The Curse of International Extractive Firms: Resource Wealth and Development in sub-Saharan Africa

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Abstract

International extractive firms are taking part in a modern day ‘scramble for Africa’. While the scholarship examining the link between resource wealth and a lack of economic and social development remains divided, it is nonetheless the case that many sub-Saharan African states have failed to capitalise on their inherent natural wealth. The role of private firms in the economies of resource rich states cannot be ignored. However, much of the resource curse literature discounts the role of private firms in influencing developing state governments instead focusing on methods by which governments can alleviate the curse. Through an examination of the resource curse and private authority literature as well as an introduction to two case studies this paper develops an improved framework for examining the paradox of plenty.
Introduction
The economic underperformance of many resource rich, developing states has led to a significant body of literature examining the paradox of plenty, or the resource curse. Since Richard Auty’s seminal book *Sustaining Development in Mineral Economies: the resource curse thesis* and the work of Alan Gelb on oil windfalls, scholars and practitioners alike have attempted to explain the paradoxical relationship between natural resources and economic growth and development (Auty, 1993, Gelb, 1988).

Proponents of the resource curse rely on empirical studies to support the link between natural resources and poor economic performance and failure to achieve development goals. Foremost of these studies are those conducted by Sachs and Warner, whose empirical study of ninety-seven countries over nineteen years showed a causal link between minerals and depressed economic growth (1995, 2001). Natural resources have been linked to increased corruption (Leite and Weidmann, 1999), the over-distribution of windfall gains (Lane and Tornell, 1995, 1999) and the normalisation of civil war (Collier and Hoeffler, 1998, 2000, 2004) – all of which are responsible for depressed economic growth.

The solutions proffered by the literature are largely focused on the role of the state and the market in explaining the pervasiveness of the resource curse. However, very little of the literature addresses the role of international extractive firms and the private authority such companies hold relative to developing state governments. An application of the private authority literature, specifically the work of Cutler, Haufler and Porter (1999), to the resource curse highlights the role of private governance in Botswana’s successful diamond led growth and the general failure of Zambia’s copper industry to improve economic and development conditions in that country.

This paper begins with a review of the existing resource curse literature surmising that the current scholarly work relies on a state-centred approach and fails to acknowledge the role of international extractive firms. The paper includes an introduction to the literature on private authority and argues for its inclusion in analysis of the resource curse. This framework is then applied to two case studies, the diamond rich Botswana and neighbouring Zambia. It is found that private governance regimes have both helped and hindered states in avoiding the resource curse and that the role of private governance is significant in determining a state’s ability to experience mineral-led growth. It is concluded that the role of international extractive firms in understanding the resource curse has thus far been under analysed, hence a
framework which incorporates the effects of the private authority of firms, specifically private governance regimes, will strengthen the existing literature by enhancing the understanding of the role of firms in explaining why some states experience successful mineral-led growth while others do not.

The Paradox of Plenty

Although sub-Saharan Africa is known to possess vast amounts of natural resources the region remains plagued by poor economic performance and underdevelopment. While states such as Australia, Norway and Canada have seen mineral wealth translated into consistent economic growth, social welfare safety nets and global power the states of sub-Saharan Africa have all too often seen quiescent development measures, poor economic growth and worsening income inequality. Many of the firms responsible for extracting this wealth from the ground are domiciled in developed countries, leading to accusations of a second ‘scramble for Africa’ and associated plundering of the continent’s wealth for the advantage of a new generation of colonisers (Bond, 2006, Bush, 2007).

Significant academic attention has been directed towards this paradox, specifically its occurrence in sub-Saharan Africa. This is partly due to the fact the continent is yet to experience the growth levels forecast by economists who witnessed the emergence of these mineral rich independent states during the 1950s and 1960s (Baldwin, 1966). During this period there were strong expectations of economic growth, improved development indicators and the emergence of democratic states – of which there has been uneven progress (Deutsch, 1961, Lipset, 1960).

Further contributing to the level of attention this issue has received is the vast mineral and oil deposits known to exist in the continent. Bush (2008) quantifies this wealth, reporting that Africa holds 42 per cent of the world’s bauxite, 38 per cent of its uranium, 42 per cent of the world’s gold and 73 per cent of its platinum as well as 88 per cent of the world’s diamonds. These mineral reserves are likely to be underestimated due to the limited surveying that has taken place and the exclusion from these figures of the significant oil and gas deposits held by sub-Saharan African states (Bush, 2008). These figures alone are staggering, however their effect is magnified when one considers them relative to development indicators. The rate of infant mortality in Sierra Leone remains at 114 deaths per 1,000 births, a figure of over 10 per cent of total births (World Bank, 2012a). In the Democratic Republic of the Congo a mere 34 per cent of adults are literate and the government allocates an average of
USD$16 per person to health expenditure (World Bank, 2012a). While a child born in Chad can expect to receive as little as seven years total schooling (World Bank, 2012a).

Since the publication of Auty and Gelb’s seminal works an immense body of literature has grown examining the causes and potential solutions to the resource curse. While scholars such as Sachs and Warner (2001) and Collier and Hoeffler (2010) argue for the presence of the resource curse, others have suggested that underdevelopment in resource rich states stems from factors other than the existence of mineral wealth (see Davis and Cordano, 2008, Ahammad and Clements, 1999, Clements and Johnson, 2000). These scholars argue that the outcomes seen in mineral rich economies are case specific, that minerals cannot be inextricably linked to rent seeking and that economic performance is a culmination of a number of factors with mining not able to be isolated (Pedro, 2006). The following section examines both sides of this debate, concluding that while the resource curse is unlikely to be a deterministic phenomenon a new framework of analysis is required, one that adequately acknowledges the role of firms and private governance mechanisms in exacerbating these outcomes.

**Arguments for the Resource Curse**

The vast body of literature devoted to the resource curse emanated from analysis of oil incomes in the Dutch economy during the 1960s and 1970s. The phenomenon known as “Dutch Disease” was first developed to explain the correlation between oil wealth and poor economic growth. Since early work on Dutch Disease the literature has grown into a wider consideration of the causes of the resource curse including the impacts of volatility on developing states and effects of rentier politics including patronage, a lack of taxation and the creation of enclave economies.

Dutch Disease refers to the rapid increase in foreign currency flowing into a state, most often linked to agricultural or natural resource commodity booms. Although the term was first used in Norway it is now more closely associated with poor outcomes in resource rich states of the developing world (Collier, 2010). The inflow of mineral rents, defined as “revenue in excess of production costs and a normal return on capital”, has been shown to lead to distortionary effects on economies (Auty, 1993). Mineral rents are typically denominated in hard currency, such as US Dollars, the excess receipt of which causes an appreciation of the local exchange rate leading to increased production costs, making domestically manufactured goods uncompetitive in the international market. The tendency for capital and labour to be drawn
away from the manufacturing sector, in favour of the resource sector where wages are higher and employment is more freely available in the event of a resource boom, also contributes to a rise in production costs (Collier, 2010, Ross, 1999).

In addition to the effects of Dutch Disease, the impacts of income volatility on developing states have been highlighted as a driver of the resource curse. Volatility in resource incomes is likely to emanate from three sources; international market prices for a given resource, the rate of extraction and the timing of payments from international extraction firms. While mineral rich, developed economies also face volatility, the impacts have been shown to be far worse for developing states with volatile income streams shown to hamper planning, boost deficits (as it is easier to increase spending than to reduce it when prices fall) and raise debt (Shaxson, 2005). In addition, volatility increases uncertainty, erodes institutions, as contracts that are signed under one set of conditions may be broken when conditions change, and ultimately hurts poorer sections of society (Shaxson, 2005).

In the event of a resource boom, commodity exporting economies often divert capital to the natural resource sector in preference to more traditional industry. In addition to contributing to Dutch Disease, as noted above, a focus on the minerals sector often leads to a failure by developing state governments to build alternative industries. This lack of diversification is driven by a myopic focus on resource wealth and is problematic for state revenues once the mining sector has entered its decline phase (Ross, 1999).

Myopic behaviour by policy makers leads into the cognitive and societal explanations for the resource curse that seek to complement the existing work by economists as outlined above. In particular, political scientists have pointed to the creation of rentier states and poor policy decisions made by leaders as the basis for their explanations of the resource curse. These cognitive and societal drivers are explored below.

Resource rich developing states are frequently exposed to rent seeking by state elites, a behaviour that not only diverts income from the state but also entrenches systems of patronage and corruption. In instances of resource abundance competing factions are likely to fight for control of the rents, leading to what Lane and Tornell (1995) refer to as a “feeding frenzy” or an inefficient utilisation of state resources. Historically, the ability of state elites to ‘rent-seize’ or attempt to gain control of rents has led to the squandering of wealth through the financing of controversial developments, provision of economic benefits for individuals
or groups, creation of rent seeking opportunities in order to gain private-actor cooperation for other goals and the evasion of accountability (Ascher, 1999).

Rents create the opportunity for state elites to squander funds in efforts to maintain power through legal means such as increased campaign funds and illegal means, such as the funding of militias. (Humphreys et al., 2007). Natural resources also allow governments to maintain less restraint around transparency and accountability and are a strong predictor of high levels of corruption (Leite and Weidmann, 1999). The link between corrupt regimes and weak states goes beyond the inefficient use of state funds. Foreign extractive firms are able to exercise greater control over weak governments, thereby extracting resources at a more profitable rate, ignoring social and environmental concerns and colluding with governments to pay less than market value for minerals (Humphreys et al., 2007).

The result is that high levels of corruption, driven by the existence of natural resources, benefits powerful extractive firms who are able to leverage their relationship with state elites to minimise what they pay for resources. However, there is another dimension to this argument, while international extractive firms may minimise what they pay governments, this level of income is often sufficient to facilitate a weak relationship between governments and their citizens.

States that can generate significant income from the sale of natural resources are less reliant on their citizens. While citizens who are not subject to taxation may be less likely to scrutinise government spending, even in the case of a dissatisfied citizenry there are often little avenues of recourse (Wick and Bulte, 2009). Weak linkages between governments and citizens result in a range of sub-optimal outcomes, from a failure of the state to build bureaucratic apparatus through which democratic processes can occur to repression through patronage, wasteful spending or even violence (Ross, 2004a, Fearon and Laitin, 2003).

In addition to weak linkages between states and citizens the extraction of natural resource often occurs in specific areas, in isolation to the remainder of the economy. The creation of “enclave economies” is detrimental to the remainder of the state, as they often provide governments with sufficient income to disconnect from their citizens and contribute little to the overall economy of the host country (Ross, 1999). The main criticism of enclave economies is that they provide little in the way of employment and divert government resources away from the remainder of the state. In addition, foreign extractive firms have been known to import their own labour and even in cases where local labour is utilised the
workforce on such projects can be miniscule when compared to unemployment rates in the general population. For example, the total level of employment in the Nigerian oil sector as a percentage of employment in the modern sectors of the economy is only 1.3 per cent, whereas oil contributes 97 per cent of total exports (Akinlo, 2012). In addition to the lack of labour force growth, much of the infrastructure that is built and employed for mining is site-specific, leading to suggestions that mining does little to contribute to the overall economy in developing states. Lastly, scholars such as Le Billon (2001) suggest that control over mines does not equate to control over the remainder of the state and that mining companies who operate in conflict zones may be supporting the suppression of citizens elsewhere in the state.

Another key dimension of the resource curse is the link between natural resources and conflict. The normalisation of civil war is a highly detrimental by-product of natural resource wealth, inhibiting governments’ ability to provide basic services, health and education to its citizens. Empirical studies conducted by Collier and Hoeffler (2000) posit that the existence of resources significantly increases the chances of civil war taking place. After controlling for economic performance they find that the opportunities that minerals provide, including extortion, make rebellions feasible and even attractive (2000). Humphreys supports this argument, concluding that civil war is more likely in oil-rich states. He suggests that a major contribution to this conclusion is the fact that resource rich states spend between 2 and 10 times more on their militaries, even in the absence of civil war (2005).

Additionally, in states such as the former Sudan and Angola, where rulers have limited control, wars over resources have raged for decades. In other states, such as Chad, rulers have been subject to near-constant incursions from neighbouring states and rebel groups (Giroux et al., 2010). Weak governments increase the incentives for non-state actors to attempt capture of the state and its mineral wealth, usually through violent methods (Collier and Hoeffler, 2000, Fearon and Laitin, 2003). External forces, such as foreign governments or extraction firms, may have interests in supporting warring parties thus prolonging the conflict and perpetuating the resource curse (Humphreys et al., 2007).

In addition to the factors discussed above including economic drivers along with the creation of rentier states and the normalisation of civil war, institutional weakness is highlighted central to any understanding of the resource curse. Developing states, rich in natural resources, are often cited as lacking institutional strength – a potential facilitator of corruption by state elites, a method by which citizens are disconnected from the state and a barrier to
government transparency and accountability. It has been suggested that in cases where mineral rents abound, leaders may be myopic and hesitant to alter the status quo by developing strong institutions (Anderson, 1987, Karl, 1997). Where elites benefit from the existing lack of transparency and accountability they will be less likely to strengthen state institutions and may even weaken existing institutions if it is perceived that they threaten their ability to capture rents (Auty, 2001b, Ross, 2001).

Institutional strength is the critical junction between natural resource wealth and poor economic performance (Luong and Weinthal, 2006). Developing states have failed to build strong institutions as they are subject to the legacy effects of colonial rule, which in most sub-Saharan African cases ended as recently as the 1960s. Colonial states were often ruled as either ‘dual economies’, where a modern export-oriented economy operated parallel to the traditional subsistence economy, or as ‘gate-keeper states’ whereby colonial rulers could not or were not interested in controlling the social and cultural facets of their colonies and instead only managed the interaction between the state and global community (Palmer and Parsons, 1977, Cooper, 2002). The colonisation of Africa halted endogenous institutional reform as well as economic modernisation, which combined with the models used to govern colonies, left Africa with a more complex institutional legacy at independence than existed upon colonisation (Acemoglu and Robinson, 2010).

Post-colonialists argue the political incentives created by these legacies led to “patterns of insecure and inefficient property rights and absolutist weak state[s] with little ability or interest in providing public goods” (2010). In particular, the ‘gate-keeper’ state model was designed to extract natural resources, without the provisions of public goods (Cooper, 2002). Not only were such institutions highly damaging during the colonial period, they have since continued to shape economic and development outcomes through the inability of states to radically alter institutions (Acemoglu and Robinson, 2010).

As can be seen from the arguments above, proponents of the existence of the resource curse present a compelling case that is supported by much of the anecdotal evidence from the continent. Economic factors such as rising import prices and a diversion of capital and labour away from manufacturing and agriculture, combined with the impacts of volatility on developing economies has been shown to worsen the paradoxical relationship between resource wealth and income growth. Furthermore, empirical evidence suggests natural
resources lead to the normalisation of war while myopic leaders are unlikely to strengthen existing institutions to prevent rent-seeking and corruption.

**Arguments against the Resource Curse**

Despite a large body of scholarship supporting the existence of the resource curse, the literature remains divided. Scholars such as Clements (1996), Eggert (2002), Poteete (2009) argue against the deterministic nature of the resource curse instead suggesting that mining has been shown to bring net benefits to developing states, through job creation, infrastructure spending and multiplier effects. Others such as Ross (2004b, 2004c) suggest there is no linkage between natural resources and civil war, despite the level of attention this link has attracted. These authors cite the successful cases of mineral-led development seen in Indonesia, Malaysia and Botswana to support their argument that the resource curse is not deterministic.

So persuasive is the responding literature that seminal authors such as Auty and Gelb have since scaled back their original hypotheses. Auty (1994) has suggested that the resource curse is not an iron law, rather a “strong recurrent tendency”. While Gelb (2009) has revised his original thesis to suggest the impact of minerals and oil on development is best analysed considering the impact of path dependence. He adds that while many developing states experience the resource curse, such a paradox should be viewed as “conditional rather than absolute”, pointing out that countries which avoid the curse have the human and institutional capital to complement their natural capital (Gelb and Grasmann, 2009).

Critics of the resource curse literature suggest that Dutch Disease is not nearly as pervasive as initially suspected. In particular, the argument that mining booms divert capital and labour from traditional sectors of the economy has been shown to hold only in conditions of full employment. While this may have been the case in the Netherlands in the 1960s it is unlikely to apply in developing states. Instead, most developing states possess labour surpluses, which can be applied to the mining sector without disadvantaging the manufacturing or agricultural sectors of the economy.

Furthermore, the argument that manufacturing and agriculture are important sectors for developing skills in workers that may have been denied formal education has been questioned. The argument that these industries encourage positive externalities such as ‘learning by doing’ relies on the assumption that they are knowledge intensive, which is often not the case in the developing world (Sala-i-Martin and Subramanian, 2003).
Scholars such as Eggert (2002) have been critical of suggestions that mining promotes the creation of enclave economies which do little to benefit the remainder of the population. According to Eggert mining has been shown to bring net gains in employment and mining infrastructure, such as roads, railways, water and electricity supplies, which can benefit the wider community.

Multipliers, including the infrastructure gains outlined above, are the upstream and downstream sectoral linkages that an industry, in this case mining, brings to the wider economy. Scholars such as Aroca (2001) have argued that resource curse analysis fails to acknowledge these multipliers when analysing the contribution of mining to developing economies. He finds that the multiplier effect of mining in Chile is significant, noting that a combination of mining plus its linkages with other sectors, such as utilities, retail and business services, making it the largest sector of the regional economy included in his study (Aroca, 2001). Similarly, Clements et al find that mining has a strong multiplier effect when measured in Western Australia with every one mining job leading to the creation of another two in sectors such as construction, telecommunications and the sciences (Clements et al., 1996).

However, the argument that the multiplier effect is under-acknowledged is difficult to accept in the context of sub-Saharan Africa. Firstly, sub-Saharan African mining multiplier effects are not well documented. Secondly, much of the downstream processing of minerals occurs in industrial centres of commerce such as Johannesburg, London and elsewhere globally, denying the continent’s developing states the benefits of sectoral linkages (Bush, 2008).

A further critique of the resource curse literature lies in research that suggests there is no link between natural resource wealth and the normalisation of civil war. Ross (2003) argues that natural resources are never the only source of conflict and their existence alone does not guarantee violence. Instead, violence in resource rich states is made more likely by the existence of underlying tensions such as ethnic divisions. Ross (2004b) finds that minerals only clearly increase the intensity of conflict in two of the 13 cases he studied, of the remaining 11 cases natural resources played either no role, or had a mixed effect on the intensity of civil war. He also notes that point resources, such as diamonds, are more likely to fuel conflict (Ross, 2004c). There is little doubt that the existence of natural resources adds to the likelihood of civil conflict, however their presence is not sufficient to generate violence without the contribution of other underlying societal tensions.
Lastly, the pervasiveness of the resource curse must be questioned in light of successful mineral-led growth in developing states such as Indonesia, Malaysia and Botswana. Auty and Pontara (2008), in contrast to Auty’s original work, highlight the success of the Malaysian and Indonesian governments in avoiding symptoms of the resource curse. Both governments corrected macroeconomic issues at the same time as involving the poorest groups in society in economic development, without allowing these groups to become reliant on unsustainable rent transfers. They also targeted the lagging rural majority through projects such as regional road building, which improved farmers’ access to markets. In addition, Indonesia maintained its Gini Coefficient at 0.34 throughout this period and reduced poverty from two thirds to one eighth of the population (Timmer, 2007).

Botswana had the world’s highest growth rate between 1960 and 2004, and has often been hailed an African economic success story (World Bank, 2012b). This economic growth was accompanied by advances in health, education and infrastructure. Throughout the 1970s Botswana managed a corruption index factor on par with Japan, Belgium and Portugal (Auty, 2001a). This transparency was accompanied in the following decades by a stable exchange rate, accumulation of sufficient foreign reserves, balanced economic growth and the maintenance of a multi-party democratic electoral system (Poteete, 2009). Developmental measures also improved, evidenced by the country’s sound healthcare system (although this is now being tested by Botswana’s AIDS epidemic) and the increase in adult literacy rates from 34 per cent in 1981 to 84 per cent in 2009 (United Nations Development Bank, 2012). Cases such as Botswana, Malaysia and Indonesia support the contending argument that the recourse curse is not deterministic and that poor policy decisions and a lack of human capital are responsible for paradoxical outcomes.

The preceding literature review highlights the existing arguments for and against the deterministic nature of the resource curse. Proponents of the resource curse argue that Dutch Disease, income volatility, rentier politics, poor taxation and representation, the creation of enclave economies and the normalisation of violence all point to an unavoidable paradox. These arguments however are disputed by those who suggest mineral-led growth is possible, citing the cases of Indonesia, Malaysia and Botswana. These scholars argue that mining brings employment growth, infrastructure investment and assert there is no deterministic link between natural resources and violence. The existing literature, however, is focused on structural solutions and the role of the state in strengthening institutions with little attention paid to the role of international extractive firms. The following section examines the role of
international mining firm and private governance mechanisms with a view to drawing together a new framework for analysis.

**Private Authority and the Role of International Extractive Firms**

Existing analysis of the resource curse fails to fully analyse the role of international extractive firms. Without such analysis, the prevailing structural view of the resource curse lacks an adequate acknowledgement of the role of private authority and private governance mechanisms in perpetuating the resource curse. The following section reviews the existing frameworks on private authority and private governance mechanisms, then applies such frameworks to two specific cases, the extractive industries of Botswana and Zambia.

Definitions of authority have traditionally centred on the state, however throughout the second half of the twentieth century literature examining the role of the corporation in international affairs gained prominence. Inspired by Marxist interpretations of power relations, Dependency theorists of the 1950s and 1960s took a structural view of poverty, suggesting that the developed world was responsible for the plight of the developing world. Baran (1957), using India as his case study, argued that the “backwardness” of the developing world was a result of colonial powers who plundered the land, destroyed local productivity and forced developing economies to rely on colonial markets for essential goods.

Dependency theorists such as Frank (1966) suggest that these frameworks have been enduring and that the ‘development’ of the West is based on such exploitative models. For these scholars, mining firms are simply part of this system, extracting wealth from the poorer sections of global society for the benefit of those in the West.

The 1980s saw a shift in analyses of global power from the developed world to the multinational corporation. Theorists subscribing to globalisation narratives saw the demise of the state in the face of the multinational corporation (see Friedman, 2000, Strange, 1988). According to such scholars traditional roles of the state were being supplanted by the market, an occurrence that would lead to the retreat of the state in favour of the firm.

The more recent realisation that globalisation has not led to the end of the state has inspired a more moderate body of literature focused on the sharing of governance between the firm and the state. This viewpoint sees states as the key regulators and policy makers in conjunction with private firms, specifically through mechanisms of private governance. Scholars such as Dashwood (2007), Fuchs (2007) and Haufler (2010) have all argued that the role of the state remains central, although it is being complemented by private governance regimes often
supported by governments. Much of this literature has focused on the private authority of firms relative to strong states. However in light of the failure of the resource curse literature to adequately highlight the role of the firm in developing states, I argue that private governance mechanisms should be analysed in this context. This actor centred approach aims to supplement the structural approach taken thus far by scholars of the resource curse.

Definitions of private authority include the ability of non-state actors to “perform the role of authorship over some important issue or domain” (Hall and Biersteker). Cutler et al (1999) see private authority as “decision-making power over an issue area that is generally regarded as legitimate by participants”. The inclusion of the term legitimacy in Cutler et al’s definition is pivotal. Private authority can create legitimacy however it also relies on this concept for effectiveness. Such definitions of private authority lead into explanations of private governance and private regimes, both of which are pertinent to discussions of governance in developing states.

Private governance “emerges out of a context of interaction that is institutionalised and of more permanent nature. In a system of governance, individual actors do not constantly decide to be bound by the institutional norms based on a calculation of their interest, but adjust their behaviour out of recognition of the legitimacy of the governance system” (Falkner, 2003). A further manifestation of private authority is the creation of private regimes, “an integrated complex of formal and informal institutions that is a source of governance for an economic issue area as a whole” (Cutler et al., 1999).

Falkner asserts that private governance “emerges at the global level where the interactions among private actors or between private actors on one hand and civil society and state actors on the other, give rise to institutional arrangements that structure and direct actors’ behaviour in an issue specific area” (Falkner, 2003). Thus private governance extends to the creation of institutions, which are more reliable than cooperation via market mechanisms in determining actor behaviour.

Both private authority and private governance mechanisms are visible in the extractive sector, at a domestic and international level. All mineral producing countries now have national mining associations whose original aims were the promotion of the domestic mining industry but now include regulation of the sector (Dashwood, 2007). Many mining firms have also developed their own set of accords or cooperated on an inter-firm basis or on a multi-stakeholder basis with NGOs (Dashwood, 2007). Private governance mechanisms include the
formation of public-private partnerships (PPPs) to own, operate and manage mines and the associated industries. The ability of extractive firms to control the creation and direction of these agencies highlights the influence and power of private governance mechanisms (Dashwood, 2007).

Fuchs and Haufler both draw attention to the role of public-private partnerships (PPPs) in allowing businesses to set the agenda, define issues and problems and determine suitable outcomes and solutions (Fuchs, 2007, Cutler et al., 1999). Such partnerships ostensibly exist to facilitate the achievement of public sector objectives through the enlistment of private sector resources, however doubts remain about the effectiveness of such partnerships in achieving these objectives while concerns exist about the ability of these partnerships to lend a false level of legitimacy to participants (Mayntz, 2002).

The Extractive Industries Transparency Initiative is perhaps the most fundamental private governance regime associated with the mining industry (Dashwood, 2007). The EITI was driven by former British Prime Minister Tony Blair and emerged from the 2002 World Summit on Sustainable Development. Its members include developing and developed states as well as global extractive firms. The EITI’s primary goal is the improved management of resource revenues although the institution also has a wider goal of improving governance of developing countries in general. However, the implementation of PPPs, including the EITI, has led to mixed outcomes in the context of developing states. Zambia’s membership of the EITI highlights the potential pitfalls of reliance on PPPs to set sufficient governance standards, while Botswana’s own partnership with De Beers has been shown to be influential in its ability to avoid the resource curse.

Botswana, often hailed as an African success story, due to its strong economic growth and improved development measures is rich in gem quality diamonds (World Bank, 2012a). The Batswana government’s decision to form a joint venture company, Debswana, with De Beers at the initial stages of diamond mining has enabled the state to control taxation rates and export levels whilst deferring governance of the diamond industry to De Beers. De Beers has been able to control the industry through cooperation at all stages of production, a virtual monopoly on extraction and marketing which placed diamonds above other gemstones as the traditional choice of engagement rings (Brinig, 1990). The Batswana government controlled De Beers through a seat on the Board which enabled the state to control regulation through strong cooperation and deference to the firm. Botswana is not a member of the EITI, although
consideration was given to this during the mid 2000s, instead the state determined that existing forms of private governance were sufficient for economic growth and the avoidance of the resource curse.

Conversely, Zambia’s copper industry has not provided the state with similar outcomes to that of neighbouring Botswana. The failure of Zambia’s economy to grow in line with copper prices, despite the value of mineral exports, has often been cited as a case of the resource curse. However, on closer examination the role of the state must be analysed in conjunction with the actions of extractive firms. These firms were able to build significant private authority through the lobbying of the World Bank during the original liberalisation process which included the sale of the mines. Since this time these firms have benefited from generous concessions provided to them and have resisted efforts at normalising taxation and royalty rates (Haglund, 2010). The Zambian government has since joined the EITI process, an attempt at privatising the governance of these firms through the prominent industry self-governance mechanism. While Zambia remains in the early stages of EITI membership and only two extractive firms have signed up it remains to be seen if this attempt at regulating the sector through the promotion of private regulation will be successful.

Zambia’s participation in the EITI was a direct result of the private authority that international extractive firms held relative to the state. The government’s decision to join to the EITI was an attempt at privatising regulation of the industry, as previous attempts had failed. However, as highlighted by several authors critical of the EITI (see Haufler, 2010, Pegg, 2012) this public-private partnership should not be seen as a panacea to the resource curse.

Pegg has noted that the EITI is a state-focused approach. Firstly, it requires increased levels of disclosure by states who participate in the process however requires little from firms (Pegg, 2012). He quotes the EITI itself in saying ‘'[b]eing a supporter of the EITI does not require any reporting or disclosure requirements in addition to those for all companies operating in the relevant sectors in countries implementing the EITI’’ (Extractive Industries Transparency Initiative, 2012). Secondly, the initiative focuses only on the revenues of developing states, ignoring the equally important expenditure side of the budget (Pegg, 2012).

Haufler argues that the EITI and other transparency initiatives such as Revenue Watch and Publish What You Pay have a determined focus on transparency without questioning what
the term means and how helpful it is in developing states. She notes that transparency is the ‘swiss army knife of policy tools’ and that is unlikely to live up to its expectations (Haufler, 2010). For example the usefulness of transparency measures in Equatorial Guinea or Chad is questionable. Citizens of such states already know their leaders are subject to patronage and rent seeking however the authoritarian nature of these states prevents civil society from acting. Initiatives such as the EITI rely on a vibrant civil society to succeed, supporters of the initiatives often assume that the reverse is true – that such initiatives are capable of creating a civil society (Hilson and Maconachie, 2008).

International extractive firms’ support of the EITI, and similar initiatives, have been labelled as a public relations exercise, requiring little from the company operating on the ground but providing them with viable claims of being ‘socially responsible corporations’ (Gillies, 2010). This criticism indicates that membership of the EITI may not achieve the private regulation sought by states such as Zambia and may even enhance the private authority of international extractive firms who can now leverage their support of the EITI.

The success of public private partnerships in regulating mineral industries is varied. The case of Botswana shows that successful mineral-led growth can be derived from strong public-private partnerships, such as the formation of the joint venture mining company Debswana. Conversely, Zambia has suffered as the private authority of international extractive firms has exceeded that of the state, in this instance the government has attempted to privatise regulation of the copper industry through membership of the EITI. As these cases demonstrate, the role of international extractive firms and their private authority is crucial to any understanding of the resource curse. In light of this, a new framework which includes an examination of the role of the firm and private governance regimes is outlined below.

**A New Framework for Analysis**

A review of the existing resource curse literature reveals a state-centric approach which fails to fully acknowledge the role of the firm as a potential driver of the resource curse. In particular, the existing scholarship fails to analyse the role of private governance mechanisms such as the EITI or other partnerships such as joint ventures. As such, a new framework for understanding the resource curse is required, one that recognises the institutional weaknesses often found in developing states and seeks to critically analyse private governance regimes, such as the EITI, as supplements to weak state institutions.
Dependency theorists argue that weak institutions in developing states stem from colonisation, in particular the policies and institutions implemented during this era that continue to shape post-colonial, independent states. Institutions are defined as “formal or informal procedures, routines, norms and conventions embedded in the organisational structure of the polity” (Hall and Taylor, 1996). New forms of institutionalism, such as historical institutionalism, have focused on the interaction between actors and these institutions, rather than the impacts of institutions on actors (Pierson, 2000). An application of this actor-centred approach to private governance mechanisms operating within the mining industry will further enhance the existing understanding of the resource curse. In particular, how do private governance mechanisms such as the EITI interact with state institutions to alleviate or entrench outcomes more commonly associated with the resource curse?

A historical institutional approach posits that self-reinforcing processes are prevalent in political life, subsequently states find it difficult to alter institutions over time. This path dependency explains why nations respond poorly to new challenges such as mining booms and why inequalities in power, for example between governments and firms, are reinforced (Pierson and Skocpol, 2002). Pierson (2000) argues that initial institutional decisions, even those determined to be failures will not cancel out, instead becoming self-reinforcing over time. He goes on to assert that even when institutional failures are identified, coordination problems prevent actors from generating alternative, competitive institutions. This is particularly noticeable in the case of single institution arrangements such as state treasuries or internal monitoring groups, both of which are often involved in the extraction of resource and distribution of associated mineral rents (Pierson, 2000). Path dependency links the institutions and polity of the colonial era with the outcomes seen today in post-colonial states (Acemoglu and Robinson, 2010).

Historical institutionalism also focuses on the temporal aspect of institution building (Pierson and Skocpol, 2002). In the case of Botswana it is evident that the timing of the formation of the partnership with De Beers, prior to the extraction of minerals, is central to the alleviation of the resource curse. Thus temporal dimensions, such as the timing of institution building and resource extraction, must also be included in any analysis of the resource curse.

Using a historical institutional approach to build on the existing resource curse literature, a new framework examines the intersection between states, firms and private governance mechanisms. An understanding of the private authority of extractive firms, the private
governance mechanisms used by the industry and the difficulty states face in amending and improving institutional design all contribute to an improved framework for understanding the paradox of plenty. In particular, this framework will enable the critical analysis of international extractive firms and their causal role in alleviating or perpetuating the resource curse in developing states.

The role of private governance regimes such as the EITI and other PPPs must be examined critically if the drivers of the resource curse are to be fully understood. Botswana’s strong institutions and the subsequent success of its partnership with De Beers can be contrasted to that of Zambia’s experience with the EITI. Unfortunately, the latter is a far more common narrative throughout sub-Saharan Africa. These two examples lead to the question, is private governance part of the solution to filling the institutional void in developing states, or does it serve to further entrench the outcomes more commonly associated with the resource curse? I expect that my future research, focusing on private governance regimes in the extractive industry will show that in most cases such governance mechanisms fail to assist in overcoming the institutional weakness of developing states, and instead rely on this weakness to further entrench outcomes such as low economic growth and a failure to improve education and health outcomes.

Conclusion
It has been shown that the existing literature on the resource curse fails to fully acknowledge the role of international extractive firms and the emergence of private governance mechanisms in the perpetuation of paradoxical outcomes. As such a new framework is required, that includes analysis of the private governance mechanisms of extractive firms and the role these regimes play in alleviating or perpetuating the resource curse. In the case of Botswana the government was able to institute a successful public-private partnership which has since led to strong mineral-led development. This private governance mechanism allowed the state to defer regulation of the sector to the firm and in doing so encouraged De Beers to maintain monopoly over the diamond industry - which in turn benefited the state.

Copper mining has failed to bring similar success to the Zambian economy. Instead the state continues to experience poor economic growth and stagnant development indicators. International extractive firms operating in Zambia have been shown to exercise significant private authority over the government while the state has failed in attempts to regulate the industry. Instead, Zambia has turned to the EITI in an attempt to privatise the regulation of
international extractive firms. As explored in the paper, due to the shortcomings of the initiative this is unlikely to lead to the outcomes sought by the Zambian government. Instead, the international extractive firms operating in Zambia are likely to strengthen their private authority through membership of the Initiative, and may be able to resist further efforts at improved regulation of the industry.

The existing resource curse literature focuses specifically on the role of the state and the market in perpetuating the existing paradox. Instead, an actor-centred approach which critically analyses the role of international extractive firms and private governance regimes, such as the EITI, is required. Such a framework will enable future research to examine the role of firms and governance regimes in perpetuating or alleviating the outcomes commonly associated with the resource curse. An application of this framework to several sub-Saharan African case studies is expected to show a variation in the quality and effectiveness of private governance mechanisms, as confirmed by the introduction to Botswana and Zambia in the preceding paper. This analysis is expected to support the claim that the existing resource curse literature lacks sufficient acknowledgement of the role of private governance in perpetuating the resource curse in developing states.
References


