen et al., 2018; Mesagan, 2019; Geissler et al., 2019). By 1973, its GDP truly peaked at $178 million (van der Borg, 2019; Clifford et al., 2019; Gale, 2019; Morris, 2019). However, this enormous wealth was squandered via poor revenue management and by 2007; its GDP had shrunk to less than $19 million and until the end of 2019, there have been no signs of recovery (Clifford et al., 2019; Geissler, 2019; Morris, 2019). This is a typical case of a nation that is wealthy in natural resources but the resources have rather being a curse than a blessing – a scenario otherwise known as the “paradox of plenty” or “resource curse” (Yorbana, 2017; Desierto, 2018; Lansley et al., 2019; Morris, 2019).

Resource Curse describes the paradox that nations that have abundant natural resources do not have economic growth, democracy and good citizens’ welfare system that are commensurate with the resource wealth (Grafton & Little, 2017; Oversen et al., 2018; Hosu et al., 2018). In fact, most of them often experience worse development outcomes than countries with little or no natural resources (Olawoye, 2018; Desierto, 2018; Gale, 2019). Countries like Venezuela (oil), Angola (diamond, oil), Democratic Republic of Congo (diamonds), and Nigeria (oil) are considered “resourced cursed” due to poor revenue management and corruption (Gosling et al., 2017; Grafton & Little, 2017; Hunziker & Lars-Erik, 2017). Deriving from the classical case of Nauru, revenue management becomes very important in the resource rich
countries in order to make positive impact in the lives of the citizens (Frynas et al., 2017; Araji, 2018; van der Borg, 2019).

A school of thought had opined that, in order to prevent this ‘paradox of plenty’ and ensure effectiveness and efficiency in the management of revenues from natural resources, countries that are endowed in natural resources should adopt some form of revenue management strategy known as Natural Resource Revenue Management (NRRM) (Yorbana, 2017; Mohaddes & Raissi, 2017; Kamiński, 2017). With this paradigm in mind, Natural Resource Funds (NRFs) as an example of NRRM strategy have been established with the objectives of increase in the efficient use, transparency and public accountability of the natural resource revenue in resource-rich nations (Kamiński, 2017; Araji, 2018; Mesagan, 2019; Gosling & Gambiza, 2019).

NRFs are deliberate investment mechanism and owned by a government of resource-wealthy countries in which revenue derived from the sales of minerals, oil and gas are better managed. (Goldstein & Ng, 2017; Frynas et al., 2017; Dupuyi, 2017). Certain fractions from revenue generated from sales of natural resources are moved into the fund being administered under certain rules and governance for the set purposes (Kaminski, 2017; Araji, 2018; Mesagan, 2019). The theoretical rationale is that the effective management of extractive revenues will foster economic growth through intervention to provide stabilization, filling of budgetary deficit and savings for the rainy days and future generation (Grafton & Little, 2017; Hunziker & Lars-Erik, 2017; Hosu et al., 2018; Olawoye, 2018).

Some scholars believed that the NRF will break resource curse (Diaz-Rioseco, 2016; Kaminshki, 2017 Mohaddes & Raissi, 2017; Geissler et al., 2019) while some scholars felt otherwise due to the prevalent structural level of corruption and mismanagement in some nations (Frynas et al., 2017; Dupuyi, 2017; Araji, 2018). Adoption of NRFs has helped some countries, especially advanced nations, to break out of resource curse - Norway, Finland, Chile, some states in the USA and Persian Gulf States; while some have made the funds a haven for corruption and mismanagement, with no impact in the life of the citizens (Mendoza et al., 2015; Onifade, 2017; Dupuy, 2017; Gale, 2019). Examples of such countries are largely found in Africa and other third world nations - Venezuela, Equatorial Guinea, Nigeria, Kazakhstan, Trinidad and Tobago etc.

This study attempts to critically review the role of these funds in delivering economic prosperity to the citizens of the resource-rich states by considering the empirical studies carried out in the last decade (2010-2019) that have investigated the impact of NRFs on the socio-economic development of countries that have adopted them in breaking the resource curse. The subsequent sections of this study are as follows: the methodology section where data collection and data analysis were discussed, result & discussion that focuses on answering the central research question; followed by the recommendations section, and then the conclusion section where limitations of the study are presented as gaps for future research.

METHODOLOGY

Data Collection

In the critical review of Natural Resource Funds (NRFs) and their effectiveness as a revenue management strategy, this study adopted the “systematic quantitative assessment technique” (SQAT) as developed by Pickering and Byrne (2013). SQAT is systematic in the assessment of papers to enhance determination of the ones to include or exclude in the review process. The work concentrated on peer-reviewed original journal publications to ensure high quality of papers (Pickering & Byrne, 2013). The 5 important steps in conducting an effective
critical review as recommended by SQAT and how it was applied in this study is contained in Table 1. A total of sixty-seven (67) peer-reviewed English articles on Natural Resource Funds (NRFs) as a revenue management strategy met the selection criteria from the thirteen databases used. The coverage period is the last decade.

Table 1 SQAT TABLE

<table>
<thead>
<tr>
<th>Step</th>
<th>Application in current study</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Define topic</td>
<td>Breaking the resource curse – The role of natural resource funds</td>
</tr>
<tr>
<td>2. Formulate the</td>
<td>How effective have Natural Resource Funds been as a revenue management</td>
</tr>
<tr>
<td>research question</td>
<td>question to break the Resource Curse?</td>
</tr>
<tr>
<td>3. Identify key</td>
<td>“Natural resource”, “revenue”, “resource curse”, “funds”, “paradox of</td>
</tr>
<tr>
<td>words</td>
<td>plenty”, “Dutch disease”</td>
</tr>
<tr>
<td>4. Identify and search</td>
<td>1. 13 databases that were considered: Emerald; Elsevier; Sage; Springer;</td>
</tr>
<tr>
<td>databases</td>
<td>Taylor and Francis; Wiley; Cambridge Journal; JSTOR; Oxford; Inderscience; Ingenta; MIT, SSRN.</td>
</tr>
<tr>
<td></td>
<td>2. “In the title of the article” search using four search combinations:</td>
</tr>
<tr>
<td></td>
<td>a. &quot;natural resource&quot; + “funds”</td>
</tr>
<tr>
<td></td>
<td>b. “natural resource” + “curse”</td>
</tr>
<tr>
<td></td>
<td>c. “natural resource” + “revenue”</td>
</tr>
<tr>
<td></td>
<td>d. “natural resource” + “management”</td>
</tr>
<tr>
<td>5. Read and assess</td>
<td>1. The Abstracts of papers generated were perused to ensure that they</td>
</tr>
<tr>
<td>publications</td>
<td>were dealing with Natural Resource Funds, revenue management and resource</td>
</tr>
<tr>
<td></td>
<td>curse.</td>
</tr>
<tr>
<td></td>
<td>2. Literature reviews book chapters and conference proceedings were</td>
</tr>
<tr>
<td></td>
<td>not included; only peer-reviewed empirical papers.</td>
</tr>
</tbody>
</table>

Table 2: OUTPUT

<table>
<thead>
<tr>
<th>DATA BASE</th>
<th>NO OF PEER REVIEWED ARTICLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Emerald</td>
<td>14</td>
</tr>
<tr>
<td>2 Elsevier</td>
<td>10</td>
</tr>
<tr>
<td>3 Sage</td>
<td>12</td>
</tr>
<tr>
<td>4 Springer</td>
<td>7</td>
</tr>
<tr>
<td>5 Taylor and Francis</td>
<td>7</td>
</tr>
<tr>
<td>6 Wiley</td>
<td>8</td>
</tr>
<tr>
<td>7 Cambridge Journal</td>
<td>0</td>
</tr>
<tr>
<td>8 JSTOR</td>
<td>4</td>
</tr>
<tr>
<td>9 Oxford</td>
<td>1</td>
</tr>
<tr>
<td>10 Inderscience</td>
<td>3</td>
</tr>
<tr>
<td>11 Ingenta</td>
<td>1</td>
</tr>
<tr>
<td>12 MIT</td>
<td>0</td>
</tr>
</tbody>
</table>
As it can be observed from Table 2, sixty-seven (67) Articles were utilized. This is complemented by the highest-ranking reports from the Natural Resource Management Body (Natural Resource Governance Institute Annual Report of 2014 being the latest available global consolidated report from this Institute) and IMF (the IMF Report on Natural Resource 2018) to answer the critical research question - How effective have Natural Resource Funds been as revenue management strategy to break Resource Curse? as at 31 December, 2019

Data Analysis

Based on the data gathered from the journals and reports that showed the role, practices and effectiveness of NRFs across the continents. Some mappings and groupings were done along the line of countries with similar NRFs’ set objectives. The analysis considered defined parameters to identify the roles and measure the effects of the NRFs on economic prosperity and social development of the concerned nations, taking cognizance of the differences in the governance structure, institutional framework and legal system obtainable in each country. This helped in assessing the roles and recommending how natural resource funds can be more effective.

RESULT & DISCUSSION

Out of total of sixty-seven (67) papers to answer the critical review questions, sixty-one (61) of them upon review, did not allow for statistical analysis. They largely gave general overview of the NRFs, resource curse, revenue management and highlighted the observed impacts of the NRFs without expressing them in quantitative terms. However, six (6) of the papers did a quantitative impact for different roles otherwise known as sets objectives and their outcomes - macroeconomic stabilization, mitigation of Dutch Disease, savings and investment. In all, the evidences did not allow for statistical aggregation. It is to be noted that twelve (12) of the papers made recommendations on how to make the funds more effective.

The roles of NRFs are identified as

i. Saving of resource revenue

ii. Stabilization of volatility in government expenditure

iii. Provision of socio-economic welfare

iv. Mitigation against Dutch disease

Some governments used the NRFs to manage an objective of “spend less and save more” for future generation (Lockwood, et al., 2010; Di John, 2011; Tsani, 2015; Aslanli, 2015; Venables & Wills, 2016). Various sources of resource revenue were being identified and accumulated to build long-term savings as it was the case in Kazakhstan, Azerbaijan and Norway (Morisson, 2010; Luecke, 2011; Ouoba, 2016; IMF, 2018).

ii. Stabilization - against volatility in government expenditure

By implication, stabilization funds serve as a liquidity pool which can be drawn upon in unfavourable periods and are conversely replenished at times of favourable commodity price conditions (Andrew, 2014; Bhattacharyya & Hodler, 2014; Mohaddes & Raissi, 2017). (Acosta 2012; Bauer, 2014; Aslanli 2015) stated that the following countries have NRFs with the set
objective of stabilization - meeting budget shortfalls - Botswana, Zambia, Nigeria, Indonesia, Peru, Mongolia, Ghana, South Sudan. However, they have been ineffective due to strong political pressure from various government arms to share the money and spend on short term investments (Blomquist et al., 2010; Debrah, 2015; Yorbana, 2017).

iii. Provision of socio-economic welfare

IMF (2018) stated that there were different outcomes for different countries that expected to use the NRF to improve economic welfare; of which many countries fell short of using the funds to improve the citizens’ welfare due to mismanagement and misappropriation. The impact was also limited by low stakeholder involvement; politicians and people in government have so much pauperized the citizens and could not relate to citizen requests or demands (Risku-Norja et al., 2010; Jensen, 2011; Andrew, 2014). Some Scholars have suggested that the unfavourable trend could be reversed by citizens demanding for transparency and accountability of revenues and getting more active in budgeting and its implementation (Corrigan, 2014; Andrew, 2014; Ovesen, 2018). Countries that have mineral resources often get protracted internal conflicts. Political class and influential groups fight for the control and use of the resources. (Hunziker & Lars-Erik, 2017; Hossu et al., 2018; Grafton & Little, 2017). This is evidenced in the cases of Democratic Republic of the Congo, the Niger Delta region in Nigeria, Iraq, Libya and Angola. In some instances, international conflict arising from instigation have been observed as it is in the case with Iraq’s invasion of Iran and Kuwait (Andrew, 2014; Mendosa et al., 2015; Hossu et al., 2018).

iv. Mitigation against Dutch disease

“Dutch disease” - a situation whereby phenomenal increase in natural resource revenues can hurt other sectors of the economy e.g. export-based manufacturing, by causing inflation or adverse exchange rate movement and shifting labor and capital from the non-resource sector to the resources’ driven sectors (Figueroa & Calfucura, 2010; Triki, 2011; Andrew, 2014; Aslanli, 2015). For almost half of a decade, few countries like Chile, Norway, UAE, Bostwana have handled effectively, Dutch disease. (Figueroa & Calfucura, 2010; Luecke, 2011; Olawoye 2018)

In effect, the expected outcome is spreading of wealth across generations (Praga, 2010; Barney et al., 2011; Ploeg, 2014; Andrew, 2014; Venables, 2016; Onifade, 2017; Ahmadov & van der Borg, 2019). However, using the (IMF 2018) Progress Report Monitoring Framework that comprises of parameters such as Funds’ assets & liabilities management, quality of life, macro and micro prudent policies, revenue management framework, projects initiated versus projects executed, statistical integrity, reporting system and its timeliness etc.; it is observed that the roles of the NRFs are clearly cut out in different countries. Not only that, the NRFs have been effective in achieving their set objectives in some advanced countries - Norway, Finland, Chile, China but they have not achieved the desired objectives, especially in Africa, Middle East and Latin America due to factors such as lack of strong corporate governance and institutional framework, lack of sound assets management skill, lack of transparency & accountability and corruption (Ndikumana & Abderrahim, 2010; Triki & Faye, 2011; Balding 2011, Ploeg, 2014; Wiens 2015; Cao et al., 2015).

RECOMMENDATIONS

For more effective functioning of the NRFs, the following are considered the critical success factors and challenges to overcome, arising from the investigation of the evidences:

i. Enshrinement of strong governance backed up with prudent and sound oversight by an
independent public supervisory body with transparent mechanism of mutual accountability. In recent time, there is a clear trend towards codifying the governance requirements in form of either legislation or regulation. The codification is supposed to entail rules to determine the types of revenues that must be deposited into the funds and determine roles of different government agencies that have to do with the natural resource funds (Kurtz & Brooks, 2011; Measham & Lumbasi, 2013; Andrew, 2014, Corrigan, 2014, Debrah, 2015; Amoako-Tuffour, 2016; Ovesen et al., 2018).

Public disclosure and dissemination of operational activities and audit reports to promote transparency and help citizens’ understanding - It was also observed in some countries that there were inadequate requirements and checks built around transparency, corruption and patronage. Some did not release the internal or external audit reports of their performance or publish the details of specific investments used the funds for (Kurtz and Brooks, 2011; Andrew, 2014; Corrigan, 2014; Amoako-Tuffour, 2016; Ovesen et al., 2018). In as much as some countries have started publishing their funds’ audited accounts in the midst of weak transparency, Andrew (2014) affirmed that the funds, in some countries still remain relatively opaque. Examples of such countries are Botswana, Libya, Equatorial Guinea, Iran, Kuwait, Mexico, Russia, Brunei and Qatar despite the fact that the governments of these countries have some sort of voluntary good governance standards (Venable & Wills, 2016).

Integration of accumulation into and spending from the fund into the national/state budget as a way of subjecting it budgetary processes, setting revenue benchmark and monitoring performance.

Principles of sound assets management - setting of well-defined benchmarks for the withdraw limits, desired return, liquidity, and macroeconomic effects. Andrew (2014) established that some governments of natural endowed states have been reluctant in setting withdrawal limits on their funds. E.g. Azerbaijan, Botswana, Iran and Kuwait.

Strong institutional development which makes it is easy for political class and people in power to divert public funds which are national wealth with ignominy and thrive in corruption in various forms. (Clement, 2010; Lockwood et al., 2010, Tsani, 2013; Tsani, 2015; Busse &v Gröning, 2013; Sala-i-Martin and Subramanian, 2013; Bollig & Schwieger, 2014; Tsani 2015).

The need for more international collaboration to set standard rules for performance measurement. However, it is worth mentioning that the stake is being raised to address weak governance that is the nucleus of ineffectiveness of NRFs. Example of such is Transparency International Initiative a non-governmental organization with the objective of fighting corruption (Collier et al., 2010; Morrisdon, 2010; Haufler, 2010; Andrew, 2014; Corrigan, 2014; Wills et al., 2016; Djeflat & Lundvall, 2016). Beyond this, the bigger issues to be addressed for the fund to be more effective are: international consensus on good corporate governance & blueprint that should be guide the NRFs, availability of tool and resources to establish and reform funds, how to deal with corruption, setting of clear objectives and clear rules, decision on whether the fund should be invested locally or internationally or even be used as collateral, the clear penalties to punish misconduct and clear delineation of roles for agencies having stakes in management of the fund, full disclosure & independent audit of the fund and well defined, documented oversight mechanism (Prager, 2010; Andrew, 2014; Mendosa et al., 2015; Hosu et al., 2018)
CONCLUSION

This paper has attempted to critically review the concept of NRFs, their roles and effectiveness in breaking the resource curse in the nations that are naturally endowed and delivering of economic prosperity to the citizens. It has also examined what resource curse is. It highlighted the method and procedures adopted in this critical review of NRF as a revenue management and came up with recommendations. It was observed that the NRFs conceived as a revenue management strategy to foster development and progress has sometimes outstripped their economic and social value as solutions to specific macroeconomic or budgetary problems. The funds have achieved the economic and social goal in some countries while in some other countries that the funds are poorly conceived, they have become channels for corruption; specially in the Middle East, Africa and Latin America. The paper has considered why the fund has not been so effective in some nations and made recommendations on how it can be more effective. Strong institutional framework and corporate governance are required to make the funds work effectively. It also behooves on the citizens as stakeholders have to see natural resource as commonwealth and as such put pressure on the government to follow the rules.

It was observed that the concentration of most works on NRF had been on resource revenue utilization with less emphasis has been placed on maximization. In addition, there was a very limited number of quantitative studies on the roles and effectiveness of NRFs globally. To that extent, further research is required in the future to focus on revenue maximization and quantitative evaluation of the impact of NRFs on specific outcomes. However, considering the fact that there are different set objectives by different countries in setting up the funds, a standardized methodological approach that will be one size fits all may not work in carrying out the impact analysis and, as such, pre versus post comparison may be difficult.

REFERENCES


