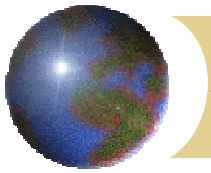


*(Mis)-Governance and the  
Resource Abundance:  
Risks and Responsibilities*

Thomas C. Heller, Stanford University

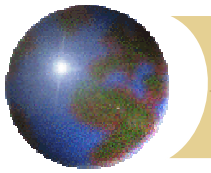
The Geopolitics of Gas

Houston May 27, 2004



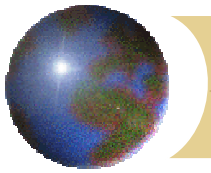
# *Investor risks of mis-governance*

- ⊕ Weak development record since 1970 in resource abundant (relative to GNP) countries
- ⊕ Demands made on firms to provide social goods
- ⊕ Core-periphery exploitation leads to potential claims of human rights abuse and Alien Torts Statute litigation in US
  - ⊞ Exxon-Mobil in Indonesia; Unocal in Myanmar
- ⊕ Political contest to control rents lead to political volatility and civil wars that generate social risks for stable investment contracts
  - ⊞ Bolivia, Bangladesh, Angola (even off-shore)



## *Impacts of Resource Abundance:*

- Corruption in rent appropriation
- Political instability favors short term rent capture over long-term taxing of economic growth (institutional perversion)
  - Short horizon discourages measures to mitigate price volatility and savings to replace depleted physical capital (classical resource curse)
  - Anti-market state incentives (protection of non-competitive industry, selective populism and no development of responsive political institutions)



# *Remedies: Orthodox Approaches*

## ● Improve institutions

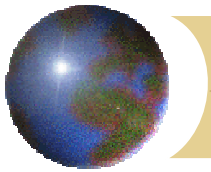
### ■ State firms in natural resource sector

- Transparency and accountability
- Corporate governance
- Separate production from political functions
- De-integrate vertical monopolies by function

### ■ Government in general

- Use (rent) taxation rather than subsidized prices for welfare; virtual or actual distribution of taxes
- Rule of law and independent regulatory authorities for resource sector
- Budgetary transparency and participation

## ● ODA: effective; conditional?



## *Remedies: Substitute Institutions*

- Independent authorities (trusts) to manage volatility and resource revenue expenditure, including savings
  - Onshore (Norway, Sao Tome)
  - Offshore (original Chad-Camaroon spending trust)
  - Issues: credibility over time and actual independence; substitution of budget resources
- Private firms provide public goods directly, especially on periphery
- State firms evolve from political organizations to multinational players (assets, finance)