Oil, corruption and the resource curse

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What is it about mineral-dependent states? The ‘resource curse’ literature describes a tendency for them not only to fail to harness their resources for national development, but even to be harmed by them in many cases. A recent IMF paper, for example, says that ‘the living conditions in most oil producers are close to or below the average for sub-Saharan African countries’.¹ Oil booms, such as we are seeing today, promote bursts of temporary headline economic growth, followed by hangovers so deep that growth in the very long term is often lower than it would have been without the resource. Mineral dependence turns out to be a curse not just in terms of economic growth, but also in terms of risks of violent conflict, greater inequality, less democracy and more corruption.² This seems to afflict countries where the resource is extracted onshore (as in the Niger Delta) or offshore (as in Angola), although some of the dynamics differ among the various cases. The poorer and weaker a country is before the oil discovery, the more likely it is to be harmed by it. Natural resources seem to reinforce the patronage politics so prevalent in Africa; indeed, there seems to be something almost deterministic about the existence of the problem. ‘I do not know if this system is good,’ Gabonese President Omar Bongo once remarked of the politics of patronage. ‘But it is the only possible way!’³

Several examples help illustrate the problem in Africa. Equatorial Guinea, for instance, has the world’s greatest difference—90 places in a list of 177 countries—between its GDP per capita ranking and its human development ranking; its infant mortality and under-five mortality rates have each worsened by around 20 per cent between 1990, when oil was first discovered, and 2005, when production reached around 350,000 barrels per day (bpd). Angola’s 2007 budget is worth over $31 billion at current exchange rates—about as much as all foreign aid to sub-Saharan Africa; however, Angola’s under-five mortality rate is the second worst in the world, according to UN data.⁴ An IMF study of Nigeria found that between 1970 (the

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⁴ Data from Unicef basic indicators (www.unicef.org/files/Table1.pdf, accessed 23 Sept. 2007) and UN Human
start of the oil boom) and 2000 Nigeria earned about $350 billion, but income per capita fell and inequality worsened sharply: in 1970, 36 per cent of the population was poor, but this had risen to nearly 70 per cent in 2000.

The curse seems to be self-perpetuating, too: whereas politicians in oil-rich countries routinely proclaim the need to diversify away from dependence on natural resources, the trend tends to be in the other direction, because of the damage that mineral dependence inflicts on other economic sectors. In Angola, Equatorial Guinea and Nigeria, for example, oil and gas now account for between 95 and 99 per cent of exports (in Angola, oil and diamonds now account for over 99.5 per cent of exports, according to IMF data).

The rise of ‘governance’

The evidence for the existence of a resource curse, and the reasons behind it, will not detain us in detail here, except for one big aspect: ‘governance’. This is usually high on the list of reasons cited for this paradox of poverty from plenty: for example, all the sub-Saharan African oil-producing countries, except Gabon and Cameroon, show below-average performance on a Government Effectiveness Index compiled by Kaufmann and others; they also cluster towards the bottom of Transparency International’s Corruption Perceptions Index (CPI, which is itself explored in more detail below). ‘The resource curse is a complex phenomenon,’ wrote George Soros in an introduction to a new book on the subject.

Three different processes come into play. One is the currency appreciation due to resource revenues and its negative effect on the competitive position of other industries. This is called the Dutch disease. The second is the fluctuation in commodity prices and its disruptive effects. And the third is the effect on political conditions. The first two are purely economic and have been studied extensively. It is the third factor that needs to be better understood, especially as its impact is far greater than the other two.

The study of the resource curse, and of ‘governance’ and corruption more generally, began properly gaining traction as a field of enquiry only from the 1990s—the decade when Transparency International was founded; when Terry Lynn Karl published The paradox of plenty (her seminal book on the resource curse); when Jeffrey D. Sachs and Andrew M. Warner produced a ground-breaking 1995 paper demonstrating strong negative correlations between countries’ resource dependence and economic growth; and when World Bank president James Wolfensohn said in a famous speech of 1996, ‘Let’s not mince words—we need to deal with the

[Development Index (2006), as well as budget data from the Angolan finance ministry website. An exchange rate of Kz 86:$1 was used; however, in mid-2007 the Kwanza appreciated further, making this an even bigger budget in dollar terms. However, the data are based on old surveys and should be treated with caution, especially given Angola’s rapid postwar growth.


6 The present author urges that the CPI be treated with great caution, for reasons outlined below.


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cancer of corruption. The transparency campaigner Global Witness, since the publication of their controversial *A crude awakening* in December 1999, can take some credit for helping popularize the themes.

Before the 1990s analyses of the poor performance of oil-rich countries, particularly in the press, were dominated by notions of oil companies as agents of western imperialism, exploiting poor Africans. In the 1990s this view of oil companies became mingled with concerns about the environment—a current of thinking that still pervades large parts of the public consciousness. These assessments certainly contained a great deal of truth, but such positions (typically emerging from left-wing ideologies) served mainly to obscure the true dynamics of what was really going wrong.

The rise of ‘governance’ analyses has injected sophistication into the field. Accompanying this shift has been a trend in actual events that has eroded the basis of arguments that imperialist oil companies are exploiting Africans: along with the rise of OPEC in the 1970s, the bigger oil producers in Africa (notably Nigeria and Angola) began wrestling a greater share of revenue from the oil companies, and now these countries receive, on average, more than 50 per cent of the value of their oil as state revenue. Once costs—especially large in Angola’s case, because of the number of expensive deep-water projects—are removed from the equation, that figure exceeds 80 per cent. Nobody in Angola’s oil industry would dispute that today it is the Angolan state oil company Sonangol, not ExxonMobil or BP or Sinopec, that calls the shots.

This shift has been good and bad for oil companies’ public relations departments. On the one hand, the ‘governance’ analysis has helped companies shift blame away from themselves towards others—notably, African politicians. (As André Madec, a spokesman for ExxonMobil, put it: ‘We don’t like to call it the oil curse. We prefer a “governance curse”.’) On the other hand, under the new corruption-focused analyses it is not oil companies’ behaviour but the impersonal oil money flowing that is the big problem; so companies’ orphanages or other ‘social programmes’ are exposed as being relatively irrelevant, orders of magnitude smaller than the problems that oil and oil money generate.

The new ideas represent analytical progress. But there is still some way to go to understand what corruption is in the context of an oil-rich country. Two things in particular must be added to traditional analyses of corruption. The first is a view of corruption not simply from the point of view of particular actors and their behaviour (actors are judged against externally derived standards, which can lead to a moralistic approach whose usefulness is not entirely clear) but from a systemic perspective too. The second is a view of corruption from not just a domestic but a global perspective—especially in the context of international financial flows.

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9 Author’s interview with André Madec of ExxonMobil, 2005, also reproduced in the concluding chapter of Nicholas Shaxson, *Poisoned wells: the dirty politics of African oil* (Basingstoke: Palgrave, 2007). Madec said almost exactly the same thing in an article in *The Economist* of 24 Dec. 2005 entitled ‘The paradox of plenty—the curse of oil’: ‘We don’t like to call it the oil curse, we prefer “governance curse”’. "

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A central feature of this article will be that conventional approaches to corruption are inadequate. We will illustrate this with reference to the work of the Berlin-based NGO Transparency International (TI). TI is renowned for its work on corruption, and it has strongly influenced the thinking of the World Bank and many others. Unfortunately, while TI has contributed a great deal to opening up the field, its current approach towards corruption is flawed, and has led to a fragmented understanding of corruption that tends to ignore the international dimension (which is especially pertinent in the case of the oil industry). What is more, both of its flagship contributions, the famous CPI and its core definition of corruption as ‘the misuse of entrusted power for private gain’ are too narrow. (The World Bank’s definition is even more restrictive: ‘the abuse of public office for private gain’.) The oil-producing countries of sub-Saharan Africa help us see why these definitions are faulty.

The queue

Why do mineral-dependent countries tend to be more corrupt than others? The simple answer is that large tides of oil money, for example, are simply too much for institutions to absorb. But what does that mean, exactly? This article will use a combination of two ideas to illustrate some of the core dynamics.

First, consider a queue, involving people waiting patiently in line for something. It involves two kinds of order: the physical order (one person standing in line behind another) and the mental order (participants’ faith in the queue, which keeps them in line). One can disturb the physical queue in two ways. First, say you douse its participants with cold water. As long as people’s faith in the queue remains intact, order can be restored. This kind of disruption is analogous to an economic shock or a terrorist attack in a wealthy, democratic country. However, there is a second, more dangerous way to disrupt a queue: this happens when people selfishly push in at the front. This assaults the other participants’ faith in it, and once this collective belief in others’ willingness to stand in line has eroded past a certain point a scramble will ensue, in which the strongest get to the front. Participants see that only a fool would stand in line, and once the queue collapses there is no easy way to restore order. ‘In a society when everyone cheats and takes or pays bribes, there is little incentive not to join in,’ wrote the Financial Times commentator Martin Wolf. The first queue has only been disrupted. The second queue has not only been disrupted; it has been corrupted too. The corruption has involved a loss of trust. Trust may be nothing less than the key to the wealth or poverty of nations: as the economist Tim Harford put it: ‘Economists believe that the difference between countries that have successfully formalised trust and those that have not is, basically, the difference between rich countries and poor ones’.11

10 The present author has used this analogy in the Fela Kuti chapter of Poisoned wells (which did not explicitly join the two ideas presented here). This formulation was derived from a sentence in Chinua Achebe’s The trouble with Nigeria (Oxford: Heinemann, 1983): ‘a normal sensible person will wait for his turn if he is sure that the shares will go round; if not, he might start a scramble’.

That current analyses of the resource curse often do not reflect this kind of thinking is illustrated by this example, from a recently published book on the resource curse: ‘The central problem facing resource rich countries may be easily stated: Various individuals wish to divert as much of that endowment as possible for their own private benefit.’12 This frames the problem in terms of the behaviour of ‘individuals’. In fact, the problem is not just one of ‘various individuals’ pushing in—it involves, to all intents and purposes, everyone. What matters is how people perceive and relate to each other, not just how they behave. This is a systemic problem. (This is not just about ‘culture’ or religion or ethnicity either—although cultural, religious and ethnic issues will clearly interact with this systemic problem in important ways.) Donor aid money may in some cases risk replicating this problem even in some African countries that are not resource-rich.

Divided nations

The second idea is not especially new, but, combined with the first, can provide fresh insights into the nature of oil politics.

Consider two different hypothetical countries: Agricolia, an agricultural economy, and Petroland, which depends entirely on oil. Both are divided politically between North and South. When Southern Agricolia has a bumper crop, this doesn’t necessarily harm North Agricolia, because it doesn’t take anything away from it (and the North’s residents may even benefit from more economic activity nearby).

Petroland is different. The total amount of oil money available for the whole country this year is a given: it depends on world oil prices, the oil contracts, technology, geology, financing and oil production rates, and there isn’t much ordinary citizens can do to change any of these variables in this economic enclave. Sharing out this fixed sum of money is a zero-sum game: more for the South means less for the North. Here is a classic recipe for conflict. Now, even if North and South settle on a formula, the problem isn’t over yet—for the Northeast will now have to compete with the Northwest. And so on, down to village level—as inhabitants of the Niger Delta, used to fighting for a share of local spoils, will attest. The drivers of conflict spread downwards, fragmenting society at each level. For example, after Nigeria’s independence in 1960, the state split from three regions into four, then into twelve states, then 19, 21, 31; today there are 36. This subdivision was driven to a significant degree by divide-and-rule politics and the complaints of minorities in each state about not getting a fair share of the ‘cake’. Yet each subdivision simply created new configurations, new minorities and more numerous divisions.

The economist William Easterly describes cross-country studies which highlight how ethnically diverse societies suffer, among other things, a significantly higher probability of civil war and of genocide, and higher black market premiums, as well as far lower economic growth, lower schooling rates and fewer paved roads.13 He points out that economists and donors, however, have paid remarkably little

attention to the effects of ethnic polarization on economic growth. Analysis needs to move further, beyond seeing ethnic (and other) diversity as a static phenomenon, and understand better how polarization and social fragmentation—and the perceptions of these divisions—are affected by conflicts over mineral money, and how all these factors in turn impact on poverty, growth, corruption and conflict.

The divisions (and perceptions of divisions) are not always ethnic or religious. One case in point would be the kind of rural/urban divide that was for years a key part of UNITA rebel leader Jonas Savimbi’s discourse, and an important factor in the Angolan civil wars. Divisions can involve political factions that are not ethnically based. Another example would be horizontal divisions, such as that which is apparent in all oil-dependent countries between the charmed elites and the masses of poor. Empirically, there is plenty of evidence that more divided societies perform less well than more homogeneous ones: ‘Societies divided into factions fight over division of the spoils,’ Easterly wrote; ‘societies unified by a common culture and a strong middle class create a consensus for growth—growth that includes the poor.’ (In fact, he characterized the idea of factions acting in their own interests as being chiefly responsible for bad government policies as the key insight in the field of political economy.)

Oil dependence and oil-based political conflict can lead to the fragmentation of the national (or the wider) interest, unleashing a dynamic well known to economists: the tragedy of the commons. (As it happens, this generic dynamic is sometimes illustrated by an oilfield. In this ‘common-pool’ problem, participants compete to get oil out as fast as possible, before the others do, leading to overproduction and damage to the oilfield. This dynamic would be recognized by anyone familiar with corruption—or with the problem that politicians uncertain about their hold on power spend as much as possible, as fast as possible, leaving little on the table for future opponents.) One might argue that this is what politics is all about: finding collective solutions to ‘tragedy of the commons’ problems of this kind. To quote Martin Wolf again: ‘Government is a monopoly for good reason. Competing bandits are bad news.’

These two hypothetical countries of Agricolia and Petroland have other differences. In Agricolia, citizens pay taxes, and have a direct relationship through taxation with their rulers. They are in a better position, as were eighteenth-century American colonists demanding ‘no taxation without representation’, to demand accountability in exchange for their taxes. In an oil-dependent state, rulers tax oil companies, not citizens, and this potential for a healthy relationship through taxation is lost. As Ross put it: ‘The need to collect taxes is widely thought to have contributed to the emergence of strong states and even democratic institutions in many Western countries.’

This argument on taxation is not entirely ignored by development analysts, but is often forgotten by donors, who in a sense likewise provide an alternative

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to taxation of citizens: donor money, like oil money or borrowed money, also suffers from this problem of misplaced lines of accountability, and it can also, like oil money or borrowed money, lead to ‘Dutch disease’ effects. In the economy of Agricolia, citizens who want to prosper must work hard and cooperate with others—say, by building flour mills or trading networks—to get ahead. These are horizontal political relationships, essential building blocks of successful, unified societies. In Petroland, however, the relationships are more often vertical: to get ahead individuals look upwards to get access to a piece of the oil rent, and compete against, rather than collaborate with fellow citizens. Agricola is about production; Petroland is about acquisition. This dynamic leads to both conflict and corruption, which this analysis views as two sides of the same coin. Both involve different ways of fighting for a share of the ‘cake’, in a zero-sum game.

Although the generic political problem of how to divide the spoils potentially affects the expenditure side of all budgets in all countries (in a sense, it goes to the heart of what government and politics are), in well-functioning societies these harmful dynamics are countered by systemic processes such as democracy and/or the healthy taxation relationships as outlined above.

Petroland as the queue

The key point here is that Petroland is like the queue—with a point source of income representing what people are queuing, or competing, for. Agricola, by contrast, is not: it is more like a diffuse network of production and better subsequent collaboration.

This analysis involves huge simplifications, of course; and all countries resemble both Agricolia and Petroland to some degree. Nevertheless, there is evidence and analysis to support the notion that oil-dependent states tend to be more corrupt and more conflicted than others; and evidence too of the importance of the political dimension of taxation and its role in making rulers more accountable to citizens. As one recent text put it: ‘Not surprisingly, statistical studies that seek to account for variation in levels of corruption across different countries find that natural resource dependence is a strong predictor.’

This—the notion of the queue and its systemic aspect, combined with the way that natural resources sow division—is the most fundamental reason why oil corrupts.

This brings us back to Transparency International, and its core definition of corruption as ‘the misuse of entrusted power for private gain’. ‘Misuse’ and ‘private gain’ are about behaviour. One result of this is that there is an excessive

16 ‘In short, taxation is important because it is essential to democratic governance, but also because it holds the key to state building and state survival’: Todd Moss, Gunilla Pettersson and Nicolas van de Walle, ‘An aid-institutions paradox? A review essay on aid dependency and state building in Sub-Saharan Africa’ (Washington DC: Center for Global Development, Working Paper 74, Jan. 2006).

17 For more discussion of the issues of taxation and accountability, see e.g. Mick Moore and Sue Unsworth, ‘How does taxation affect the quality of governance?’, Institute of Development Studies policy briefing 34 (Brighton: University of Sussex, March 2007), Alex Cobham, ‘The tax consensus has failed!’ (Oxford: Oxford Council on Good Governance, Jan. 2007), or Michael L. Ross, ‘Does taxation lead to representation?’.

18 ‘Introduction’ in Humphreys et al., Escaping the resource curse.

19 With thanks to Emma Lochery for some original and challenging thoughts on how to frame these questions.
focus on bribery, whereas bribery is just one symptom of a wider systemic issue. We must focus more on systems and processes, and less on behaviour. This point has powerful policy implications.

Cross-border corruption

Another gaping hole in traditional analyses is a focus only on corruption inside countries. But it is clear from the flow of vast quantities of corrupt (and other dirty) money via international financial institutions into London, New York, Switzerland and other tax havens that this is obviously a global problem. Why should the corruption debate not expand to include this crucial global aspect of the problem? TI’s CPI entirely fails to address this issue. By breaking the analysis of corruption up into discrete countries, considering corruption in one country as being separate from corruption in another, it misses an essential part of the story. The 2006 CPI ranks Switzerland, renowned as a repository of dirty loot from corrupt dictators, criminals and drug lords, as the world’s seventh ‘cleanest’ country, while TI’s Bribe-Payers’ Index—which seems to be TI’s attempt to cover the ‘supply side’ of corruption—has an even more extraordinary result: it ranks Switzerland as the world’s ‘cleanest’ country. There is clearly something badly wrong with these indices. Whom do they serve? They serve businesses, providing them with a handy ranking of ‘country risk’ that helps them make investment decisions. It does not help Nigerians much, however, to be informed by Transparency International that their country is one of the world’s most corrupt nations. Nigerians would rightly be more interested to know where their money has gone. The CPI cannot help them.

Consider another example: the widely trumpeted Extractive Industries Transparency Initiative (EITI). Could it have helped expose the byzantine ‘Elf Affair’? The Elf system, which has resulted in Europe’s biggest corruption investigation since the Second World War, saw the oil industries of Gabon and nearby countries serving as slush funds to provide money for secret financing of French political parties and intelligence services, and for other corrupt acts around the world in pursuit of Elf’s (or wider French) political, diplomatic and commercial interests. (As an aside, here is another weakness in TI’s corruption definition: it is not clear that the financing of political parties constitutes ‘private gain’.) The transnational or international aspect of the system—which linked African oil to French and other countries’ political systems via foreign tax havens, in an enormous and complex system of globalized corruption—was utterly central to its functioning; indeed, for the architects of the system, splitting up the money flows between countries was the whole point. EITI, like the CPI, takes a country-by-country approach: it

20 For example, in Escaping the resource curse.
21 Britons are waking up to the notion that their country is a tax haven. See e.g. Mick Mathiason, ‘Welcome to London, the onshore tax haven’, Observer, 8 July 2007.
22 The present author and Richard Murphy co-wrote a comment piece entitled ‘African graft is a global responsibility’, developing these ideas further, for the 1 June 2007 issue of the Financial Times.
23 The president of the secretive French Intercontinental Bank (Fiba) said in court that financial flows were conceived so that the Africans were only aware of the official lending, but were ignorant of the whole system— which Elf rendered deliberately opaque.
would have separated Gabonese corruption from French (and other) corruption. It would have missed the story altogether.

It is time to expand the corruption debate. In particular, we need to investigate the role of tax havens and the international infrastructure that provides an enabling environment for corruption or, in other words, a ‘supply side’ furnishing the international corruption services. The issue of corrupt money flows is clearly a huge problem for Africa: in one study of 30 countries in sub-Saharan Africa (SSA), capital flight over the period 1970–96 was estimated to amount to $274 billion, equivalent to 14.5 per cent of the total debt owed by those countries in 1996. As the study put it:

In other words, we find that SSA is a net creditor to the rest of the world in the sense that external assets, as measured by the stock of capital flight, exceed external liabilities, as measured by the stock of external debt. The difference is that while the assets are in private hands, the liabilities are the public debts of African governments.

Understanding the role of tax havens, and the global issues associated with this phenomenon—which are in many cases systemic dynamics—is a vast subject that goes right to the heart of the international financial system, and will not be explored in detail here. (The London-based Tax Justice Network and the Washington-based Global Financial Integrity Program [GFIP] led by Raymond Baker at the Center for International Policy in Washington are opening up a vast new field of investigation around these issues, which affect both rich and poor countries and are not just part of the ‘development debate’.)

Eva Joly, the Norwegian-born investigating magistrate who broke open the ‘Elf Affair’, said in an interview with the Norwegian journal Development Today in March 2007 that the fight against tax havens should be ‘Phase Two’ of the international fight against corruption. Transparency International’s CPI had ‘outlived its usefulness’, she said, adding that (with some exceptions among individuals in the organization) TI had been reluctant to comment on tax havens. ‘Transparency International should take a stand on Phase II in fighting corruption . . . I believe strongly that when we explain and present the figures [concerning tax havens] this will result in action,’ she said. ‘Of course [for some people who oppose any criticism of tax havens the reason is] protection mechanisms. But I do not attribute any protection mechanism to Transparency International. Their excuse is ignorance.’

Robin Hodess, Policy Director at TI, said in response to Joly’s interview that the CPI ‘simply cannot be changed’ to accommodate tax haven issues; nevertheless, TI has recently been undergoing some significant organizational changes, and has

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26 The author must declare an interest here: he has been providing consultancy services for the Tax Justice Network.

been engaging in (so far, limited) dialogue with the Tax Justice Network and GFIP on some of these issues.

**Alternative ways of thinking about corruption?**

Instead of TI’s narrow definitions, we need definitions that capture the systemic aspects of corruption, and the processes involved.

Here are two possible ways of thinking about corruption. First, as the abuse of the wider interest by narrow interests (the ‘tragedy of the commons’ approach). Second, in terms of the principle that whatever abuses the public good and undermines public faith in the integrity of rules, systems and institutions is corrupting.28 Focusing on the verb ‘to corrupt’ rather than the noun ‘corruption’ helps us see the processes better. (I am not offering these as new definitions of corruption, but just as ways of thinking.)29

These alternative ways of envisaging corruption would extend the view to incorporate not only bribery, but also a much wider series of corrupt activities such as tax dodging (both the legal and the illegal kinds), whose generic dynamics and impacts are similar to those of traditionally defined corruption. All these practices involve elites acting with impunity in abusing the public good to advance narrow interests, thus widening inequality, increasing poverty, and undermining confidence in governments, even in capitalism itself. Like traditionally defined corruption, and like a collapsed queue, these are also systemic problems which depend heavily on people’s perceptions of what others do, and whether people think that ‘only a fool would not join in’. Research has found that tax compliance depends positively on individuals’ perceptions of others’ compliance levels.30 In Italy—which is regarded as being more corrupt than many other western countries—there isn’t, according to Carlo Fiorio, a professor of public finance at the University of Milan, ‘much stigma attached to being a tax evader, in terms of social condemnation’. In many cases, he noted, ‘if you pay taxes you’re seen as being a bit thick in the head.’31 In 2000 the then US Treasury Secretary Lawrence Summers said: ‘Corporate tax shelters are our number one problem [in enforcing the tax laws], not just because they cost money but because they breed disrespect for the tax system.’ (Emphasis added)32

In short, tax and tax havens must also be brought into the corruption debate, and into the debate about the resource curse. Powerful interests in the international financial system (and others) will resist defining corruption in such terms, for sure, but that is no reason to shun the analysis.

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28 I am grateful to John Christensen of the Tax Justice Network, who offered this second phrase as a way of thinking about corruption.

29 John Christensen, Raymond Baker and Emma Lochery have all been involved in recent discussions with the author about how to frame corruption better. These discussions are ongoing.


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Policy

How does this analysis help us see corruption and the resource curse at a policy level? At its simplest, one might seek to judge any particular policy initiative by whether or not it is likely to promote or counter systemic corruption. This is in contrast to initiatives such as anti-corruption crusades, which target individual behaviour. The latter kinds of initiative are not wrong; they are just not enough. They do not address the underlying dynamics. This author’s book Poisoned wells describes the problem in terms of Alice-in-Wonderland dilemmas: ‘To pursue an anticorruption agenda it may be necessary to direct corrupt flows of oil money to political godfathers to buy the political support needed to push the anticorruption program through.’

What are the systemic answers? The obvious systemic solution that helps counteract the divisive effects of government allocation of money is democracy. The relationships between democracy and ‘governance’ have been covered widely elsewhere, and will not be analysed in depth here, except to note that mineral-dependent countries tend to find it harder than others to sustain democratic processes.

A second approach is to take proper account of the horizontal and vertical divisions in societies when formulating economic policies or giving policy advice. What is the point of making policy prescriptions on the basis that there is such a thing as ‘the national economy’ for an African country where the public interest has become seriously fragmented? More generally, there is need for much greater research into the links between the fragmentation (ethnic, political and other) of African societies, on the one hand, and corruption and economic growth on the other. All kinds of questions need answering. How does an economic policy play out with different sections of society? How does it affect relationships between them and perceptions of each other? For example, if a government seeks to impose austerity to tackle a budget deficit, or wants to raise reserve requirements on banks, which groups, regions or other sections of society benefit or lose out, and if this is judged to be problematic, how should the policy be designed to mitigate these tensions most effectively? Which sections of society benefit from certain kinds of pro-growth policies? Who stands to benefit from privatization? How, and under what conditions, does financial liberalization contribute to the fostering of criminogenic environments, domestically and internationally? What kinds of tax policy foster better accountability, and what kinds foster factional and predatory responses from tax collectors? Questions like this may seem obvious, but are too often missing from policy analysis. For example, while the present author would not claim to have undertaken an exhaustive review of IMF papers, it is clear that the interplay among existing (or potential) divisions in society, economic policy and the distribution of resources—which in this analysis form a root cause of corruption—is rarely taken into account. Perhaps this area is avoided because it is ‘too political’. Before Wolfensohn’s ‘cancer of corruption’ speech, the IMF and

33 Shaxson, Poisoned wells, p. 208.

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World Bank shied away from engaging with corruption because it was ‘too political’. The thinking has since shifted, but it has not shifted far enough. Bringing these complex political factors into economic analysis would obviously increase the burden on IMF staff, and would risk increasing the cries of ‘interference’ from poor countries—but so be it, for these factors are, unfortunately, what corruption is about. Politicians grasping loot, and oil companies bribing politicians, are just the surface manifestations of the problem.

Transparency is a third potentially systemic approach, and much has been made of it recently. Transparency is not enough, however, to enable citizens to ‘call their rulers to account’, as Global Witness would have them do. First, in a state that lacks transparency over its mineral revenues, there is a two-stage process. Citizens ask: ‘How much money is there?’ and rulers can reply: ‘It is a state secret.’ Next, to the extent that oil revenue transparency is achieved, there is now opportunity for a four-stage game. Citizens ask: ‘How much money is there?’ and the rulers reveal their secrets. Next, citizens say: ‘Give us some’ (or: ‘Spend it properly’) but the rulers can still simply say no. Angola, for example, while outside the EITI, has published significant data about its oil industry, while allowing its citizens rather little say in how the money is spent. It is also notable that existing anti-corruption crusades and schemes in African countries are emerging not from citizen outrage, but from external pressure. It seems fair to say that President Obasanjo’s controversial anti-corruption crusade in Nigeria originated to a fair degree from his past background as a top official in Transparency International, rather than from building and mobilizing a domestic support base framed around an anti-corruption agenda. Citizen outrage about corruption in the oil-producing countries has been around for decades, yet there is no obvious sign that it is being mobilized today much more effectively than before; in fact, western transparency campaigners have been frustrated that their exposés of African corruption have not provoked the kinds of popular domestic outrage one might have expected. In a report on the Angonoticias website recently about the arrest and imprisonment in Angola of the British transparency campaigner Sarah Wykes, the majority of comments bloggers beneath the story expressed outrage about British people trying to put pressure on the Angolan government, rather than about government corruption. When Dieprieye Alamieyesiegha, the governor of Nigeria’s oil-rich Bayelsa State, was arrested for money-laundering in London in 2005, local militants did not repudiate him for stealing oil money, but instead welcomed him as a local son of the soil. They played the ethnic card, which was to play the card of corruption by promoting the narrow interest at the expense of the wider interest. Externally imposed corruption agendas are unlikely to be as effective as ones based on mass mobilization, and the systemic aspects of resource dependence—notably, the tendency of rulers to use these resources to buy off opponents, and a common view in factional politics that corruption is acceptable if it benefits one’s own faction—militates powerfully against the emergence of truly effective transparency movements in Africa’s oil zones.

Changing the transparency relationships will help, but will not be the decisive step. That will come only with a new relationship based on revenue and taxation. If citizens had the oil money in the first place, and the state had to bargain with them to get its cut, it seems likely that would change the game entirely.

Distributing oil revenues directly: an answer?

Another systemic approach to the resource curse has been advocated: distributing oil revenues directly, and equally, to all citizens in a producer country, then taxing them directly on their income. In Alaska and Alberta direct distribution of oil revenues is popular and successful. Could it possibly work in Africa? This approach has been rejected by many policy analysts—by some, without due consideration, even simply on the basis that the idea is just too outlandish. This proposal should be reconsidered, for nearly all the objections are misguided.

Before considering the objections, we should separate the question of whether direct distribution is worth pursuing into two questions. First, would it be a good thing, if it could be done? Second, could it be done?

Those who object to direct distribution because they answer the first question in the negative fail to understand some of the most important dynamics underlying petro-states. In this policy lies the systemic solution par excellence for dealing with the Petroland-as-collapsed-queue, tragedy-of-the-commons problem with oil revenue; it is regrettable that proponents of this approach have rarely taken into account this factor, limiting themselves to lesser issues such as the welfare implications of such schemes, or general sentences like ‘such systems minimize opportunities for corruption and misappropriation, since the windfall revenue stays out of the hands of public officials’.\(^{35}\)

The second question does face serious objections, notably that it would be very hard to achieve. But this argument is a bit like opposing efforts to tackle drug smuggling because it is too difficult. The correct response is that these difficulties should constitute grounds for trying harder.

Let us look first at the benefits, then deal with the objections.

The benefits could be enormous. First, there is the welfare effect. This may be one of the less important benefits—although recent studies and experience indicating that direct cash transfers can have significant benefits on nutrition and long-term wealth and income provide encouragement for a direct distribution scheme.\(^{36}\) The next benefit is to transform the nature of politics. Political competition of the Petroland-as-collapsed-queue variety would potentially be eliminated or severely curtailed. People’s incentives—if they wanted to get ahead in life—would be to look horizontally (trading with each other, say), not vertically (lobbying the treasury). Relationships with government would tend towards ones of taxation


and accountability, not of lobbying and corruption. Direct distribution would also deliver a better sense of shared citizenship, replacing fragmentation and factional politics. For one thing, this would transform the dynamics of conflict. Consider what happened in Angola in 1992, when UNITA leader Jonas Savimbi rejected defeat in elections and plunged the country back into conflict. For a period, the United Nations was calling it the ‘worst war in the world’. Consider what might have happened if Angola had been able to implement direct distribution of oil revenues in 1990. This would not have removed all the reasons behind the war (such as Savimbi’s view that it was his manifest destiny to rule Angola one day) but it would have removed some of UNITA’s grievances about Luanda elites hogging all the oil money. Much more importantly, however, it seems likely that even if Savimbi had wanted to return to war, he would not have been able to raise an army. His followers would not only have rejected the idea of cutting themselves off from their directly distributed income by going back to war, but their distributed oil money would also have fostered in them an important sense of shared citizenship linking them with the rest of the nation. The war, in all likelihood, would never have happened. Indeed, this scheme was advocated for Iraq, in a 2004 article in *Foreign Affairs* by Nancy Birdsall and Arvind Subramanian.\(^{37}\)

Such a proposal would also transform the dynamics of corruption, and politics itself. Since working as the Reuters’ correspondent in Angola from 1993 to 1995, the author has noticed expatriates constantly predicting that appalling poverty will eventually lead to a popular uprising. The uprising has never happened; indeed, in a survey in 2006 by the International Republican Institute,\(^ {38}\) just 4 per cent of Angolans said corruption was the biggest problem facing their country; 56 per cent said they had little or no interest in politics. Under current arrangements citizens compete with each other to appropriate windfall benefits in a zero-sum game, fragmenting their belief in shared political participation, so mass movements don’t happen (except in rare cases such as Nigerians’ willingness to strike in support of continued fuel subsidies—which are a hybrid form of direct distribution). Direct distribution would eliminate this unhealthy political competition; citizens would have a *shared* interest in confronting abuses, leading to the possibility of more broad-based participatory politics. Such a system would also, automatically, be vastly more transparent and visible than current arrangements.\(^ {39}\)

Again, these ideas are oversimplifications and generalizations based on highly complex and fluid situations. But the systemic dynamics are hard to dismiss. Now let us deal with some of the objections to this scheme that have been put forward.

*Giving citizens money, then taxing them, is inefficient and costly.* This is not a serious objection. Nigeria’s $400 billion in oil revenue illustrates how more oil money does not tend to bring development; indeed it can bring harm. ‘Efficiency’ in money

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\(^{37}\) Birdsall and Subramanian, ‘Saving Iraq from its oil’.  
\(^{39}\) Martin Sandbu describes several other related benefits, and outlines in detail ways in which such a scheme might be implemented, in ‘Natural wealth accounts: a proposal for alleviating the natural resource curse’, *World Development* 34: 7, 2006, pp. 1153–70.
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terms is the wrong goal. ‘Policymakers, including the IMF, need to concern themselves with how tax is raised, not just how much,’ writes Professor Mick Moore, of Sussex University. ‘The objective from a governance perspective is not necessarily higher tax, but more consensual tax relationships.’

People will waste the money. One then needs to ask: who will spend it better—politicians in a corrupted state, or individuals? Citizens have direct incentives to spend wisely; politicians often have incentives to spend unwisely. There is also an aspect of freedom involved: citizens will be free to make mistakes with their money if they will.

• Government needs the money for public goods and services. Yes, but the government will still get its money—just by a different route. Public services will get built; and, because of better accountability through direct taxation, they will be the ones that the countries need.

• This is a technical solution to a political problem. On the contrary. This proposal is intensely political; indeed it is perhaps the only recipe for change that could utterly transform an oil-dependent country’s political landscape.

• Direct distribution is a form of privatization, and privatization has proved to be harmful in these countries. Privatization has indeed proved highly problematic in many countries. But this has involved privatization of organizations. Direct distribution of oil revenues is wholly different: it involves passing revenues, not organizations, into the private sector.

• It will foster a culture of dependence, undercutting more productive activities. This view is mistaken, for two reasons. First, at present in oil-dependent states the entire political system is built upon a culture of dependence. This proposal would fundamentally alter the central political dynamics, tending to build healthy horizontal political links. Second, consider an example: you expect to earn $30,000 this year, but then in June you receive a gift of $15,000. Would you suddenly stop work, or would you keep working, happy that your income this year will be $45,000? Most would choose the latter route, as proponents of a negative income tax have argued. In any case, research suggests that private citizens often manage their money better than governments do.

• It will not solve the Dutch disease, or revenue volatility. This proposal is a way of reordering money flows in an economy, not increasing the flow. It may worsen the Dutch disease, depending on how it is implemented, but it need not. If jobs lost in tradable sectors affected by Dutch disease are replaced by good ones elsewhere, it doesn’t have to be a problem; the typical Dutch disease problem is that a tiny enclave sector (oil) replaces sectors giving mass employment (like agriculture), thus generating huge inequality, mass poverty and dependence on government. Direct distribution would directly counteract all three of these aspects of the curse, certainly from a welfare point of view. Moreover, savings funds to counteract the Dutch disease and volatility need not be ruled out entirely by direct distribution. Anyway, the Dutch disease and revenue

40 Moore and Unsworth, ‘How does taxation affect the quality of governance’.

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volatility are viewed as secondary problems: it is the corrosion of institutions that matters most in the resource curse analyses.

- **This will not solve regional grievances based on arguments that the oil-producing region should get a bigger share.** True, up to a point, but nothing in this proposal would make matters worse. Instead, it could transform the kinds of oil-based predatory politics that feed armed insurrections or other harmful manifestations of separatism into generally more consensual relationships based on a shared national interest, mitigating some of the most harmful and criminalized manifestations of these grievances, such as are evident in the Niger Delta.

- **Gatekeepers in bottlenecks in the economy, such as predatory interests in the ports, will appropriate the money.** Perhaps; but again, there is no reason why this would be worse than under the existing system. In fact, predatory interests would be less powerful in a systemically different economy with more empowered citizens. Citizens would be uniquely attuned to, and resistant to, these gatekeeping interests. Furthermore, different factions in society would have a clearer shared interest in combating abuse, whereas as things stand now political factions compete with each other over such predation.

- **In some countries the amounts of money involved are too small to share out.** This will be true in some cases. In Nigeria, even producing 2.5 million barrels per day at US $50 per barrel, this would amount to less than a dollar per day per person. This may or may not be too little to be worth it; at least Nigeria would not be the first choice of country to try this in. In some countries, the equation is clearly much more plausible.

- **Local protection rackets would emerge to appropriate the money.** Which is easier: earning $2 million by extorting it from the local governor, or earning $2 million by extorting $100 per head from 20,000 citizens? More generally, for reasons given above, the criminalization of society that tends to emerge in places like the oil-rich Niger Delta would not develop, leaving an environment less conducive to protection rackets. Armed insurrections, from large-scale separatist movements to vigilante groups, are fed by systemic societal fragmentation in traditional oil-producing states, where fighters can be viewed as lobbyists using armed strategies to get their share of the ‘cake’.

- **African governments are not capable of implementing this.** There are three answers to this. First, it would not need to be the government that did it. One could imagine oil companies doing this directly, via a third party like the World Bank or some such, using innovative private banking networks, for example, which bypassed the government entirely, forcing it then to negotiate with its citizens to get its revenues.41 Second, mass programmes like vaccination campaigns and voter registration drives have been rather successful in even very poor countries. (A key difference would be that the citizens would be unusually keen to cooperate in implementing direct distribution.) Poor and corrupt governments already do routinely distribute thousands (and in some cases hundreds of thousands) of small regular payments on a timely basis to individuals, even in remote

41 For some options see Sandbu, ‘Natural wealth accounts’, with thanks to him for useful comments.
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dependent on geographical locations, when they pay civil service salaries. These tend to be among the best-protected payments in national budgets. (Under this systemic analysis, IMF prescriptions to cut public salaries look rather unattractive, despite the inefficiency involved. Fuel subsidies—which are a different form of direct distribution—might be another case in point.) Donors are increasingly finding that direct (albeit limited) cash transfer schemes can work well. Private banks also lose little to corruption, even in the worst-governed places. It can be done. Third, if one is worried about leakages from such a system, then obviously transparency would be essential, with close attention paid to the international dimensions.

- **If an outside agency such as the World Bank does the job, this would pose difficult questions of sovereignty.** The problem of sovereignty has been central to debates over oil exploitation for decades. One might, however, also frame this point in terms of citizenship, rather than of sovereignty alone. Currently, people in oil-producing states too often complain about lacking citizenship—defined more often in terms of their relations with their rulers than in terms of their relations with international actors. Most people would be happy to lose a little of their sovereignty (defined in international terms) in exchange for greater ‘citizenship’—especially if this came with significant and obvious financial and other benefits for themselves.

- **It is just too outlandish to consider.** Before Britain introduced its welfare state in the mid-twentieth century, many thought it to be an outlandish idea; it would, they said, be impossible to implement, or it would be inefficient, too costly, and would create a culture of dependency. Quite soon, the welfare state became widely accepted as an important part of democratic states worldwide. Modern Africa is generally a tougher environment, to be sure; but there is no obvious reason to be cynical from the outset.

- **The politicians would never accept it.** This is indeed a serious objection, and probably the toughest one. One answer is that the very fact that it would be hard to implement is a good reason to try even harder to push for these changes, and to resist the hasty dismissals of such schemes that have been widely proffered in the academic literature. Another answer is that many enlightened politicians who want to act in their countries’ interests are currently dissuaded from doing so because of the systemic dynamics militating against pan-national, rather than factional, policy-making. This proposal would give them an opportunity to change the equation. Indeed, proposing such a scheme might be a powerful rallying cry for a politician seeking election.

Nearly all the objections to directly distributing oil revenues can, it seems, be largely dismissed, leaving one big objection: that politicians in an oil-rich state will resist it. The way forward, then, might be to start with a demonstration model. To minimize the chance of challenging vested interests, that may have to happen in a state which is not yet producing oil, but will do in future. Perhaps Africa is not the right place to start. But an intriguing possibility has emerged recently. In June 2007...
Nicholas Shaxson

the Irish oil company Tullow Oil announced a major discovery in Ghana believed to contain several hundred million barrels of oil, with the promise of more to come. Plenty more oil would have to be found to justify setting up such a system. If so, could the country that became the first black African nation to break from colonialism repeat the trick by being the first to beat the resource curse decisively? In an ideal world, a ‘queue’ might be a good way of distributing benefits from oil. But when the queue has collapsed because the mental order it presupposes has evaporated, we should allocate resources differently, make the queue unnecessary. Direct distribution seems an obvious way to do this. Ghana’s president John Kufuor declared that ‘even without oil, we are doing so well … with oil as a shot in the arm, we’re going to fly’. His comments provoked weary, depressive sighs from analysts of Africa’s oil zones. Perhaps direct distribution could provide a tool with which to prove the cynics wrong at last, and allow oil company officials a chance to feel good about themselves too.