

Senate Committee on Foreign Relations
Senator Richard G. Lugar
Opening Statement for Hearing on
Resource Curse or Blessing? Africa's Management of its Extractive Industries
September 24, 2008

I thank the Chairman for holding this hearing on a topic that is very timely. This summer, I commissioned the minority staff of the Foreign Relations Committee to assess the impact of the so-called "resource curse" and to evaluate the effectiveness of current U.S. and international efforts to remedy the problem. Staff examined more than 20 resource-rich developing countries, including five in Africa—Angola, Chad, Equatorial Guinea, Ghana, and Nigeria. The resulting report, "The Petroleum and Poverty Paradox," has gone to print and will be available in hard copy in the next few days. An electronic copy is available at: http://lugar.senate.gov/sfrc/pdf/DRAFT_petroleum_poverty_paradox.pdf.

Observers have long known that finding large deposits of oil and gas does not necessarily improve the quality of life for a developing country that is unprepared to handle a sudden windfall of resource wealth. It can often lead to corruption; setbacks in the progress toward democracy; enrichment of elites; political instability; and a failure to invest in education, agriculture, and industries that create jobs and produce exports. Countries as diverse as The Netherlands, which discovered oil and gas in the 1960s, and Nigeria, which has been a major oil exporter for a quarter of a century, have suffered this resource curse in one way or another. The problem has come into sharp focus lately because oil discoveries in developing countries and the soaring price of petroleum and other key commodities have produced sudden new riches for many poor countries.

But the impact of this curse is not limited to the resource-rich countries themselves. The United States and other developed countries are also affected. As I noted in the introduction to the forthcoming staff report, "It exacerbates global poverty, which can be a seedbed for terrorism, it dulls the effect of our foreign assistance, it empowers autocrats and dictators, and it can crimp world petroleum supplies by breeding instability. The ongoing rebel attacks on Nigeria's oil facilities, for instance, are a factor in today's record high crude prices."

Because the resource curse affects our economic, security, and humanitarian interests, it should assume a more prominent place in our foreign and development policy. On this score, my staff found that, while there have been some positive steps, progress has been uneven. Concentrated effort is necessary because once a country discovers oil, the U.S. and other international donors quickly lose leverage. In Africa, staff found that U.S. programs intended to help countries manage their oil money wisely could succeed only when there is sufficient political will to fight corruption and make other difficult choices. In these countries the international community should work to improve the institutional capacity to handle large capital flows and to address their pressing development needs. Staff concluded that U.S. policy in these African countries should work to build trust in long-term relationships, and that this requires a strengthened U.S. embassy presence.

The report also found that where national leaders are willing to face the problem, outside experts can help promote stronger anti-graft and transparency policies, which make it harder for government officials to hide corruption and easier for citizens to follow the money to make sure it isn't wasted. The Extractive Industries Transparency Initiative is one of several international efforts to fight the resource curse, and the report urges the administration to give the EITI more vigorous support. It also urges the oil, gas and mining companies, which often express support for transparency, to do more to encourage it in the countries where they operate.

I look forward to the insights of our witnesses.

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