**Testimony by**
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Mr. Chairman and members of the Committee, thank you for inviting me here today to testify on Africa's resources. Conflict resolution and the promotion of good governance are hallmarks of this administration's policy in Africa. Since 2000, seven major conflicts on the continent have ended.

U.S. policy in Africa has emphasized helping African countries build economies that generate prosperity and create a middle class that is the bedrock of democracy. The United States actively works to build partnerships with capable governments who can be allies in the fight against the 21st century transnational threats of crime, drugs, disease, and terrorism. To do this effectively, we have ramped up our cooperation and assistance. With the support of Congress, total U.S. aid to Africa reached an all time high of $5.7 billion in 2007 -- $4.5 billion in bilateral assistance and $ 1.2 billion in multilateral. But, we also recognize that for these partnerships to grow and be sustainable, we must help countries develop the capacity to use their own resources more wisely.

Managing the continent's resource wealth in a way that brings broad benefits to populations and reduces poverty is a key priority for Africa and the United States. Unfortunately, too many countries have failed to leverage their natural resource wealth into strong economies and strong states. The luck of having valuable commodities in the ground should provide countries with the opportunity to make lives and societies better, but the opposite often occurs. In too many countries, oil, gas, and mineral wealth have instead become associated with high poverty rates, weak state institutions, corruption, and war. Although the "resource curse" is not a uniquely African problem, Africa has many economies that rely on one or two extractive exports.

What explains this paradox? Economists point to "Dutch disease," whereby higher prices for a dominant export commodity crowd out the development of other industries, typically through appreciation of the exchange rate. We see this in Nigeria where high oil prices drive up the value of the naira, harm the competitiveness of Nigerian industry and agriculture, and turn the focus of politics to controlling oil wealth.

A second concern is the reinforcement of weak and unaccountable state institutions. When a government gains its income from the activities of a few oil or mining companies rather than taxing its population, there are few incentives to be responsive to the people's needs or wishes. In Nigeria, more than three-quarters of government revenue comes from the oil and gas sector, so there is little incentive—especially in a time of high energy prices— to build a broader tax base or to deliver public services.

The most devastating effect is the vulnerability to conflict. It is no coincidence that some of the most vicious civil and regional wars have been sustained by competition over diamonds and minerals.

How to break the downward resource-governance cycle, and create a virtuous one? When possible, get in front of the problem. A recent oil find offshore Ghana is still some years away from production. Before the money flows, the government of Ghana is actively seeking mechanisms to manage future oil wealth and to ensure revenues are used in a transparent and productive way that bolters its democracy. We are collaborating with the government, oil companies, civil society, and international organizations as they develop the best model to achieve these goals.

In countries where the resource curse has already set in, we must encourage transparency and find other ways to create accountability.

The Extractive Industries Transparency Initiative (EITI) is one important part of this effort. EITI establishes accounting and reporting norms for revenues from natural resources. EITI now has 23 candidate countries, 16 of which are in sub-Saharan Africa. The United States supports EITI as part of larger efforts to enhance transparency and accountability, and has committed $3 million for FY08 to a multi-donor EITI trust fund. We have also supported through USAID specific EITI implementation projects in Nigeria and the Democratic Republic of the Congo. But it is worth keeping in mind that EITI focuses on only one link of the chain that can turn oil and gold into roads and schools.

The Kimberley Process monitors and controls the rough diamond trade to prevent the use of so-called blood diamonds to finance wars and to enrich warlords. This initiative now encompasses 73 countries, has tracked $38 billion in the diamond trade, and covers virtually the entire international market.

Special arrangements have been implemented in extreme cases to put extra international oversight on key sectors to try to prevent revenues from leaking or being misused. In Liberia, the Governance and Economic Management Assistance Program (GEMAP) provides intensive external oversight on key ministries, allowing the trade in diamonds and timber to resume. So far this has been highly successful in building confidence and improving fiscal management. In Chad, on the other hand, an effort to sequester oil revenues offshore appears to be failing. The different outcomes in these cases highlight that the donor-supported activities to strengthen extractive industries revenue management are likely only to succeed where there is strong country ownership.

While these efforts are helpful, much of what is necessary to beat the resource curse are not necessarily new high-profile initiatives, but rather the solid footings of sound economic management. Publishing detailed budgets, independent auditing, expenditure tracking, and other practices that are the norm in the United States are still not prevalent in many countries. Technical assistance from USAID and the U.S. Treasury in these practices has been helpful in Nigeria, Guinea, Liberia, and Zambia. In other countries, the U.S. works with the World Bank and other partners to promote budget management.

In spite of some progress thus far, we face continued challenges. There are severe limits to the influence of the international community when powerful, corrupt, or greedy local politicians thrive by defending opacity instead of transparency. The emergence of new investors and donors who are less concerned about transparency and accountability can undermine voluntary schemes like EITI. High commodity prices similarly can often reduce government incentives for reform.

One approach is to support reform from within by aiding those who are confronting entrenched interests. A more challenging avenue is to convince governments that the gains of transparency are greater, in a political sense, than the threat to rent-seeking. One key to this effort is to generate public awareness and demand for transparency, which is one reason the EITI is a valuable effort.

Stronger anti-corruption efforts are also vital. Developing countries must take sustained efforts to investigate, prosecute, and punish corrupt officials and those who corrupt them. Our G8 partners and other developed and emerging countries need to do more to go after businesses and individuals from their countries who bribe public and political party officials. The United States is aggressively enforcing our laws against foreign bribery; others must do so, too. Commitments to deny safe havens to corrupt officials and their assets need to be implemented.

Ultimately, there must be greater accountability by both developed countries and partner governments to follow through on commitments undertaken in this area. This year, at U.S. urging, the G8 prepared for the first time an accountability report on actions taken by each G8 country to implement anticorruption commitments. At their summit in July, G8 leaders pledged to update this report annually. This effort complements peer review work done in the Organization for Economic Cooperation and Development and emerging efforts under the United Nations Convention Against Corruption.

Let me end on a positive note about how current global trends can be helpful in beating the resource curse. More and more African countries genuinely want to attract private investment outside of the extractive sectors. And fortunately, there is now greater investor appetite for Africa. As governments shift strategy from squeezing mining and oil to trying to attract new companies in new sectors, they recognize that they need to make the business environment more attractive. This means better and more open economic policies and compliance with international business norms. This shift also has political and governance benefits. By building an independent business class, countries broaden the tax base and create a constituency for more reform.

The line between the future winners and losers in Africa will be drawn between the governments that recognize and seize upon this shift and those that cling stubbornly to the past. The policy of the United States is to help more countries make the right choice.