Natural resources, governance and institutional quality: The role of resource funds

Stella Tsani *

The Centre for Euro-Asian Studies, University of Reading, P.O. Box 218, Reading RG6 6AA, UK

ARTICLE INFO

Article history:
Received 22 June 2012
Received in revised form 13 November 2012
Accepted 15 November 2012
Available online 29 December 2012

JEL Classification:
Q32
Q38
O43

Keywords:
Natural resources
Resource funds
Governance
Institutions

ABSTRACT

This paper investigates the relationship between resource funds, governance and institutional quality in resource-rich countries. The study is motivated by the relatively recent and inconclusive debate on resource funds and on their role in the addressing of the "resource curse". The estimation results suggest that resource funds may be associated with governance and institutional quality improvements. The analysis complements the debate on the tools of addressing the "resource curse" and on the determinants of governance and institutional quality. The findings remain important for their policy implications. The estimation results suggest that resource funds may prove useful tools in the hands of the policy makers in the attempt to address governance and institutional quality deterioration induced by resource abundance.

© 2012 Elsevier Ltd. All rights reserved.

Introduction

Natural resource endowments can be regarded as a gift from nature which can contribute to the economic growth and development of the nations. In a paradox way, the evidence from the vast majority of resource-rich countries, especially those endowed with depletable natural resources (i.e. fuels, ores, minerals and metals), suggests that resource riches can be a "curse" rather than a "blessing". Unpredictable commodity prices with abrupt fluctuations, booms and busts in macroeconomic and fiscal balances that follow the swings in resource rents, inter- and intra-generational misallocation of resource revenues and increasing corruption, are just a few factors that have turned nature's "blessing" into a so-called "resource curse" for many resource endowed countries.

The literature to date offers a rich discussion on the causes and the solutions to the "resource curse". The set of the explanatory approaches includes structural, economic, institutional and political economy alternatives. Traditional explanations of the "resource curse" have been looking at the poor communication channels between the resource based sectors and the rest of the economy (Prebisch, 1950). Several empirical works have questioned the explanatory power of the latter emphasizing on the economic ramifications of natural resource endowments, like the declining terms of commodities trade, exchange rate pressures, price volatility, and income inequality.¹ The literature on the latter explanatory channels is extensive. Nevertheless the results remain rather inconclusive on the generalization of their applicability and on the net effects of natural resources upon growth.

In the new institutional economics institutions are regarded as a critical factor of economic growth and development (North, 1990). Following this view, the recent literature has shifted the research focus on the role of governance and institutions as determinants of economic growth and development in the presence of vast depletable resource riches (Karl, 1997; Acemoglu et al, 2001; Rodrik et al, 2004; Brunnschweiler, 2008). In a growing amount of the literature, the "curse" is regarded as the impact of resource endowments upon institutions and governance where resources induce distorted behaviours of rent-seeking, corruption and patronage. In this respect, the deteriorating governance and institutions in the presence of natural resources are considered to be the growth and development problem.²

Following the plethora of the explanations to the "resource curse", an equally rich discussion in the literature has been

¹ See among others: Corden (1984); Auty (1993) and Engerman and Sokoloff (1997).

developed regarding the solutions to the latter. These have been looking at the pricing and taxing mechanisms of the natural resources (Dasgupta and Heal, 1979; Dixit and Newbery, 1985; Karp and Newbery, 1991), at the optimal extraction of natural resources (Hotelling, 1931) and at the optimal intra- and inter-generational allocation of resource revenues (Takizawa et al., 2004). The literature to date has been looking extensively at these alternative suggestions, at their applicability and at their efficiency in addressing the “curse”. The main criticism regards their rather normative nature and their limited practical implementation (van der Ploeg, 2010).

A relatively recent approach has been proposing the employment of explicit tools of economic policy such as resource funds. Resource funds (hereafter RF) are directly or indirectly government owned and controlled special purpose funds. They are
دانلود مقاله

http://daneshyari.com/article/985704