Working Paper in

THE ROLE OF FOREIGN DIRECT INVESTMENT IN RESOURCE-RICH REGIONS

Does Foreign Aid Help or Hurt FDI? That is the Question.

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February 2020
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Abstract

Why consider foreign aid in the context of foreign direct investment (FDI)? Businesses glean an array of support from home governments as well as multi-lateral institutions to help foster FDI in energy and other sectors and to mitigate risk. In turn, FDI is often, indeed usually, seen as an important component of foreign aid and economic development assistance. Few developing countries and emerging markets have the internal wherewithal to fund critical infrastructure and/or to launch or support new industries or economic initiatives. Likewise, few foreign aid donors have the ability to fund the full cost of investment for economic development and growth. FDI is usually looked to as a “gap closer” but FDI will not flow without stabilizing conditions that often are part of foreign development assistance. Direct international donor assistance provides a distinct form of FDI support. For instance, foreign aid to countries can be in the form of technical assistance to encourage sectoral reform, build institutional capacity, create and/or improve transparency and often to address distinct and particular policy and regulatory undertakings such as “local content” rules. Foreign aid, by itself, is fraught with dilemmas, ranging from home country decisions about how to allocate assistance (which countries, for what purpose, with what metrics for results) to whether natural resources, energy and minerals should even be targets for spending. Foreign aid is subject to home country fiscal and political cycles, and so waxes and wanes. The misfit between the long-term nature of assistance goals and home country political cycles is problematic. Much donor assistance over the past 30 years has targeted energy sector reforms that embrace open, competitive markets and encourage reform of state owned enterprises. Too often, receiving governments are not well positioned to implement market-based reforms and “liberalization”. Metrics for evaluating success are difficult to design and often geared toward political imperatives within donating governments. Finally, many of the issues that hold back deepening of energy supply and access, along with transparency and anti-corruption measures and the like, emanate from subnational jurisdictions including indigenous communities and leaders and the often-fraught histories between these groups and their sovereign governments. In contrast, for the most part, donor assistance and related programs, including those undertaken by non-governmental organizations or NGOs, remain directed toward national, sovereign government bodies.
Setting

In early February 2010, a meeting took place in Accra, Ghana’s capital city, to coordinate among multiple international donors providing technical and public assistance to the Ghanaian government. Attending the meeting were representatives of the U.S. Agency for International Development (USAID); World Bank; the UK Department for International Development (DFID); Germany’s GIZ (now Deutsche Gesellschaft für Internationale Zusammenarbeit, then Deutsche Gesellschaft für Technische Zusammenarbeit GmbH or GIZ); Denmark’s Danida (Danish Development Assistance); the European Commission (EC); and Norway’s Norad (Norwegian Agency for Development Cooperation), OfD (Oil for Development). A USAID-funded needs assessment had documented the substantial technical and public assistance requirements and the goal was to prevent overlap with program elements already underway (such as German mentoring at the finance ministry for fiscal management and transparency and EC training of public administrators).

Ghana had long been a recipient of substantial foreign assistance. The relatively high ranking among African countries for governance, British-based legal system and breadth of English speaking made Ghana a magnet for support. The profound history of European influence and slave trading made Ghana a sympathetic case. But by 2010, distinct signs of “donor fatigue” had set in. Ghanaians had become inured to U.S. and European efforts to improve governance and accelerate economic development. The 2007 discovery of oil and gas in the Jubilee block and anticipation of “first oil” in 2010 had created enormous “expectations management” problems. International donors were creating and/or expanding programs that required implementation levels far beyond the capabilities of the government of Ghana (GOG). Apart from fostering donor coordination, the USAID needs assessment also provided specific recommendations to better educate the public and manage expectations; to help improve GOG managerial competence, data and information flows, understanding of natural gas market development and strengthen transparency and anti-corruption initiatives; and for technical training to facilitate workforce development.

Lurking in the background were three realities that challenged the best of intentions. One was the long-standing regional rivalry between Ghana and Nigeria. The 1983 expulsion of millions of Ghanaians (“Ghana must go” became the moniker and namesake for the flimsy travel bags used in the rushed departures) along with other West Africans who were charged to be in Nigeria illicitly had resulted in severe ructions between the countries. The prevailing mantra for Jubilee development was “not like Nigeria”, shorthand for desires and admonitions to avoid the worst of the “resource curse” syndrome attributed to West Africa’s petroleum nemesis. Countering that message was widespread news of the relationship between the former head of Ghana National Petroleum Corporation (GNPC), Tsatsu Tsikata, and Nigeria’s former president, Olesugun Obasanjo, and their positioning behind the scenes to take Jubilee interests in ways that were broadly thought to be questionable.
Does Foreign Aid Help or Hurt FDI? That is the Question.

The second harsh reality was the entry of China as a significant, and rapidly growing, source of foreign direct investment that countered established U.S. and European interests and approaches. The Chinese (Sino Hydro) were building the controversial Bui Dam and hydroelectric project. In return for that commitment, China was being given preferential access for road and rail development and, it was conjectured, access to other natural resources of interest. Chinese workers were deployed for the Bui project, a sore point, and Sino Hydro and its Chinese contractors faced few of the problems that other international investors faced for customs, immigration and business registrations. Chinese retail and service workers were flooding Ghana with tensions rising among local Ghanaian businesses including the large, informal markets that supply much of day-to-day consumer goods and services. At the Accra meeting, the Chinese were the largest gorilla not in the room.

The third reality was Ghana’s longstanding experiences with natural resource development. These have been bumpy, at best. The Western Region, which serves as the base for Jubilee offshore operations (in Takoradi, west of Accra), had long suffered the worst of Ghana’s gold and other minerals extraction including longstanding conflicts between formal and informal mining. Deep poverty co-exists with vast wealth in the Ashanti Gold Belt and other areas of mineralization. Ancient traditions, like the famous ability of Western Region fishermen to navigate for miles offshore in dugout canoes and allocations of beachfront for fishing activities that resided only in spoken language and understandings, were colliding with the new needs to coordinate offshore oil and gas operations. Resource management issues are inherent in agriculture as well. Ghana’s large cocoa industry had long been a target for abuse. New dilemmas were emerging in other agricultural commodities, such as the push to convert acreage to palm oil production for biofuels, with attendant pressures on soils, water and food.

As the donor coordination effort unfolded during 2010, issues arose around the sale of Jubilee interests held by Kosmos, a Dallas-based “explore and flip” independent that had drilled the successful wildcat. A colorful patchwork of background rivalries and machinations crystallized. These included: the role of personalities involved in the initial Jubilee prospect and discovery; the Tsikata-Obasanjo influence on GOG; and sharp disputes between Kosmos, GNPC and GOG over petroleum contract terms and disposition and control of Jubilee interests. The U.S. Embassy attempted to mediate, to no avail.

Competition for control of associated gas from Jubilee production with grandiose schemes to develop a national gas pipeline grid and to commercialize natural gas liquids (NGLs) created additional complications. Connections between well-placed Ghanaians and Trinidad & Tobago energy sector representatives added a “Golden Triangle” touch. Ghana had suffered an extended cyclical drought so that by 2006, ahead of the Jubilee discovery, severe electricity outages and rationing associated with low water levels in the existing Akosombo reservoir and hydro facility in the Volta River basin plagued the country. Years of U.S. government assistance through USAID
Does Foreign Aid Help or Hurt FDI? That is the Question.

and myriad other sources (the Economic Community of West African States, ECOWAS, with World Bank backing) had been provided to encourage West Africa regional cooperation around the West Africa Gas Pipeline (WAGP), designed to deliver associated natural gas production from Nigeria to Tema, Ghana’s large industrial port near Accra, with deliveries along the route to Benin and Togo. The WAGP was completed in 2006, but not yet in operation. Ghana was close to becoming a natural gas importer as liquefied natural gas (LNG) supply was sought for a power barge in Effasu, in the Western Region close to the Côte d’Ivoire border. The barge had been sponsored by the Overseas Economic Cooperation Fund of Japan during the late 1990s but sat unutilized for lack of fuel supply. Plans were to relocate the barge to Tema to better support Ghana’s main industrial complex.10

Disputes and standoffs related to the national natural gas plan proposed by long-time Energy Commission head Ofosu Ahenkorah jeopardized Jubilee gas recovery. Ghana National Gas Company Limited (Ghana Gas) was created in 2011 to provide midstream operations, modelled after the Natural Gas Company (NGC) of Trinidad & Tobago. Ghana Gas supplies fuel to the Volta River Authority (VRA), operator of the Akosombo hydroelectric facility. A new power barge was installed at Tema. Problems with WAGP deliveries, not least debt payment disputes between Ghana (the debtor) and Nigeria and a variety of technical and non-technical disruptions to the pipeline, resulted in a suspension of deliveries in 2016 and the barge was relocated to Lebanon. During the 2017 drought cycle Ghana returned to its search for LNG options, again with USAID support, but with no ability to receive LNG and no ability or sponsorship for building receiving capacity the outcome was again fruitless. In mid-2018, Ghanaian domestic natural gas finally was supplied for electric power production using non-associated gas production from the Offshore Cape Three Points (OCTP) location proximal to Jubilee.11 GNPC inked a gas supply contract with Gazprom to include a floating storage and regasification unit (FSRU) with gas supply from Gazprom but great uncertainty clouds the arrangement.12

The GOG has never executed on any of the recommendations in the USAID-backed oil and gas sector needs assessment.

What Makes Countries Grow and Develop, or Not?

At the most basic level, the situation in Ghana – or any other country or region, for that matter – reflects the continuing pursuit of clues for why economic development happens in the first place. Any number of published accounts could be drawn upon (Barrow, 1996 and Barrow and Sala-i-Martin, 2004 are good examples) to provide any number of answers that all seem to apply until the next round of soul searching happens. Certainly, post-colonial nation states, like nearly all of Africa, the Middle East, Latin America and Southeast Asia seem to have particular disadvantages. But even in those locations, strong differences exist that undermine attempts to draw uniform conclusions that could lead to common solutions.13 Indeed, the evolution in
Does Foreign Aid Help or Hurt FDI? That is the Question.

thinking about donor assistance reflects acknowledgement of the variability in underlying conditions and the extent to which history, culture and other sociopolitical cues, all very difficult to assess and predict, account for much of the lack of success in foreign aid overall as well as foreign aid directed toward specific sectors and/or focused on particular projects or policies. Any of the publications by William Easterly illustrate the shortcomings in foreign aid programs, but especially his three seminal books (2001; 2006; 2014). As he notes at the outset (p. 11, 2006), “sixty years” and “$2.3 trillion” later there is little to show. Many of Easterly’s complaints, and he is one of the harshest critics of foreign aid, along with those of many others are specifically targeted at poverty reduction as the key measure of success. In itself, poverty reduction is an enormous topic, fraught with wide-ranging differences of opinion, great variability in results and plagued by cultural mores that affect the research community as strongly as they do the political class. Over the years, much the writing by Easterly and other professionals steeped in foreign aid experience has raised many good questions about whether foreign assistance may have its own repercussions.14

A follow on question might be why some countries succeed in capitalizing on resource endowments while others fail. Economic development and the ability to effectively harness natural resource endowments are linked. Canada, Norway and Australia are routinely mentioned as nations that seem to have been able to benefit from natural resource wealth with few obvious ill effects (see Figure 1 later) other than questions about economic diversity and the usual dilemmas on managing through boom-bust cycles. Any scrutiny of these three economies inevitably raises uncomfortable concerns about points of comparison between largely white European-derived populations and other countries. Norway has long been active in foreign assistance, closely linking aid with outbound investment from Norwegian businesses. Little, if anything, of what has been done in practice in Norway, including evolution of that country’s massive sovereign wealth fund and the close ties between the fund and Norway’s oil and gas businesses, can be transferred to other situations. This includes efforts to mimic Norwegian promotion of oil service businesses. Canada, Australia and the United States all have vestiges of colonial histories, with long struggles to afford rights for indigenous communities and shared challenges of achieving economic diversification in their natural resource rich jurisdictions. Strong deviations in performance within Canada and Australia parallel those within the U.S.; individual states, provinces and territories can exhibit distinctly dissimilar experiences with sufficient longitudinal data on natural resource exploitation to allow rough appraisal.

For all of these caveats, countries that are generally classified as industrialized and mature, are members of the Organization of Economic Cooperation and Development (OECD) and who tend to be foreign assistance donating countries rather than recipients appear to be relatively successful in achieving development from their natural resource bounties. Clearly, the further along a country is in sociopolitical development, the more established its institutions and laws, the better off it would seem to be when it comes to economic growth as well as mostly positive results from natural resource wealth. This
general conclusion parallels work by Barrow (1996 and more recent) as well as others. The issue then becomes how best to move the rest of the world up the learning curve.

Figure 1: % of GDP from Resource Rents (X) and Corruption Perception Index (Y)

Source: World Bank, Transparency International as compiled by author

Yet, the fact that the roster of OECD members includes fabulously resource rich nations as well as dramatically resource poor ones muddles the issue of what drives success as well as pinpointing what leads to failure. Resource rich nations are not necessarily those at the highest risk for attributes that undermine economic attainment. In other words, if the popular meaning of “resource curse” is applied, as widely assumed, many OECD members should be derelict, not least the three countries already pointed to (Canada, Australia and Norway). Country rankings using a public domain measure of transparency and corruption (Corruption Perception Index or CPI) – two particular constituents of “resource curse” syndrome – and percent of a country’s gross domestic product (GDP) that is derived from resource rents reveal plenty of nuances (Figure 1 and Table 1). In general, Figure 1 indicates an inverse relationship between the World Bank measure of resource rents relative to GDP and the CPI. That is, as the size of resource rents relative to GDP grows, many-fold in several cases, the CPI declines.
Table 1: Fifteen Highest and Lowest Ranked Countries on CPI

<table>
<thead>
<tr>
<th>Country</th>
<th>Resource Rent % GDP</th>
<th>CPI</th>
<th>Country</th>
<th>Resource Rent % GDP</th>
<th>CPI</th>
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</thead>
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<tr>
<td>Denmark</td>
<td>0.5%</td>
<td>88</td>
<td>Chad</td>
<td>22.0%</td>
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<td>New Zealand</td>
<td>1.0%</td>
<td>87</td>
<td>Congo, Rep.</td>
<td>42.7%</td>
<td>19</td>
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<tr>
<td>Finland</td>
<td>0.6%</td>
<td>85</td>
<td>Iraq</td>
<td>38.0%</td>
<td>18</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.0%</td>
<td>85</td>
<td>Venezuela, RB</td>
<td>11.8%</td>
<td>18</td>
</tr>
<tr>
<td>Sweden</td>
<td>0.5%</td>
<td>85</td>
<td>Burundi</td>
<td>16.2%</td>
<td>17</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.0%</td>
<td>85</td>
<td>Libya</td>
<td>38.5%</td>
<td>17</td>
</tr>
<tr>
<td>Norway</td>
<td>5.9%</td>
<td>84</td>
<td>Afghanistan</td>
<td>0.7%</td>
<td>16</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.4%</td>
<td>82</td>
<td>Equatorial Guinea</td>
<td>24.3%</td>
<td>16</td>
</tr>
<tr>
<td>Canada</td>
<td>1.7%</td>
<td>81</td>
<td>Guinea-Bissau</td>
<td>16.3%</td>
<td>16</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0.0%</td>
<td>81</td>
<td>Sudan</td>
<td>4.6%</td>
<td>16</td>
</tr>
<tr>
<td>Germany</td>
<td>0.1%</td>
<td>80</td>
<td>Korea, Dem. People’s Rep.</td>
<td>0.0%</td>
<td>14</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.4%</td>
<td>80</td>
<td>Yemen, Rep.</td>
<td>1.9%</td>
<td>14</td>
</tr>
<tr>
<td>Australia</td>
<td>7.2%</td>
<td>77</td>
<td>South Sudan</td>
<td>0.0%</td>
<td>13</td>
</tr>
<tr>
<td>Austria</td>
<td>0.1%</td>
<td>76</td>
<td>Syrian Arab Republic</td>
<td>0.0%</td>
<td>13</td>
</tr>
<tr>
<td>Hong Kong SAR, China</td>
<td>0.0%</td>
<td>76</td>
<td>Somalia</td>
<td>15.2%</td>
<td>10</td>
</tr>
</tbody>
</table>


However, there is the dilemma of sharply declining CPI indicators for a host of nation states that do not have exceptional resource rent positions – basically, the distribution of countries up and down the vertical y-axis. Of the 180-country sample, some 48 countries had rents accounting for less than 50 percent of GDP while 64 had rents of less than 100 percent. As well, there is the added dilemma, even stickier, of relatively high CPI rankings among many of the largest sovereign owners of resource endowments. Critics of the CPI and other similar measures find results of this nature unsettling. Some countries that have smaller endowments, but for which resource rents are the overwhelming source of income, also have relatively high CPI metrics. Overall, more than one-third of the countries have CPI rankings that are 50 or above. A total of 86 have rankings that are 40 or above. These include extremely significant holders of energy and non-fuel minerals wealth and countries that are excessively dependent upon resource rents. This raises an additional question of whether countries with no
meaningful resource endowments that can be commercialized, and with few other prospects, can build the kind of institutional capacity and achieve levels of economic development that is hoped for in order to attain meaningful poverty reductions.

A further consideration is whether countries that depend on imports of raw materials and/or intermediate goods contribute to resource curse problems elsewhere via their outbound investment. This is great fodder for controversy and underlies much of what has evolved over the years in international transparency initiatives and country-level debates. Inducing governments themselves to “behave” in ways that are viewed to be compatible with good governance is much more difficult than pressuring their companies. Many of these governments also are substantial foreign aid donors – most of the OECD fits into that category. The primary efforts on the anti-corruption and transparency fronts have been directed toward publicly traded companies with emphasis on corporate disclosures and reporting and policy approaches. A good example is in the U.S., where the Securities and Exchange Commission (SEC) has struggled to implement the Section 1504, Cardin-Lugar provision of the 2010 Dodd-Frank Act, passed in the aftermath of the 2008 recession.

The Cardin-Lugar provision is one of the many attempts to shine light on corporate financial disclosures as a means of addressing transparency in the extractives industries. In a nutshell, Section 1504 was intended to foster disclosure of payments by public companies to governments in countries where those companies do business. The idea is that payments that seem to be in excess of legitimate contracts or other costs could be linked to governance shortcomings in the host country. Initial efforts by the SEC were blocked by courts and the U.S. Congress. Arguments against tend to focus on cost of compliance while arguments in favor emphasize benefits, both tangible and intangible that flow to firms and the U.S. as a whole if companies go along with the provision. At the end of 2019, the SEC had put forth a revised proposal for implementation, and so the jury is still out. The shortcomings of this approach should be obvious. Most important is the restriction to public companies, which are the only real possibilities for government policy and regulatory reach if financial disclosure is the criterion. Other countries include private entities in their disclosure requirements.

Clearly, U.S. private companies and other foreign direct investors would face legal actions or penalties if caught violating other laws, either in the U.S. or abroad. More important is that disclosure requirements in home countries of outbound investors do nothing to compel or encourage better governance in the host, resource owning ones. The notion that the potential loss of FDI will nudge receiving governments to make improvements could have more resonance if the link between resource rents and governance were clearer. In the least, reputational pressure on companies that make outbound investments may do more to impact outbound investments than disclosure rules.

Economic rents are, of course, at the heart of resource curse discussions. For one, larger, more diverse economies have lower dependence on natural resource rents by default.
“Dependencia” was a focus of much research and attention during the wave of oil and minerals expropriations that took place during the 1970s and early 1980s. As noted above, within more mature economies are pockets of poor performance in resource dependent subjurisdictions that raise the specter of resource curse demons. For another, the “perception” of corruption as developed by Transparency International is of the ranked country’s public sector. What a country’s government, or businesses for that matter, do beyond their home turf is a separate topic and would be extremely difficult to evaluate. On that front, more developed, stable countries with stronger institutions tend to have some “sunshine” rules or anti-corruption measures that extend to how their businesses conduct themselves elsewhere. The U.S. Foreign Corrupt Practices Act (FCPA), which applies to private companies and individuals as well as to stock issuing public companies (“issuers”) and anti-bribery laws in Europe are examples. Home country governments in democratic regimes are subject to the whims of their polities. Are open, competitive democracies better at keeping their governments in check when it comes to foreign engagements and adventures? Likewise, the existence of anti-corruption measures in countries that are recipients of foreign aid and FDI generally are assumed to help mitigate problems but these laws and practices must be enforced. This means that foreign aid that targets transparency and anti-corruption is only as good as the receiving government’s capacity to implement and fortitude to enforce.

Foreign Assistance in a Messy World

Anti-corruption measures and growth in scrutiny of transparency and corruption by NGOs complicate corporate initiatives associated with FDI strategies. These initiatives may be intertwined with the home government’s foreign assistance (which itself is often associated with strategic interests abroad). Whereas anti-corruption and anti-bribery laws and rules imposed by home governments apply to their businesses no matter where companies operate and with whom, NGO scrutiny of transparency and corruption, including press freedoms and other indicators, are almost exclusively targeted to national governments. This ignores one of the most pervasive challenges – the tendency for “resource curse” syndromes to bubble up from subnational jurisdictions, including traditional leaders of indigenous communities. The weaknesses among subnational jurisdictions can overwhelm sovereign governments and the world is replete with examples ranging from Nigeria to Former Soviet Union republics and beyond. In many cases, early agreements for resource access were inked with traditional leaders. These had to be subsumed by sovereign contracts later, with great political disruption and usually permanent damage. As well, donor assistance is nearly always dispensed to sovereign jurisdictions leaving large and volatile gaps across wide swaths of society. In sensitive economies, this can render foreign assistance worse than useless. Finally, dealing with the deepest tendencies is a long-term generational problem, intrinsic to the institutional development path. Few donor countries are patient enough for the job.
Does Foreign Aid Help or Hurt FDI? That is the Question.

Can a case be made for donor assistance targeted toward specific sectors, to natural resource development in general and to energy in particular? If the donating government can be patient enough, actions taken to help mitigate underlying weaknesses attributed to “resource curse” syndrome could be useful. To a large extent, however, this places the donor government in the position of dealing with essential human nature and cultural fabrics that are deeply embedded. Few, if any, donor countries have the ability to deal with these things, and little, if any, donor assistance has ever been pushed in that direction.

Most often, patterns of donor assistance that are targeted toward sector specific, natural resource and energy FDI exist for a reason. In these instances, the donating, home government is acting in support of its businesses and their commercial interests which are viewed to be compatible with larger, national, strategic interests. Donor programs will typically address resource access, but with vastly different styles. U.S. assistance most often is directed toward policies, regulations and fiscal regimes that can be attractive for competitive entry while other countries, notably China, will link donor assistance directly to outcomes favorable to Chinese businesses, workers and government. Trade development assistance with commensurate commercial overlays will usually be involved. Strategic interests of donating governments shift over time. For instance, U.S. energy assistance prior to 2010 or so may have been targeted at resource access that could lead to lead to new volumes of oil and gas supplies for world markets. Today it is more compatible with competitive energy supply, including U.S. production, as a means of staving off geopolitical influence in sensitive regions. During the 1990s, considerable U.S. government support was directed toward market liberalization with trade and investment relationships in mind. The so-called “Washington consensus” (Birdsall, et.al, 2010) was Latin American driven but eventually taken to apply to any location in which U.S. or (Washington, D.C. based) multi-lateral foreign assistance was involved. The interest in market liberalization eroded sharply after the collapse of U.S. energy merchants which, as a distinct industry group, were pushing outbound investment in oil and, mainly, gas pipelines and electric power at a pace that had never been experienced before, or since.\(^{21}\) The financial and economic recession that rolled across the U.S. and Europe in late 2007 further deteriorated what had been a widespread belief in economic liberalization and reform, including for energy, as the key to growth in democracy and improved democratic governance. The most prominent new entry into the gap that was created was China’s authoritarian, state-led investment, infrastructure and manufacturing growth model. Most countries now deploying that approach lack the financial heft to execute (Johnson, 2019).

As the Ghana snapshot suggests, many different players – national, multilateral, NGO – can engage in the process of donor assistance. National governments serve as donors directly, by donating to multilateral institutions (World Bank, EC) and by funding NGOs, including civil society groups and regional organizations (ECOWAS) within receiving countries, directly or indirectly. Conflicts can emerge across donors, as
illustrated for Ghana. Sometimes these conflicts can be sharp and reflect strongly divergent strategic interests and geopolitical positioning. This landscape can create tricky ground for actions undertaken by companies. Few corporate social investments are undertaken free of commercial interests. The objective is to foster as constructive a business and social environment as possible, with the general view that what is good for commercial interests also is good for countries as a whole. Workplace safety and workforce health (HIV and malaria treatments and protections) are common areas of focus that lead to improvements well beyond project specific needs. Companies typically will invest in education with workforce development in mind. This reality influenced the Ghana needs assessment. Investments already underway in “white collar” engineering, geoscience and other disciplines were easy for companies to justify. More difficult to ascertain was how best to close gaps in “blue collar” trades, including those requiring certifications. To a large extent, international oil and gas contractor societies and associations stepped to the plate to help recruit and train drilling and construction employees and government-to-government initiatives helped with key fundamental improvements for air traffic and maritime operations and safety. But to close the much larger gaps, Ghanaian technical institutes and colleges had to be brought from a very low state to a better performing one in order to support basic trades. This effort fell victim to the internal strife that affected implementation of the needs assessment recommendations. In any event, the high capital/low labor intensity of oil and gas investment often disappoints host governments expecting large direct employment benefits.

Issues and More Issues

The issues outlined above, along with others, can be identified across an array of direct examples and experience with foreign assistance programs among the countries featured in Table 2. The countries listed below have long been recipients of U.S. foreign assistance for a variety of sectors, including energy, with considerable technical assistance for policy and regulatory frameworks, energy market design, public administration, infrastructure planning, and institutional capacity building to support those program objectives. The Ghana snapshot is drawn from experience in that country and for an overall West Africa initiative, including support for the WAGP. In total, for these countries and fiscal years, USAID spent more than $19 billion, of which about $1.1 billion was energy (infrastructure) related. The agency points out that its annual budget of $20 billion 2018 for 139 countries was less than one percent of federal spending.
Table 2: USAID Programmatic Assistance – Example (Millions of $USD)

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<td>1,535</td>
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<td>775</td>
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Source: USAID budget information from https://results.usaid.gov/results. Countries are based on author experience with USAID contract implementation: cooperative agreement (CA) for Ghana, West Africa (WA), Uganda; pass-through funding, Higher Education for Development (HED) and predecessors; subcontract funding for USAID’s Central Asia Republics (CAR), Ukraine, Georgia and South Asia Regional Initiative for Energy Integration (SARI/EI). Iraq review was funded by the U.S. Department of State through U.S. Department of Energy-Office of Fossil Energy. Countries indicated with “*” were not visited directly by the author; government officials and decision makers participated in programs elsewhere. Additional observations come from countries visited for various bilateral and multi-lateral USG and project efforts include Algeria; Argentina; Australia; Brazil; Indonesia; Malaysia; Morocco; Papua New Guinea (PNG); Russia (Sakhalin); South Africa; Trinidad & Tobago.
Donor Fatigue

The phenomenon of “donor fatigue” and initial capacity constraints within receiving governments (governments hosting FDI) affects ability to implement donor aid in the first place. Receiving governments in these situations tend to have “thin benches”. Lack of substitutes can mean not only a complete stop on program implementation, but can cause even deeper impacts in effectiveness of the assistance.\textsuperscript{24} The reality of long-term, generational institutional capacity building flies in the face of political imperatives for metrics from donor agencies who must meet short-term budget and appropriations cycles. This is pertinent not only for U.S. government entities but for most OECD donor countries as well. The tendency for donors to direct assistance toward particular sectors is linked to the problem of metrics. Metrics to demonstrate success with broad social welfare assistance are hard to come by and defend. Indicators that connect with commercial success can be easier to attain and more supportive of donor agency budgets.\textsuperscript{25} With regard to competing interests among donors, many receiving countries are proficient at using these conflicts to their advantage.\textsuperscript{26}

Other, logical outcomes of donor fatigue are missed targets and delayed schedules, lackluster implementation of programs, outright resistance to donor objectives, resentment of donor priorities over priorities that the receiving government would rather pursue. Donors like USAID and the World Bank rely heavily on foreign nationals to help staff mission offices, interface with the receiving governments and carry out program implementation. This can create sharp conflicts for these individuals if internal strife develops or, worse, if change in political leadership exposes them to risks ranging from loss of employment (if the donor programs are suspended) or even personal safety.

Local Content

Natural resources and infrastructure donor assistance invariably will include some aspects of local content policy development. Most donors will shy away from direct involvement but it is hardly possible to stop discussions and other interactions with partners and colleagues. Many view local content as a solution for how to improve economic benefits from capital-intensive extractive industries activities but design and execution of local content rules are touchy subjects. Overall local content programs tend to be expensive and difficult to create and implement, with any number of administrative burdens on ministries and state owned enterprises (SOEs). Local providers must be certified and supplies and services verified to meet local content targets. The more comprehensive and onerous the local content rules, the heavier the administrative burden and cost and the likelier the incidence of malfeasance and corruption. The design of local content rules can raise an assortment of flags for investors bound by FCPA or other anti-bribery laws, in particular requirements for local partners and thus possibilities for conflicts of interest. Little work has been done to properly assess costs and benefits of local content programs but overall they appear to
do little to expand economic activity around oil, gas and mining businesses. To a large extent, this is because very few countries can host even a small portion of the content required by these projects. Oil, gas and mining are global industries marked by intense competition and necessary cooperation to build supply chains, manage costs and execute on projects. A common idea is to foster fabrication businesses and use of local construction crafts. Even these approaches have yielded little in the way of benefits. Too often the push for local content proves to be inflationary, harming the country and economy.\footnote{27}

Even advanced economies have struggled to build comparative advantages associated with extractives industries. Some countries, like the U.K., have attempted to build competing oil field services (OFS) businesses and export that expertise (Gregory, 1980). OFS is an arena dominated by patents and licenses to protect intellectual property. These and other pertinent considerations, such as locations of labor and capital, clustering and other variables enhance or restrict formation of support industries. Likewise, pursuit of the higher dollar, engineering and geoscience exploration and production jobs and businesses is equally strong. The North Sea offers any number of lessons on these fronts (Cumbers, 1995). It is expensive for oil, gas and mining companies to build expatriate workforces. Many local content policies include workforce provisions, or these may be carried out through other mandates such as government or contractual requirements to employ specific percentages of indigenous employees for various job categories. That said, the effort to build up expertise in countries of operation also is challenging. Once created, those professionals will have limited opportunities to move to other countries and locations with the investing companies.

Finally, local content invariably overlaps with customs and immigration, areas ripe for abuse.\footnote{28}

\textit{SOEs}

National oil companies (NOCs) and other SOEs, including electric power organizations, are a particular problem. Most foreign assistance donors tend to steer clear of direct funding for NOCs and SOEs; for companies anti-corruption and anti-bribery protections can be easily exposed. When it comes to other sources of assistance, for example World Bank funding or export-import lending, this is not the case. In some countries and situations, these funding sources can create sharp dilemmas by sheltering NOCs and SOEs from reform efforts including those sponsored by aid donors.\footnote{29}

\textit{Energy Market Development}

When it comes to targeted energy sector support, oil monetization is easier, everything else is quite hard. This is especially true for electric power. Donor support for fossil fuels is increasingly under pressure, in tandem with worldwide trends. But many donors will also point to the dire need for large scale energy sector improvements that
can support overall economic development, pointing to a fundamental tension brewing in the foreign assistance community. A bigger, more pervasive dilemma can emerge when donors support specific energy sector reforms that remove conventions that may have been relied upon by companies to de-risk and reach final investment decisions (FIDs) on projects. For instance, in order to achieve financing for electric power plants bilateral power purchase agreements (PPAs) are often preferred by providers of capital. Contract terms, including pricing, can be inconsistent with market designs pushed by donors that facilitate transparent price discovery. To a large extent, this and other similar situations weakened outcomes during the 1990s “Washington consensus” wave of FDI for natural gas and power projects.

**Local Partnerships, Learning Models, NGOs**

Frankel (2005) noted that most development failures can be attributed to differences in value systems and approach between donor and receiving countries (p. 5). The question then becomes how best to implement donor assistance given these differences? One solution he posits is to create local partnerships, effectively putting local experts in charge of implementation, and to devise “learning models”. These are, in effect, vehicles that enable the trainers – outside experts – to train the trainers – the local partners. As the pool of local enablers expands, multiplier effects can be gained. Various experiments indicated that this approach can work but several elements are required, not least a reasonably adept local partner with technical competence, especially if the donor assistance is targeting specific sectoral priorities like energy. The local partner also must have the ability to reach into various audiences within the host country. Long term viability also is a consideration. Many indigenous NGOs in aid-receiving countries have difficulty continuing to exist once the aid program terminates. If the NGO is able to “train trainers” and provide capacity building itself in critical arenas, it is possible to build revenue flows that preserve and sustain the effort.

Some of the solutions for dealing with particularly difficult subnational jurisdictions and indigenous communities also can be addressed through NGOs, mainly indigenous civil society groups. This has been a particular innovation over the years, with donor agencies looping in key partners from indigenous civil societies to help balance particular difficulties such as gender. Funding for general social welfare programs led by women, including some energy sector initiatives such as local distribution of domestic fuels, proving to be a particularly successful approach (and useful for ensuring accountability for disbursement and use of donor funds). Indigenous partners also are useful for piercing tough problems such as press freedoms and transparency.

Countering the good news are the demands on donor agencies and their contract implementers associated with managing NGO activities, regardless of whether they are undertaken by international or indigenous groups. NGO activities can also sharpen internal political disagreements as politicians object to creating power centers outside of government and create other larger problems for the overall donor assistance effort.
Many NGOs and their activities are difficult for businesses, especially if NGOs become opposed to FDI and specific projects and even foreign government donors themselves.  

**Political Risks Faced by Donors**

Finally, political risk is as real for donor governments as it is for investors. Donors can stake out and become trapped by strong commitments in individual countries and regions where sharp political conflicts, including hard (military) conflicts, are likely to arise. Often the theory is that donor assistance and improvements in socioeconomic welfare should reduce the chance of conflict but this is not always true. Donor assistance programs can themselves become contentious, threatening FDI strategies and commercial interests.

**Conclusions and Path Forward**

In many, if not all, of the situations, countries and regions discussed above, investing companies were very much a part of the foreign assistance effort. Likewise, the foreign assistance efforts were geared toward and often essential to the ability for companies to invest and thus helped to anchor FDI flows. How could companies proceed in the Former Soviet Union without massive intervention from the U.S., Canadian, and European governments? Japan was an important partner in the post-war Iraq coalition government and Japanese heavy industry critical to reconstruction. The Nigerian oil and gas operators were critical to and beneficiaries of U.S. backing for the WAGP. It is safe to conclude, if not easily demonstrated in hard data, that foreign assistance and FDI go hand in hand, and it will forever be thus. The problem is how to extend the model to the poorest countries least well positioned for FDI. It is a fair criticism of the FDI-foreign aid arrangement today that it reflects and is motivated by strategic interests. But donor agencies like USAID spend in countries where no, or little, U.S. business, commercial and perhaps strategic interests exist. To enlarge that spending, and to attract other donors and other forms of support and ultimately investment, brings us back to the conundrum of economic development and poverty reduction and the things countries are expected to do to accommodate investment flows.

As stated at the outset, home countries have a variety of ways for supporting outbound investors. These are, of course, subject to and informed by laws and regulations like FCPA and anti-bribery that companies must conform with. Around those restrictions, investing companies can engage in a number of initiatives alongside, often in concert with, development assistance efforts and the aid agencies and institutions sponsoring those efforts.

- They can serve as sources of expertise for local programs, ranging from capacity building training to information/education sessions with government officials and business and community leaders (carefully done, of course).
• They can second employees of SOE partners for which typical contractual arrangements exist.
• They can, and usually do, provide funding to local NGOs for various outreach programs including capacity building and public information/education campaigns.

Many aid agencies welcome the combination of corporate funding with public dollars for program execution. Examples tend to be in more general areas of need, such as disaster recovery, public health and so on. However, from time to time efforts can entail direct interests of the foreign investors through mechanisms that combine aid agency and private sector funds and other resources.\textsuperscript{33}

Companies also, of course, will undertake their own direct assistance. As noted, most typically this is to address workforce needs, including basic education and public health priorities. It is now routine for companies to disclose, in corporate sustainability and social impact reporting, contributions they make in countries where they do business. Usually this entails descriptions of programs and associated metrics that companies devise themselves. Sometimes funding levels are provided but companies face slippery slopes in revealing what they spend in various locations.\textsuperscript{34} In many respects, cooperation with aid agencies can help companies avoid the slippery slope problem.

Taken all together, CSR – corporate social responsibility, analysis and reporting, to include internal management requirements – and the related topic of ESG investing – how shareholders look at environmental, social and governance issues within a company’s purview – are enormous topics with still minimal agreement on terminology, criteria, common metrics, value-added to business and so on.\textsuperscript{35} Pressures from the CSR and ESG front also are generally not supportive of extractive industries and the core energy and non-fuel minerals commodities. This creates an additional challenge for extractive and other natural resource industries and businesses of how best to adapt CSR reporting for their particular FDI needs and challenges. Indeed, when it comes to an important bottom line – does general CSR reporting improve FDI? – it is not clear that it does. Governments may be picky about who shows up to do business, but basic data on a company’s operations can address those requirements. Most governments have requirements for demonstration of financial heft before certifying companies for bid rounds or other competitive access. Outstanding examples of CSR reporting linked to specific undertakings exist and are well-documented. A 100,000 biodiversity plan in a location replete with indigenous communities, hundreds of spoken languages, a complex land entitlement for resource rent sharing is not a simple thing. Donor governments, multi-lateral institutions and NGOs all must be managed. Competing producers have proprietary interests. It could be expected that a company engaged in such an undertaking with lender requirements for reporting ought to be well-positioned for the next FDI opportunity, but there is no guarantee.\textsuperscript{36}
Lastly, given the weight of public opinion on extractive industries governance, can stronger alliances among countries and with industry have impact? A new approach is being tested by the U.S. Department of State’s Bureau of Energy Resources to build cooperation for governance. DOS is inking Energy Resource Governance Initiative agreements with partner countries – thus far Canada and Australia – to combine in sharing best practices and technical assistance abroad in countries that are FDI targets for energy and non-fuel minerals. Greenland has emerged as a first test case. Given the reputational risk factors alluded to previously, to a large extent these kinds of efforts are geared toward protecting existing FDI flows and attempts to assuage markets, investors and companies that FDI can flow to countries of interest. Time will tell whether these approaches can help but the trend of closer government-government and business-government seems compelling.
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Olson, Bradley, 2019, Hess Has Been 2019’s Top Oil and Gas Stock, It Has Nothing to Do With Shale, Wall Street Journal, August 20. Subscription required.

Endnotes

1 This section based on trip reports, meeting notes and formal reports for USAID prepared by the author and colleagues then at The University of Texas at Austin (UTA) and engaged in a multi-year cooperative agreement in West Africa.

2 UTA researchers participated in the meeting to share results from the needs assessment of Ghana’s oil and gas sector funded by USAID through the UTA cooperative agreement.

3 A USAID officer wrote in a January 2010 communication, “Of particular interest to me is how do we get true Government of Ghana (GOG) ownership and leadership in the oil & gas sector? It was apparent from the meeting that the GOG does not really understand and/or have the capacity to take this leadership role in providing the DP’s [development partners] coordinated and thoughtful direction and priority making. Right now the Ministry of Energy is so decentralized and fractured that there is no one locus for coordination leadership. As a consequence all of the donor efforts are being poorly and widely dispersed with the end result being a great likelihood that the GOG is heading down the path of Nigeria in terms of successfully developing the sector.” (Identity withheld for privacy.)

4 After this paper was written, Foreign Policy published an extensive scrutiny of the Awaso bauxite mine, one of the main assets in the Chinese portfolio, and Chinese infrastructure investments including the Bui and Weija dams (Gbadamosi, 2020).

5 Associated with the Ashanti or Asanti ethnic kingdom and empire centered in Kumasi.

6 These are all well-presented in the movie documentary Big Men, https://bigmenthemovie.com/. The filmmaker, Rachel Boynton, received assistance from UTA team members on background.

7 See https://www.rigzone.com/news/oil_gas/a/87257/ghana_stops_kosmos_4b_jubilee_sale_to_exxonmobil/. In the various attempts to reach out to GOG, a great deal of discussion took place among the Embassy (through Ambassador Donald Teitelbaum), USAID, UTA and ExxonMobil personnel regarding development assistance and models for GOG engagement with ExxonMobil, including the company’s experience in building its profile in Qatar.

8 Reference to the geological and geographical links between West Africa, the Caribbean and South America.

9 Initial work undertaken in West Africa by the UTA included task orders to help improve understanding among the member countries of policy, regulatory, safety and commercial requirements to improve internal natural gas markets in the WAGP region.

10 The author helped with the search for available LNG options, including an approximately $75 million concept for floating regasification delivery along with jetty improvements and pipeline connections by Excelerate (in concert with Kathleen Eisbrenner, then CEO and now deceased). The LNG market was tight and no supply was originated.

Does Foreign Aid Help or Hurt FDI? That is the Question.


12 See the U.S. Energy Information Administration’s (USEIA’s) comments on this project along with other uncertainties. https://www.eia.gov/beta/international/analysis.php?iso=GHA Ghana has long had interesting relationships with the Former Soviet Union, and now Russia. Many Ghanaian government officials and other public sector experts were educated and trained at Soviet/Russian institutes and many were fluent in Russian.

13 Ghanaians were fascinated by the apparent success of Singapore even while acknowledging the extreme differences between the two locations. Many other government planners in various countries, especially smaller ones, demonstrate similar inclinations with Singapore being commonly looked to as a model.

14 An industry representative commented in October 2019: “Bill Easterly at NYU always made the argument that foreign aid acted in a similar way to resource rents and could cause [its] own version of a resource curse – FDI at least puts assets into the country.” (Identity withheld for privacy.)


16 See comment that “in many ways, the Canadian and EU requirements are more stringent (and also cover private companies)”, in http://www.pwypusa.org/wp-content/uploads/2017/02/3CRA-Mythbusters-Cardin-Lugar-Provision-2017.pdf.

17 Johnson (2019) provides good and explicit indications of reputational risk associated with certain countries. Communications with a major energy and mining concern indicated the extent to which some countries are off limits because of corporate governance hurdles (private communication, November 2019).


19 Abramowitz and Sack (2017) provide a nice synopsis of how U.S. private companies are affected by FCPA and Department of Justice and SEC enforcement along with examples of cases.

20 The case of early 1990s agreements by then Texaco with the Famfa Limited group in Nigeria, an indigenous company, and seizure of interests by the Nigerian sovereign government now is well known. In Kazakhstan, U.S. and European donors viewed the creation of then Kazakh Oil as central to uniting the hordes in order to form the republic after the collapse of the Soviet Union. The role of Kazakh Oil in foundation of the republic is akin to the deals struck to provide contracts for Mexico’s leading “haciendas” with newly created Petroleos Mexicanos during the initial oil nationalization by Lazaro Cardenas in 1938. All information derived from research associated with various USAID direct and pass-through funded and World Bank sponsored projects led by the author.

21 Energy merchants are unregulated affiliates mainly of pipelines and gas and electric utilities. Enron is a notable example, and along with several others invested aggressively in international gas and power projects using an array of devices for risk management.

22 “Happiness Is Multiple Pipelines” was a prevalent motto, including on bumper stickers, adopted by USAID and other U.S. government donor and commercial assistance as well as by the EC. But which pipelines, what direction and with what complications among transit countries took up considerable bandwidth as U.S. and European assistance escalated to keep pace with the rapidly changing situation on
the ground in the Central Asia Republics (CAR) following collapse of the Soviet Union. Information based on CAR research for USAID funded projects led by the author in CAR and Ukraine.

23 See https://results.usaid.gov/results.

24 Roughly at mid-point in implementing the WAGP CA, the death of a key petroleum geoscientist who was a senior manager at Ghana’s Ministry of Energy resulted in lack of accomplishment for years on specific goals and objectives for all USAID and U.S. government efforts.

25 This was clearly the case for NORAD OfD. Seldom was Norwegian donor assistance witnessed without Norwegian commercial interests also engaged or present in countries of interest. This observation spans West Africa, Bangladesh, Mexico and elsewhere.

26 This was particularly true in CAR, where few U.S. and European government personnel fully comprehended the complexities of Central Asian cultures, and in Bangladesh, long a recipient of foreign assistance.

27 Based on technical assistance in CAR, West Africa, Mexico and Brazil; a T&T case study as part of capacity building; and available information on local content initiatives at the time.

28 Customs and immigration are a common problem for outbound investors and FDI in general. Host countries can use customs and immigration to extort, in effect, by preventing or limiting shipments of goods and entry/exit of personnel. They can also be used to restrict international labor and procurement so as to force local purchases and hiring. Indonesia has been a prime example.

29 This was observed in Bangladesh, India, Mexico and in other countries as noted in the source information for Table 2. In addition, the author led two rounds of funding from the World Bank for NOC research support, which was revealing for many of these dilemmas. Indeed, too many energy sector reform efforts are undertaken with insufficient strategies for how best to reorganize and reposition SOEs that otherwise can easily derail reform efforts. In many cases SOEs must continue to exist; the difficulty then becomes how to ensure financial viability for the time they must perform needed services and while sectoral reform takes hold and deepens.

30 Argentina, Brazil, the ECOWAS region, India and parts of the FSU all present excellent case studies.

31 Based on local partner programs in West Africa, South Asia and Mexico.

32 On the whole, China has been in the thick of a learning curve on this front. Even Chinese interests can be threatened by host governments seeking larger economic rents or other advantages that they see as commensurate with Chinese access to their resources and markets. More recently, critiques of the “Belt and Road” strategy and the strong linkage to particular outcomes sought by the Chinese government are exerting considerable pressure on Chinese government interests abroad.

33 An effort was made to combine USAID and corporate funding to accelerate capacity building in Ghana through a USAID Global Development Alliance vehicle. Information on GDAs is at https://www.usaid.gov/. It is common for other donor countries to implement similar vehicles.

34 See Mangaleswaran and Venkataraman, 2013 for interesting treatment of the problem of setting corporate philanthropic spending levels in India.

The situation in question is PNG LNG. The author was able to observe data from the effort while in-country. The case study by Nelson and Valikai (2014) is thorough and fair. Even the best arrangements have bumps - the PNG government resisted distribution of accumulated rents to highland indigenous communities in accordance with the benefit sharing agreement (Siegel, 2014) and politics threatened to disrupt LNG contracting (May, 2020), ultimately executed in April, 2019, https://www.lngworldnews.com/papua-lng-gas-agreement-signed/. The project proponent, ExxonMobil, is pursuing a large scale effort in Guyana. Contractual bumps (Olson, 2019) and political shifts in Guyana have raised concerns about political and country risk. Guyana certainly will benefit from the PNG experience and lessons learned but how the PNG experience translates will be closely watched. In the least, “license to operate” would be preserved, the ultimate goal for most corporate CSR endeavors.