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The Royal Bafokeng Nation, a Case Study for the Resource Curse

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COMPULSORY DECLARATION

This work has not been previously submitted in whole, or in part, for the award of any degree. It is my own work. Each significant contribution to, and quotation in, this dissertation from the work, or works, of other people has been attributed, and has been cited and referenced.

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Abstract

Resource curse literature examines the causes and consequences of natural resources on economies. Within the literature, politico-economic theories provide insight into the relationship between institutional strength, the incentives facing the political elite due to the natural resource and the potential outcome for natural resource abundant economies. This paper argues that the Bafokeng Nation of South Africa provide an unusual case study for the resource curse. The Bafokeng's institutional strength is examined and the incentives facing the elite are analysed using Dunning's model. Dunning proposes three explanatory variables to explain the incentives facing the political elite (a) Volatility of Resource Revenues, (b) Societal Opposition to State Elites and (c) Prior Development of Non-resource Sectors. The Bafokeng are examined in light of Botswana to provide a comparative analysis. The analysis is supported by a Household survey of the Bafokeng, interviews with Bafokeng members as well as literature on both the Bafokeng and Botswana. The paper concludes that the institutional strength of the Bafokeng stems from their Tswana origins (similar to that of Botswana) and the current use of traditional governance structures, as well as the external constraints provided by the South African political system. Using Dunning's model this paper predicts that there would be diversification of the economy, political stability and mixed economic and fiscal stability. This however is strengthened by the unusual position of the Bafokeng as constrained by external factors as well as the internal strength provided by the traditional governance structures.

1. Introduction

The term “resource curse” stems from the literature that develops the evidence over the last 50 years that many resource-rich countries were doing worse than their contemporaries. It reflects the idea that if a country had resources, by which is meant, usually, natural resources, it means the country could expect to experience lowered growth, poor development, corruption and even war. The literature has since evolved from economic theories at macro and micro levels, to theories of the political economy and the relationship and interaction between resources and institutions.

The politico-economic theories look to weak and strong institutions to explain the diverging results in resource-rich countries as well the effect of resources on incentives driving the conduct of the ruling elite. In this case, the presence of resources raises the stakes of the game, causing politicians to become embroiled in patronage and pork barrel spending. Those managing these resources also have to take cognisance of the exhaustible nature of non-renewable resource and the implications for saving, spending and future generations.

The Bafokeng are a traditional tribe within the borders of South Africa. They have access to the large mineral wealth on, or rather under, their land in the form of platinum and are a mirco example of a country with non-renewable resources.

By placing the Bafokeng within the context of the resource curse literature, one is able to assess the long term prospects of the nation, and seek insight as to whether they will or will not escape the resource curse. The literature indicates that institutional strength is the most important factor when examining susceptibility to the resource curse. Thus the institutional strength of the Bafokeng is examined in great detail in order to ascertain whether they will be successful in the future. Secondly they are placed within Dunning’s 2005 model of incentives (caused by the resource) facing the political elite for diversification. His model is an intuitive account of how the incentives facing elites determine the country’s political stability, economic and fiscal stability and intensity of diversification and spending on public goods. Thus Dunning’s model provides further analysis of the future of the Bafokeng.

Rather interestingly, the most comparable nation with the Bafokeng are the Batswana, the people of Botswana, one of Africa’s success stories. This provides a context for the discussion as well as shedding light on the unique situation of the Bafokeng in terms of the political structure and traditional leadership. Thus questions of institutional strength and incentives facing the elite (Dunning’s model) are analysed by comparing Botswana and the Bafokeng. The common Tswana history of these two groups plays an important role in determining the strength of institutions and the subsequent incentives facing elite. It is this

commonality that drives the unique governance structures seen in the Bafokeng and in Botswana. Furthermore the Bafokeng are unusual in that they are governed not only internally by traditional structures but also externally by South African governance structures. These external and internal constraints also play a role in determining the future success of the Bafokeng, and as such are analysed.

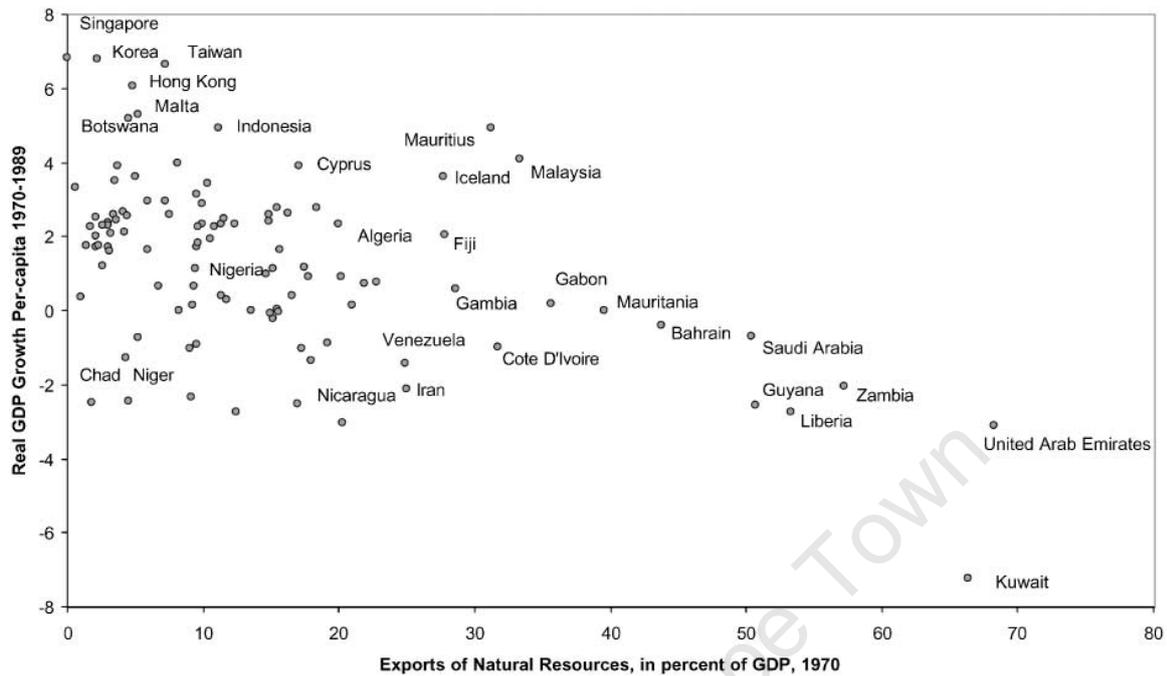
Thus the Bafokeng are examined in light of the literature of the resource curse and provide not only insight not only into their own future success or failure but also an unusual and singular case study for examining the theory.

2. The resource curse

Logic suggests that an endowment of a resource would benefit a country. The paradox is that in many cases it hasn't. This is a conceptual puzzle. Many would assume that the potential source of income from the natural resource could presumably be used for investment, such as infrastructure, education, health and modernisation (Papyrakis & Gerlagh, 2004). The impact of natural resources can be both positive and negative. It can finance physical and social investment and improve the welfare of the public. On the other hand, volatile consumption may be promoted, crises created or "kelptocratic governments underpinned" (Eifert, Gelb, & Borje Tallroth, 2003). The term resource curse was coined for the empirical evidence that showed slowed growth for countries endowed with natural resources. Studies have shown that in a surprising number of instances, resource-rich countries as opposed to their resource-poor counterparts have experienced less growth and development (Ross, 1999). Literature on this topic emerged in the 1980's and suggested that the likelihood of a country experiencing negative economic, political and social outcomes, low democracy and civil war, increased if the country had an abundance of natural resources (Rosser, 2006).

Sachs and Warner's (1995) seminal paper illustrated the resource curse using cross country growth regression analysis, and showed that resource abundant countries grew, on average, one percent slower than other countries in the sample. Other authors (Leite & Weidmann, 1999) and (Glyfason, Herbertsson, & Zoega, 1999) have produced similar negative correlations between natural resource abundance and growth. Figure 1 depicts the famous Sach's and Warner correlation, which illustrated the significant negative correlation between GDP growth and resource abundance.

Figure 1: Growth and Natural Resource Abundance 1970-1989



(Source: Sachs and Warner 2001)

Although the “resource curse” is widely accepted in the literature, the explanations for it vary and conjectures abound which posit reasons for the curse (Rosser, 2006). Two bodies of work attempt to solve this problem and account for this curse; economic explanations and political explanations (Ross, 1999).

Early work on natural resource endowments focused on the “Dutch Disease” hypothesis; a boom results in an appreciation of the exchange rate and a contraction of the tradable manufacturing sector (Damania & Bulte, 2003). The idea is that the sudden boom results in a crowding out of investment into other sectors of the economy. These versions of the Dutch Disease are the economic explanations for the resource curse (Boshini, Petterson, & Roine, 2007). The economy focuses on the sudden endowment or boom and factors of production and resources move toward the non-tradables sector from the tradables sector. Hausmann and Rigabon (2002) focus on the interaction of financial market imperfections caused by volatility and the interaction with overspecialisation in non-tradables. Other types of crowding out are decreased public and private investments into education or human capital (Glyfason, 2001), and discouraged entrepreneurship (Sachs & Warner, 2001).

The problem with these theories is that they predict that the effect of natural resources on growth will be “unambiguously negative”, (Boshini, Petterson, & Roine, 2007). The economic explanations fail to show why some countries, Norway, South Africa and Botswana for example, have avoided the resource curse.

“Rent seeking theory” is similar to the Dutch Disease idea of crowding out. This is known as the second wave of theories of the resource curse. Rather than crowding out of investment into other sectors of the economy, they focus on the actors within the economy. Economic and political actors become focused on the resource and extracting those rents instead of production. This form of rent seeking is referred to as “traditional”. Tornell and Lane (1999) and Torvik (2002) postulate that greedy coalitions form in order to try to extract rents and transfers from society, the “voracity effect”. By focusing on capturing rent, agents become less productive, or less entrepreneurial as they move into roles like that of bureaucrats or lobbyists. The result is lowered growth and income for the entire economy.

As with the Dutch Disease theories, rent seeking theories are criticised for their inability to account for both the winners and losers in resource abundant circumstances. Their theory says that all productive agents become fixated on the resource rents, and as a whole the country becomes less productive. It implies that the result can only be negative. However we know that this is not the case, countries such as the United States of America and Australia founded large parts of their growth on natural resources.

More importantly government action could prevent the resource curse if the explanations of Dutch Disease and rent seeking are correct (Ross, 1999). Governments play a large role in most developing countries and have the tools to prevent the resource curse. Stabilisation funds to prop up the economy during resource price troughs, diversification and investment in upstream and downstream and sound fiscal policy are all tools at the disposal of government which would (as those countries which avoid the curse show) prevent failure. Thus the question becomes, not what the economic channels of transmission of the curse are, but instead why is it that governments fail to take the corrective action. These theories are classified as the political reasons for the resource curse.

It can either be the case that political traditions existing before the windfall shape the use of the mineral incomes, or that the income shapes the political economy of these nations after the fact of the windfall (Eifert, Gelb, & Borje Tallroth, 2003).

Political theories attempt to explain the failure of governments to negate the resource curse. Ross (1999) splits the political economic literature on the resource curse into three parts, namely cognitive, societal and statist. Cognitive explanations are Machiavellian in nature and

suggest that power corrupts and causes short-sightedness in political leaders. Societal explanations say the windfall enhances political power of non-state actors who favour policies which slow growth. Both these theories lack external validity as they cannot be used to provide generalised theories of the curse. Finally state centred explanations suggest that the governments focus on extracting rents and no longer have to get revenue from those they govern, reducing accountability and the “soundness of their economic policies” (Ross, 1999).

Ross’s statist theory falls into the category which can be defined as: misaligned incentives caused by a resource windfall. Kolstad, Wiig and Williams (2009) find that misaligned incentives, either political or economic cause inefficiency and often corruption in the country.

This form of rent seeking flows from the skewed alignment of political incentives, resulting in, for example, patronage, corruption and other conduct regarded as undesirable (Kolstad, Wiig, & Williams, 2009). In traditional rent seeking, referred to above, economic agents became concerned with capturing rents instead of productive activities leading to lowered income for the country as a whole. In contrast the form of rent seeking discussed in this political setting, and involving the skewing of incentives, concerns the political elite focusing on extracting resource rents instead of concentrating on effective fiscal and economic policy necessary for increased growth and development of the country. Most of the literature is descriptive on this matter, with the notable exceptions of Robinson, Torvick and Verdier (2006) and Damania and Bulte (2003), where the process is formally modelled.

Venezuela is one such state, where the politics have been dictated by oil revenues for decades (Eifert, Gelb, & Borje Tallroth, 2003). In these situations loyalty is contingent on government spending their oil income. There is now more budget to spend on securing political position as a consequence of the abundant oil revenues. Resource endowments mean that the economic value of power increases, and so those in power are incentivised to implement policies which prolong their position. The result is typically increased spending in public sector employment and so-called “pork barrel” projects, i.e. projects that are not perhaps strictly necessary but result in an inflow of money and jobs to a favoured region or group. Thus resource allocation is inefficient and growth is undermined.

However, sound institutions could negate this rent seeking unproductive behaviour (Damania & Bulte, 2003). If there is accountability and institutions are capable of reducing such skewed incentives, then arguably the resource curse would not occur.

Auty (1997) and Isham, Pritchett, Woolcock and Busby (2005) look to typology of resources to explain the different outcomes. “Point source” are resources like minerals and “diffuse”

natural resources are resources like wheat, rice and livestock. They argue that point source resources are more easily captured by the elite, simultaneously exacerbate social tensions and weaken institutional capacity. However, this again doesn't explain why some countries with similar point resources succeed and others don't. As with rent-seeking theories, strong institutions would prevent particular resources from being spent inefficiently and causing the resource curse.

Most theorists agree that institutions matter (Acemoglu, Johnson, & Robinson, 2005). Table 1 is a compilation of the successes and failures in terms of the resource curse recorded in the literature. Next to each country a measure of institutional strength has been included from Mehlum, Moene and Torvik (2006). This splitting of resource-rich countries according to success and failure and their apparently matching institutional strength score has been provided much of the empirical evidence for the importance of institutions in resource curse analysis. This correlation, is just that, a correlation, and while it is does not necessarily indicate causal relationships, it does suggest some kind of relationship which subsequent literature vindicates.

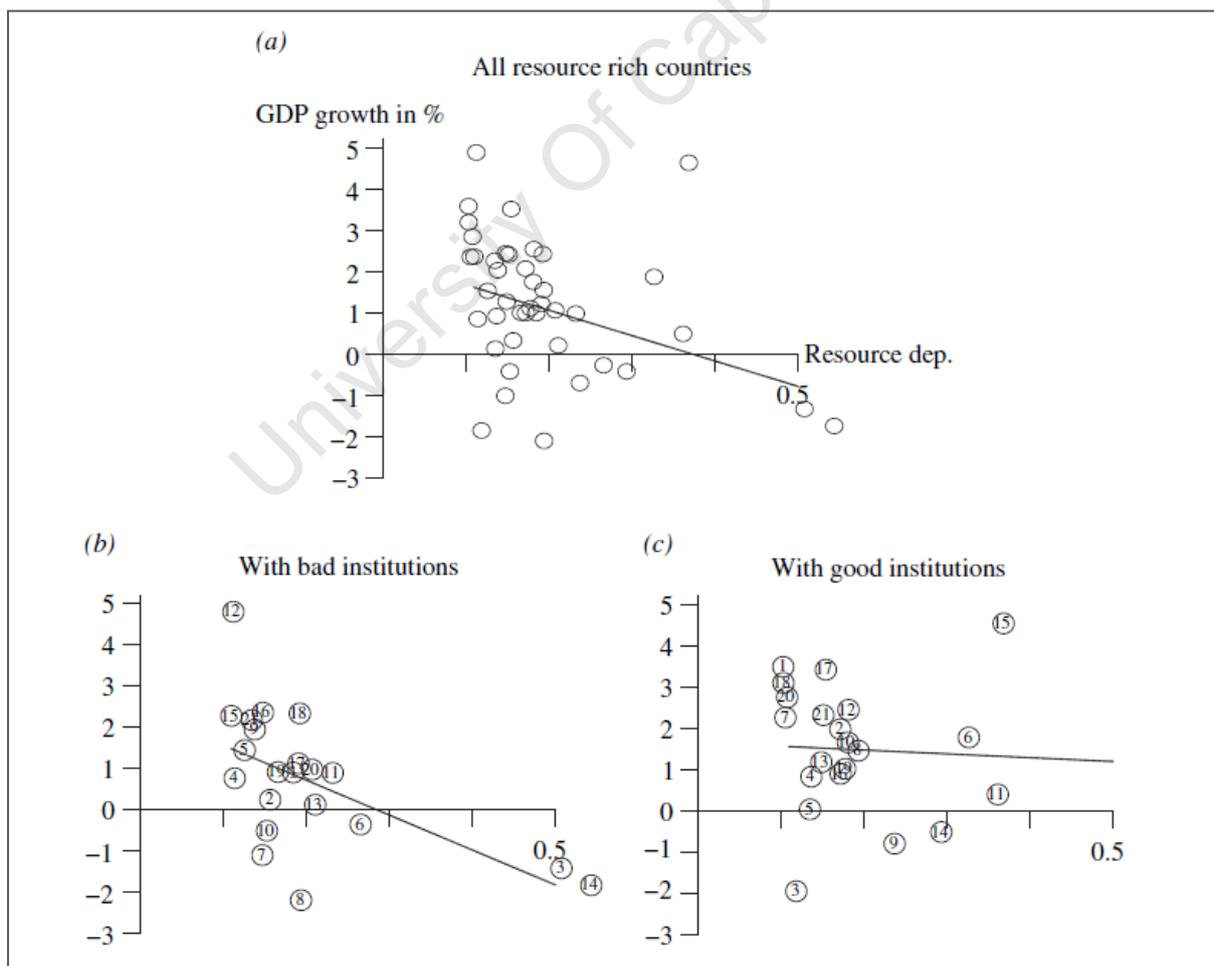
Table 1: Division of the resource-rich countries according to winners and losers.

Resource curse escapees		Countries suffering from the resource curse	
Australia	0.96	Algeria	0.44
Botswana	0.7	Congo	0.37
Canada	0.97	Ecuador	0.54
Chile	0.63	Mexico	0.54
Ireland	0.83	Nigeria	0.31
Malaysia	0.69	Saudi Arabia*	
New Zealand	0.97	Sierra Leone	0.54
Norway	0.96	Trinidad and Tobago	0.61
Oman*		Venezuela	0.56
South Africa	0.69	Zambia	0.41
Thailand	0.63		
USA	0.98		

**The above measures do not provide values for Oman and Saudi Arabia. However Oman is known to have very high measures of institutional strength and Saudi Arabia does not on other measures.*

High quality institutions often mean efficient distribution and low quality institutions mean inefficient distribution and slowed growth (Robinson, Torvick, & Verdier, 2006). Work by Damania and Bulte (2003) demonstrated that the outcome is conditional on the regime type, and that democratic rather than autocratic regimes are better for growth in resource abundant countries. Auty and Gelb (2001) divided states into either benevolent or predatory. Benevolent states invest in infrastructure and human capital where as a predatory state engages in rent seeking behaviour. Mehlum, Moene and Torvik (2006) argue that different institutions, lead to different incentives for the elite. Countries where harmful rent seeking and patronage occur are called “grabber friendly”, and those which encourage production are called “producer friendly”. Figure 2 uses data from 1965 to 1990 and plots growth against resource abundance. In (b) and (c) the sample is split according to quality of institutions, strong and weak. This is the basic result they use to demonstrate that the curse is a matter of institutions.

Figure 2: Resources and Institutions (a) All resource-rich Countries (b) with bad institutions (c) with strong institutions



(Source: Mehlum, Moene, & Torvik 2002)

If a state has strong institutions, then the resource endowment would lead to growth and not the curse. In these cases the weak or strong institution is viewed as orthogonal to the natural resource. In other words, if the country has strong institutions, the above explanations of the resource curse do not hold.

However it could be the resource that determines the quality of the institution (Murshed, 2004). The malfunctioning of institutions occurs because those in power are no longer accountable for their behaviour. In most states governments collect revenue through taxes. If the natural resource allows them to collect revenue elsewhere, they no longer have to please their voters (Isham, Pritchett, Woolcock, & Busby, 2005). In other cases they may increase public spending and lower taxes which decrease any pressures for democracy. In more predatory states it also allows them to mollify opposition (buy them off) or even repress the opposition. Thus the natural resource leads to worsened institutional quality and corruption (Papyrakis & Gerlagh, 2004).

Thus the institutions themselves may be determined by the resource endowment. By this is meant that institutional strength is endogenous and not orthogonal to the resource endowment (Isham, Pritchett, Woolcock, & Busby, 2005) (Sala-i-Martin & Subramanian, 2003). Leaders in resource abundant states fail to build viable institutions. An extension of this research suggests that rather than natural resources causing weak institutions, it is instead the ownership structures over the resources that cause weak or strong institutions and governance systems. If the state owns the resource rather than having privately owned resources, then the resource curse is more likely to arise (Luong & Weinthal, 2006).

The literature points to institutions as the most important element in analysis of the resource curse. However the evolution of the literature appears to make the question of a resource curse redundant. Neither Dutch Disease, nor rent seeking explain the curse and so authors moved from economic explanations to that of political-economic explanations. However these political-economic explanations of perverted incentives of the political elite again seem to rest on the idea of weak or strong institutions, as strong institutions should be able to prevent the perversion of rents.

Institutional strength seems to be a fairly obvious solution. If the systems to run the country are effective and hard to corrupt then surely any income injection would be of benefit for the country. It suggests that countries with weak institutions, could receive an income injection of any type (natural resources or foreign aid) and they would fail to use it effectively. So is there

a resource curse at all? Instead is there not just countries with institutions would never allow for growth and countries with institutions which do encourage growth.

However these countries experience the resource windfall, there is no external factor deciding whether or not they receive the income, as in the case of foreign aid. In many of the interesting cases, as in Least Developed Countries, African countries and in this paper the Bafokeng, the endowment has the potential to be a blessing of a far larger scale relatively speaking than for developed countries. Whether the evidence is definitive or not on a resource curse, the observation that some poor countries have used the resource to their advantage whilst others have not, implies that there are questions to be answered about the resources and their relationship to growth. Some might argue that non-renewable resource injections into a country are just that, an income injection and so the resource curse becomes the inability to manage wealth injections of any kind. However there is the dimension of non-renewability of resources which requires analysis in terms of spending and savings decisions as well as intergenerational savings and spending. Thus there are two elements that governing bodies must examine, the effects of the curse on institutions as well as the long and short term planning horizons to be considered.

The argument about institutions and outcomes is not subtle enough to analyse the problem. There are interaction effects in play between resources, institutions and growth outcomes. Resources raise the stakes of the game. If resources suddenly increase so then do the rents available to actors. The rents raise the value of power and change the incentives of political players (Anderson & Aslaksen, 2008). Thus analysing the Bafokeng's reaction to the resource requires analysis of the institutions as well as analysis of the incentives of the elite.

3. Methodology and hypothesis

This paper argues that the historical and likely future success or failure of a country (as measured by GDP growth on a relative or absolute basis) where that country is endowed with natural resources can be assessed by examination of institutional strength and the incentives facing the political elite as a result of the resource curse.

As a relevant example, the circumstances of the Bafokeng will be examined in light of the resource curse literature, in particular institutional strength and incentives for the ruling elite with particular reference to Dunning's model. In order to provide comparative analysis the Bafokeng are compared to Botswana. Botswana is one of the countries in Africa said to have avoided the resource curse. Both are analysed in terms of their institutional strength, with

specific reference to their common Tswana history and traditional governance structures. Following this they are placed within Dunning's model to provide further analysis of the incentives facing elite. Finally the relationship between the internal governance structures of the Bafokeng and the South African external governance structures is examined.

It is evident that the resource curse can be avoided if there are strong institutions, since it can prevent those in power from engaging in rent seeking, corruption and inefficient policy. Although the natural resource allows those in power to pursue detrimental policies, the outcome is conditional on the strength of the institutions (Damania & Bulte, 2003).

In order to analyse whether a country endowed with natural resources will or will not escape the resource curse it is necessary to look at the current strength of governance and institutions, as well as the effect of the natural resource on the incentives for the elite i.e., a more nuanced understanding of the relationship between resource and governance (Dunning, 2005).

There are two main channels for analysing the potential outcome for a resource endowed state. Firstly, consider the preconditions. The theory suggests that resource typology, rent-seeking behaviour or versions of the Dutch Disease will not cause the resource curse if there are strong institutions. Thus one of the first conditions necessary for avoiding the resource curse are sound institutions. If a state has both sound institutions and an endowment of natural resources to spend efficiently for growth, then there should be a positive outcome for that state.

Secondly the potential effects of the resource must be analysed. Could the endowment lead to weakened institutions through policy decisions by those in power? More specifically what are the "incentives that resource wealth may pose to incumbent political elites?" (Dunning, 2005).

Dunning (2005) argues that certain factors lead to the elites' decision whether to diversify the economy or not: the volatility of resource revenues, the degree of societal opposition to incumbent elites and prior development of the non-resource private sector. He defines this as a conditional theory of the resource curse, namely that under different circumstances or conditions, there may be different outcomes. The elite must choose between diversifying the economy or not. Diversification of the economy improves fiscal stability and promotes better and stronger economic growth. However diversification may also allow opposition groups to grow in power and possibly lead to challenges on the elites' power. Thus the economic payoff in terms of growth may be matched by a cost in power to the elites

However certain conditions or circumstances affect the incentives of the elite to either diversify the economy or not. Dunning's three explanatory variables that influence the elite's decisions are:

2. Volatility of Resource Revenues
3. Societal Opposition to State Elites
4. Prior Development of Non-resource Sectors

Under conditions of high volatility, it appears that a diversification of investment is appropriate in order to protect the economy (and consequently the revenue stream accruing to political elites) from the affects of volatility. On the other hand, under conditions of low volatility there is less incentive for diversification in view of the relative stability of revenue streams.

Under conditions of strong political opposition there appears to be a reduced incentive for diversification in view of the tendency for political elites to protect the revenue stream accruing from the resource. An exception to this however occurs where diversification is desirable for its economic benefits but is limited to investments controlled by parties not strongly in political opposition. On the other hand, under conditions of weak political opposition there are incentives to diversify in view of the general economic benefit thereof which will strengthen the position of the ruling elites.

Under conditions of significant prior development there appears to be a stronger incentive to diversify because the potential returns and benefits are more accessible and achievable. On the other hand, where prior development has been weak there seems to be a tendency to focus only on the revenue streams flowing from the resource and therefore not to diversify.

This is an explicit account of the links between resource dependence and political stability. It accounts for the effects of global and national political economies on the incentives of those in power. Dunning proposes three intuitively derived equilibria (later dealt with mathematically) as a result of the state of the three variables, their interactions and the consequent outcomes.

There are two groups, the elite and the non elite and two periods in the game. In period one, the elite may decide to either invest in the public good or pocket the income derived from the natural resource. Investment into the public good is that the channels whereby an economy can grow and diversify are; investing in infrastructure and financial institutions and implementing sound economic and fiscal policy. In the second period the non-elites can either revolt or not. However the elite take into consideration the potential decision of non-

elites in period two and the non-elites take into consideration the potential decision of elites in period one. Table 2 illustrates the consequent outcomes and equilibria of the game:

Table 2: Dunning's Outcome Variables

Predicted Equilibrium Path	Political Stability	Fiscal and Economic Volatility	Diversified
Path 1: "No Revolt"	High	Low	Yes
Path 2: "No investment"	High	High	No
Path 3: "Investment"	Mixed	Low	Yes

The relationship between explanatory variables and the outcomes of paths 1 to 3 is interactive and iterative.

In path 1, "no revolt" elites invest in the first period and non elites don't revolt in the second. This is because the expected benefits of revolting never exceed the expected benefits of not revolting. Despite the investment into public goods the cost of revolt is too high, or success is not certain enough. Since the non elites will never revolt (there is low societal opposition), elites will choose to invest and diversify the economy as they can benefit from economic growth.

In Path 2, "No investment" the elite never invest in public goods in the first period. The outcome is lowered economic growth. The reasons for this lack of investment are twofold. Firstly it can be the case that the societal opposition is very strong, increasing the probability that the non-elites would revolt. The probability of revolt would increase if the resource revenues suddenly declined (volatile resource revenues). Secondly, if the returns to investment into other sectors is not as valuable as the resource (low prior development of non-resource sectors), then elites will not invest in public goods. By not investing in public goods, the elite maintain control of the income stream generated by the resource and thus maintain power. The result is that this path remains politically stable.

In Path 3, "investment" elites invest and non elites revolt if the price of the resource is low. These elite invest in increasing likelihood based on the probability of high resource prices, high costs of revolting and the benefits from a successful economy. Although the economy diversifies, it may be politically unstable. In this case there is some societal opposition and

there is volatility of resources. However the prior development of the non-resource sectors means that investment will reap high returns. This means that the economy is able to smooth the volatility of resource rents, decreasing the likelihood of revolt in the second period. Thus since the investment in public goods could lead to decreased societal opposition and increasing economic growth which may be captured by the elite.

1. "No revolt": Politically stable, economically flourishing and probably diversified so that elites reap benefits.
2. "No investment": Politically stable, relative economic under performance (poor, resource dependent and volatile revenues) and probably not diversified which in fact leads to economic under performance.
3. "Investment": Possibly politically unstable (strong opposition), economic growth but risk volatility and diversification, likelihood of a revolt against elites if revenue declines.

Dunning provides three examples of the three paths outlined above. The most interesting, and for this paper the most significant, of these case studies is that of Botswana. Though their success in avoiding the resource curse has been a matter of some debate, Dunning uses his model to explain the success Botswana (2005). This paper will examine the Bafokeng within this same frame work, juxtaposing them against Dunning's analysis of Botswana.

The Bafokeng pose a unique example and study of the resource curse. This traditional nation provides a microcosm for the inspection of the interplay between institutions, incentives of elites and a non-renewable resource. Using data collected in 2008, interviews with members of the tribe as well as secondary source material on the Bafokeng this paper will compile an analysis of the Bafokeng and their relationship with the platinum endowment. Analysis of institutions as well as the incentives faced by political elite in light of the endowment (Dunning's model) will provide insight into the nation's future. A comparative study with Botswana is provided to contextualise and debate the resource curse in the case of the Bafokeng.

4. Case study: The Bafokeng of South Africa and Botswana

4.1 The history of the Bafokeng

During the 19th and early 20th centuries the Bafokeng, a Setswanan speaking community, began buying farms from the local Afrikaans farmers. Due to the laws regarding African

ownership of land, these farms were purchased under the names of missionaries on behalf of the Nation. In 1921 platinum was discovered on the Bafokeng land and deals were struck between the Bafokeng and Impala Platinum Holdings (Manson & Mbenga, 2003).

The first royalties were received in 1978 and following court cases a deal was struck between the Bafokeng and the Impala in 1999. This entitled the Bafokeng to 22% royalties on all resource profits, as well as 1 million shares in Impala Platinum Holdings (Manson & Mbenga, 2003). In 2006 these royalties were converted to a 13.4% stake in Implats.

At the end of the 2008 year, the Bafokeng stood at value of R22.5 billion. However during the year the value of the portfolio peaked at a value of R43.5 billion (RBH Annual Review, 2008). Royal Bafokeng Holdings describes itself as an “inter generational investment trust”. They aim to utilise the present windfall by guarding its growth in order to benefit future generations. Instead of disseminating dividends to the +300 000 members of the Bafokeng, the returns are invested through diversification into the South African financial, services and industrial sectors.

The Bafokeng benefit from its resources in a two-fold manner. The first is via the jobs created from mining. Bafokeng people may be hired on the mines themselves and many Bafokeng make money from letting accommodation to migrant labourers migrant labourers. The second stream of benefits is the returns on capital assets created from the platinum resources (Mooki, 2004).

4.2 Negotiating a non-renewable resource

One must take into account the fact that the resource that the Bafokeng own is a non-renewable or exhaustible resource. The Bafokeng land is situated in the North West Province of South Africa and covers 1200 sq km. Their kingdom lies on the western lobe of the Bushveld Igneous Complex which holds three-quarters of the world’s known platinum reserves (Russel, 2008). The wealth generated by platinum allows for a development programme to be implemented without many constraints on expenditure. However the nature of their wealth (a non-renewable and exhaustible resource) does place restrictions on this spending. As *Kgosi*, (king) Leruo Molotlegi of the Bafokeng puts it “We want to be a self-sufficient community, economically, in health and education... but Platinum mining will only be around for the next 40-50 years” (Russel, 2008). Mineral economies need to negotiate between three constraints. How much to save for future generations, achieving economic

stability due the fluctuating nature of rents from minerals as well as ensuring high quality investment spending (Eifert, Gelb, & Borje Tallroth, 2003).

The Bafokeng are concerned because their huge mineral wealth will be exhausted in the future but at present the majority of its population are in desperate need of poverty alleviation and welfare increases. This is an affliction facing many resource and mineral rich countries. The contradiction facing poor, underdeveloped nations who own massive exhaustible resources, lies in the need for expenditure on development and poverty reduction for the present generation, and the need to save in the present in order to provide for future generations. The literatures' warnings about Dutch Disease and the resource curse has resulted in policy that emphasises "wealth protection" and "consumption smoothing" (Olters, 2007). Thus governments should be concerned with preserving their wealth but also taking heed of intergenerational equity. Thus consumption in each period is restricted to the implicit return on government wealth (Barnett & Ossowski, 2003).

The Royal Bafokeng do however have a development plan to overcome the inherent dilemma of substituting natural capital for human capital and infrastructure. Their plan is very conservative in terms of savings schemes and their continued concentration on lessening dependence on mineral wealth, but at the same time they are aware of the need to provide the people of the nation with a means to moving out of poverty.

Hartwick's rule of resources is as follows "if a society invests in reproducible capital, the rents from the current exhaustible resource will enjoy a constant consumption stream" (Solow, 1986). In other words by investing dividends from its portfolios on other forms of capital such as social capital, businesses and industries, instead of consuming its rents, the Bafokeng may be able to extend the stream of benefits from platinum reserves beyond its 30 to 40 year time horizon and provide sustainable livelihoods for its people. Thus during booms, governments should accumulate assets in order to finance spending one the resource has been exhausted (Barnett & Ossowski, 2003).

The Bafokeng follow a conservative spending plan. They spend the lesser of the following amounts on social needs, and this is the maximum amount spent (Royal Bafokeng Treasury, 2008).

- (1) 4% of the equity base
- (2) 25% of anticipated cash reserves

This is "bird-in-hand consumption" as opposed to the permanent income framework (Barnett & Ossowski, 2003). This conservative measure of savings, only considers assets on hand,

avoiding “counting their chickens before they hatch”. However this may be a bit too constrictive, and some argue this should only be used as the lower bound in spending and savings decisions. This saving amount is similar to the ratios used by successful resource economies, namely Indonesia who saved 1/3 of gains from resources, ¼ spent on infrastructure, and the rest to different sectors of the economy (Auty, 2004).

The Royal Bafokeng spend on health, infrastructure, protective services and education. Infrastructure consists of

- School buildings
- Water reticulation
- Roads
- Clinics
- Post offices
- Sewer network and plants
- Street light
- Community halls
- Recreational facilities
- Businesses

During 2008 R34million was spent on bursaries (663 students received support for tertiary education), R21.7million on water provision to the community and R128million spent on capital expenditure and infrastructure (The Royal Bafokeng Nation, 2009)

Decisions about spending or saving are dependent on the circumstances on the economy prior to the revenue injection. Many countries have used windfalls to alleviate structural imbalances such as debt. An example of this is Saudi Arabia, where the public debt dropped from 97% of GDP to 41% of GDP within three years (Toungui, 2006). The Bafokeng however is not a sovereign state and is thus not concerned about public debt as a country would be, neither are they concerned with potential Dutch Disease effects. Given their position within another country, changes to exchange rates and trade are not relevant to the Bafokeng. Their concerns are instead related to spending and saving decisions, particularly the effectiveness of investment and spending.

Spending needs to be accompanied by absorption capacity (Toungui, 2006). Gabon experienced this problem when wages rose without any connection to productivity (Leigh & Olters, 2006). In addition skills shortages meant they had to spend funds on overseas labour. Toungui (2006) argues that although poor African countries are forced to spend on infrastructure, it must be measured by the capacity of the economy to absorb the increased

spending. The suggestion is that if the economy would not cope with an income injection, then more should be saved rather than spent.

Thus managing their resource is about, how much to spend, how much to save and what to spend on. They have to take account of the present poverty of the Bafokeng people, but also have to manage the resource so that it lasts for other generations, but is used to grow the country.

4.3 The Bafokeng Political System

Although the Bafokeng is a tribe within South Africa's borders, their ownership of the resource is independent to that of South Africa. The Bafokeng are in a very unusual position in terms of leadership, governance and legalities. At present the Bafokeng are a *universitas persona* a not-for-profit organisation. This means they do not pay tax on their earnings since they lessen the state's burden by providing services to the community (Cook, 2009). Thus the Bafokeng Tribe becomes a governing body in itself as well as being a part of the larger South Africa.

The Tribe's political system follows their traditional system and has been very stable, the *dikgosi* (kings) have a direct father son line leading back 15 kings. Today the system incorporates the kgosi, 72 *kgosana* (headman, pl. *dikgosana*) and 11 councillors (5 elected and 6 appointed) in line with South African Law. The traditional government evolved in an agrarian economy with a political economy to match (Cook, Meeting with Research and Planning Executive of Royal Bafokeng Nation, 2008). However the new economic system, a result of modernisation and the platinum resource, require a new political system to match. Hence the Bafokeng have included the new councillors in addition to the previous political leaders. This is complemented by a comprehensive financial institution which publishes the results every year for public access. Thus it is a hybrid of traditional law, a commercial company as well as being a part of the South African legal system.

The Nation's plan for lessened dependence on minerals for their income, diversification, economic growth and prosperity, as well as investments in human capital all suggest they plan to avoid the resource curse.

Compared with other countries they do not face dramatic changes to currencies and interest rates from the resource, since they are a part of South Africa. Thus the Dutch Disease model does not seem an appropriate framework for discussing the Bafokeng, This also bearing in mind the weaknesses in the Dutch Disease model outlined above.

However given the tribes ownership of the resource and autonomy over spending on their development, it suggests they are susceptible to skewed incentives of the elite and patronage. Thus institutional and political theories of the resource curse, which have proved more externally valid than economic theories of the resource curse, are applicable in the case of the Bafokeng.

The unique combination of traditional, modern and South African politics provides an unusual example, which is particular to Africa. Analysis of institutions in this rare context provides insight into the resource curse theory, and perhaps clues to its negation.

4.4 A Comparative analysis with Botswana

The case of the Bafokeng Nation will be analysed in a comparative structure with Botswana's success story. It is generally accepted that the Botswanan nation has avoided the curse and implemented policies of growth as well as building strong institutions (Acemoglu, Johnson, & Robinson, 2002), and so provides an interesting comparison for the Bafokeng.

Acemoglu, Johnson and Robinson argue that a number of features are relevant in analysing the economic and institutional performance of Botswana.

1. Botswana is very rich in natural resource wealth.
2. It had unusual pre-colonial political institutions allowing commoners to make suggestions and criticize chiefs. The institutions therefore enabled an unusual degree of participation in the political process, and placed restrictions on the political power of the elites.
3. British colonial rule in Botswana was limited. This allowed the pre-colonial institutions to survive to the independence era.
4. Exploiting the comparative advantage of the nation after 1966 directly increased the incomes of the members of the elite.
5. The political leadership of the BDP, and particularly of Seretse Khama, inherited the legitimacy of these institutions, and this gave them a broad political base.

The comparison to the Bafokeng demonstrates their similarities:

1. The Bafokeng are a very rich nation, thanks to their platinum wealth (Manson & Mbenga, 2003). They control surface rights to the second largest platinum reserve in the world (Cook, 2005)

2. The political system, also pre colonial, uses a system of meetings (lekgotla) between the community and kgosi in order to establish concerns and policy matters. Thus the precolonial system like that of the Botswana system enables communities to criticise and comment on leaders.
3. The pre-colonial systems are still in place today (Cook, 2009)
4. This is difficult to argue for the Bafokeng leaders and elite. The data collected in 2008 suggested that people see nepotism as the second largest problem the Bafokeng face for development (Royal Bafokeng Household Survey , 2008). However news reporters have made mention of the frugal nature of the king and suggest that the elites do not benefit that much in terms of income (Russel, 2008). It is difficult to ascertain whether the elite are experiencing increases in income. Opinions expressed in the survey point to discontent with the leaders and benefits accruing to those who “know the right people”. However much of the evidence points to the fact that most of the Bafokeng’s wealth and the returns thereon are in terms of appreciating portfolio of investments, including a substantial cash amount (23%). This suggests the elites have not pocketed untoward amounts of money
5. The leadership of the Bafokeng have also inherited their legitimacy to an even larger degree than the Botswana leaders. The traditional political system is still in place and the kgosi’s position is inherited through birth right. The system is viewed as legitimate by the tribe members.

The results of the 2008 survey demonstrate a trust in the traditional leadership structures as opposed to the South African leadership structures. In a series of questions, participants were asked how much they trusted different leadership structures (refer to table 3). The highest trust figures were for traditional leadership structures such as the kgosi and dikgosana. The trust in the dikgosana could be attributed to their long standing and prestige, since dikgosana are viewed as a very important position in the community (Cook, 2005). There is a low measure of trust for the Bafokeng Councillors. Other surveys conducted confirm the opinions expressed in the 2008 Household survey and describe the Bafokeng’s perception of the Councillors as follows; “have no job description and are irresponsible and practice favouritism” (Cook, 2005). This position is new within the traditional political structures of the Bafokeng, and many don’t trust them. Although there is trust for the president, more than 30% said they didn’t know whether they could trust the president. More noticeably, 37% of participants do not trust municipal councillors, with 46% not knowing whether to trust them or not. These results suggest that

traditional historical leadership is well regarded as opposed to new traditional leadership structures and South African politicians.

Table 3: Results from 2008 Bafokeng Household Survey regarding question about trust and leadership

	I do Trust %	I don't Trust %	I don't know %
Trust in the President of South Africa, Mbeki	54.24	15.17	30.59
Trust Kgosi	79.78	10.77	9.45
Trust Kgosana	69.49	20.34	10.17
Trust Bafokeng Councillor	49.44	14.32	36.24
Trust Municipal Councillor	37.23	15.86	46.91

(Source: Royal Bafokeng Household Survey, 2008)

The above discussion demonstrates the viability of using Botswana for comparison with the Bafokeng Nation. The most important features for analysing Botswana's success can be mirrored in the Bafokeng.

This ability to mirror the two nations and their similar political structures may not be all that surprising. The Bafokeng are said to be a branch of the Tswana tribe to have migrated from the area, now called Botswana. The system of kgotla and accountability of leadership toward members of the tribe is of a similar nature, and this similarity is not all accidental (Oomen, 2005).

5. The role of governance and institutions in avoiding the resource curse

Above it was argued that there are two channels by which one can analyse the outcome for a country. Firstly the institutional set up, the preconditions. Secondly there are the incentives faced by the elite and those in power, which could cause a weakening of institutions, or malfunctioning of institutions. The incentives facing the decision makers of the Royal Bafokeng could result in the resource curse occurring despite the preconditions faced.

5.1 Inherited traditional systems of governance

The unique situation of the Bafokeng Nation rests in their unusual position featuring both tribal authority within South Africa and their traditional system of governance.

Authors argue that a large percentage of Botswana's escape of the curse can be attributed to the pre-colonial system which influenced the politics of the country today, (Acemoglu, Johnson, & Robinson, 2002) (Robinson, 2009). The "legitimacy of their political system stems from traditional sources" (Beaulier & Subrick, 2006). However, they have, some would say, been quite lucky in their leadership and in particular their Presidents. All have been considered charismatic and concerned with growing the country as opposed to filling their own pockets. Thus they have never been tested by an unsavoury leader, although given the strength of their institutions perhaps one may never arise.

Although some say it was the lucky leadership which allowed the Botswanan success, the effective and continued success of the country also rested on subsequent legitimacy of the government which stemmed from positive and effective policy implementation. Perhaps the system would not have allowed for anything but economically sensible leadership, especially since the traditional structures allowed for dissent, repercussions for bad leadership and unanimity rule.

Authors call most states in Africa neopatrimonial, where the right to rule is ascribed to a person and not the office of the person (Bratton & van de Walle, 1997). Effectively it insures patronage and the importance of personal relationships with those in power. It is unknown as to why the Tswana developed a system of governance that is not patrimonial. This uniqueness makes Botswana difficult to replicate, however the Bafokeng are in the very unusual position of being able to replicate this, they are both Tswana with similar traditional governance structures.

In contrast with Botswana, the traditional systems of governance are still in place and used to make decisions for the tribe. Within the nation are a number of wards, and each is headed by a kgosana. This position is inherited, and looks over day-to-day business in the ward. They are entitled to allocate land and to see to birth and death certification. Aside from participating in the Bafokeng legislative body, they also oversee disputes and meetings of the adults of the wards. Although this position is inherited, a ward may remove a kgosana if they do not feel he is doing a good job (Cook, 2005).

Meetings called Kgotha-Kgothe occur between the leadership, dikgosana, kgosi and members of wards. This is where members of the community may criticise and question leadership as well as bring problems to their attention and discuss policy. The meetings cover a series of issues from governance, education and social service. Those involved in policy are required to present new systems and issues to the community. For instance information about winter schools and centres for rehabilitation of drug users is provided (Community Meeting: Dumela Lefaragalhe, 2008). The community then has an opportunity to respond. There were questions about procedure for stand allocation, requests for adult education, the need for more clinics and social services for orphans (Community Meeting: Dumela Lefaragalhe, 2008). The household survey indicates that of the 58% of households who responded to the question about attendance, 80% do attend these meetings.

Additional leaders, Bafokeng councillors, have been introduced to the political system as a way of including more women in leadership roles. They are meant to supplement the dikgosana as well as participate in the Royal Bafokeng Legislative body and the Supreme Council.

The Supreme council consists of dikgosana, Bafokeng Councillors as well as the kgosi, they meet six times a year and legislate budgets, programs and policies. During 2008 the council met 15 times. They discussed Quarterly reviews of performance and budget as well as budget adjustments and investments (The Royal Bafokeng Nation, 2009). In addition to the Supreme Council, the Council of the dikgosana met 5 times to discuss issues of traditional governance and improving the governance structure. Finally the Traditional Council worked on relations with the Rustenburg Municipality as well as developed five year plans pertaining to investment, human capacity building, infrastructure, economic development and health. The complex traditional structure indicates the use of group decision making on issues of investment, treasury and infrastructure. The traditional leaders are involved in approval of all budgetary concerns and spending decisions.

There is a strong sense of the right to be heard, and consensual decision making (Cook, 2005). The system of conversation between leadership and communities imparts a degree of accountability on the elite. Notably, in a comparative study across Somalia, Lesotho, Ghana and Cote d'Ivoire, Acemoglu, Johnson and Robinson (2002) suggest that divergence of these countries from Botswana's growth path is rooted at the undermining of traditional leadership structures. This structure also allows for a toleration of dissent are a type of "proto-democratic" institution (Beaulier & Subrick, 2006).

Thus the traditional system of governance is tolerant of dissent, and used a system of collective decision making for decisions about policy. There is a sense of a right to be heard

and participate in decision making by members of the community. This unusual form of democracy allows for accountability even if it is not an elected democracy but a system of inherited leaders.

Evidence from Botswana suggests that this is a good basis for strong institutions and accountability in the future. The internal (traditional) governance structures of the Bafokeng although not perfect do point toward success and accountability.

5.2 External institutions, South Africa

Many argue that properly implemented property rights are essential to the insuring strong institutions. These however are not necessarily ensured by the Bafokeng Nation itself, but by the laws of South Africa. On the Ibrahim Index of African Governance, South Africa has a score of 89 (out of 100) and the average for Africa is 54. Furthermore South Africa and Botswana score closely to each other on the ranking. Botswana came 4th, and South Africa 5th. Thus in an indirect way South African governance systems also lend themselves to increasing the strength of Bafokeng institutions.

South African legislation also participates directly in strengthening Bafokeng governance. (Bekker, 2009). At present the Bafokeng could face a tax of nearly 40% on interest income, if it were not a not-for-profit organisation. They have been able to maintain this “universitas persona” by providing infrastructure and services, such as health clinics and schools to the community. Thus there is pressure on the Bafokeng to ensure that institutions continue to provide the services that local municipalities should, thereby maintaining the strength of the governance.

This external constraint of South Africa plays a large role in ensuring the rights of the Bafokeng who are not a part of the ruling elite. In this the Royal Bafokeng are singular, especially in the context of African States.

5.3 Is there evidence of these efficient institutions?

limi (2007) argues that good governance may be decomposed into the most important aspects of good governance for economic growth. Firstly there should be a strong public voice with accountability, monitoring by the public and the ability to discipline those in authority. Evidence suggests that the Bafokeng do have the right to be heard and dissent

and that the elite are accountable to the community (Community Meeting: Dumela Lefaragalhe, 2008).

Secondly, government effectiveness must be high (Iimi, 2007). There is conflicting evidence for this from the household survey of 2008. As previously mentioned, 45% of those surveyed viewed nepotism as the biggest challenge facing the Bafokeng development and growth. This was combined with many comments about the allocation of bursaries, which it is felt are handed out in an inequitable manner (Royal Bafokeng Household Survey, 2008). Also although they trust their dikgosana, most did not believe their dikgosana were interested in what happens to them. Thus the Bafokeng people believe that if their dikgosana were asked to complete a task it would be done so with integrity and honesty. This however should be contrasted against the opinion, expressed by the same sample that their dikgosana actually don't care about them or what happens to them.

However, over 68% of the sample believes that the Royal Bafokeng Reaction force has reduced crime to a high degree. Almost 70% of the households believe that the Reaction force is more effective than the South African Police Force. Less than 4% of those interviewed viewed governance as a challenge facing the Bafokeng.

Effectiveness of the government must also be assessed by their budgeting. The frugal approach, whereby either 4% of equity base or 25% of cash reserves is spent suggests that government is interested in maintaining their source of income long after the platinum revenue has ended.

However unemployment is still measured at around 40% and most households live on \$20 a week, where the average household size is about 5 people. In comparison with South Africa, with a national average of 3.9 people per household, and the North West Province with an average of 3.7 members per household, the Royal Bafokeng household size is much higher (Statistics South Africa, 2007). The unemployment rate for South Africa was around 23% in 2008, and for the North West Province it is around 27% in 2008 (Statistics South Africa, 2009). Both of these values indicate the lack of job opportunities in the Bafokeng area as compared with the rest of the country and highlight the need for investment which would create employment. The data from the 2008 Royal Bafokeng Household survey paints a bleak picture of development. Entrepreneurial activity is low at 9% of households having tried to start a business in the last two years. Of the 43% of adults who answered the question about savings, 57% did have savings accounts. The mean monthly household consumption spending of the sample is R798.7 per household (this value does not include spending on education or transport). Comparatively South African's in rural areas spend R2705 on total expenditure per year, and R817 on food (Finn, Franklin, Keswell, Leibbrandt,

& Levinsohn, 2009). Although the poverty experienced by the Bafokeng is not unique to their area, there is still a lot of room for development, as shown by the poverty they experience.

More concerning is the inability of the social spending agencies to spend more than 60% of their allocated budgets. The household survey also indicates areas of desperate need in spending and it is concerning if they are only able to spend 60% of the allocated budget. Most households indicated that they spent money on school fees, uniform, transport and food. The mean spending per year on fees was R370, R689 on uniform and R337 on stationery. The South African mean household expenditure on education was R1356 in 2005 (Statistics South Africa, 2006). Although the amount spent on education is comparable to the rest of the country, it could be lowered for the Bafokeng. Data on transport indicates that an average trip costs about R8.00 although 40% of children said that they walked to school.

Figure 3 is a comparative analysis of amenities using household data for the Royal Bafokeng (2008) as well as data from Statistics South Africa (Statistics South Africa, 2007). It demonstrates in some cases evidence of success and in others room for improving the quality of the Royal Bafokeng's lives. This kind of data is used to monitor the general well being of people and their living conditions and access to services is used as a measure of the physical security and comfort experienced by South Africans (Statistics South Africa, 2007). Figure three compares the Bafokeng to comparable groups, South Africa, the North West Province and Rustenburg.

Toilets and refuse collection are both very different from the South African, North West Province and Rustenburg Municipality distribution. Use of flush toilets is much lower than the other areas. Less than 10% of Bafokeng in the sample had access to flushing toilets, whereas the other comparative areas showed that around 50% of the population have access to flushing toilets. Similarly less than 10% of the Bafokeng have their refuse collected whereas in South Africa over 60% of the population have their refuse collected. 87% of people in the Bafokeng survey indicated that they either burnt or buried their rubbish.

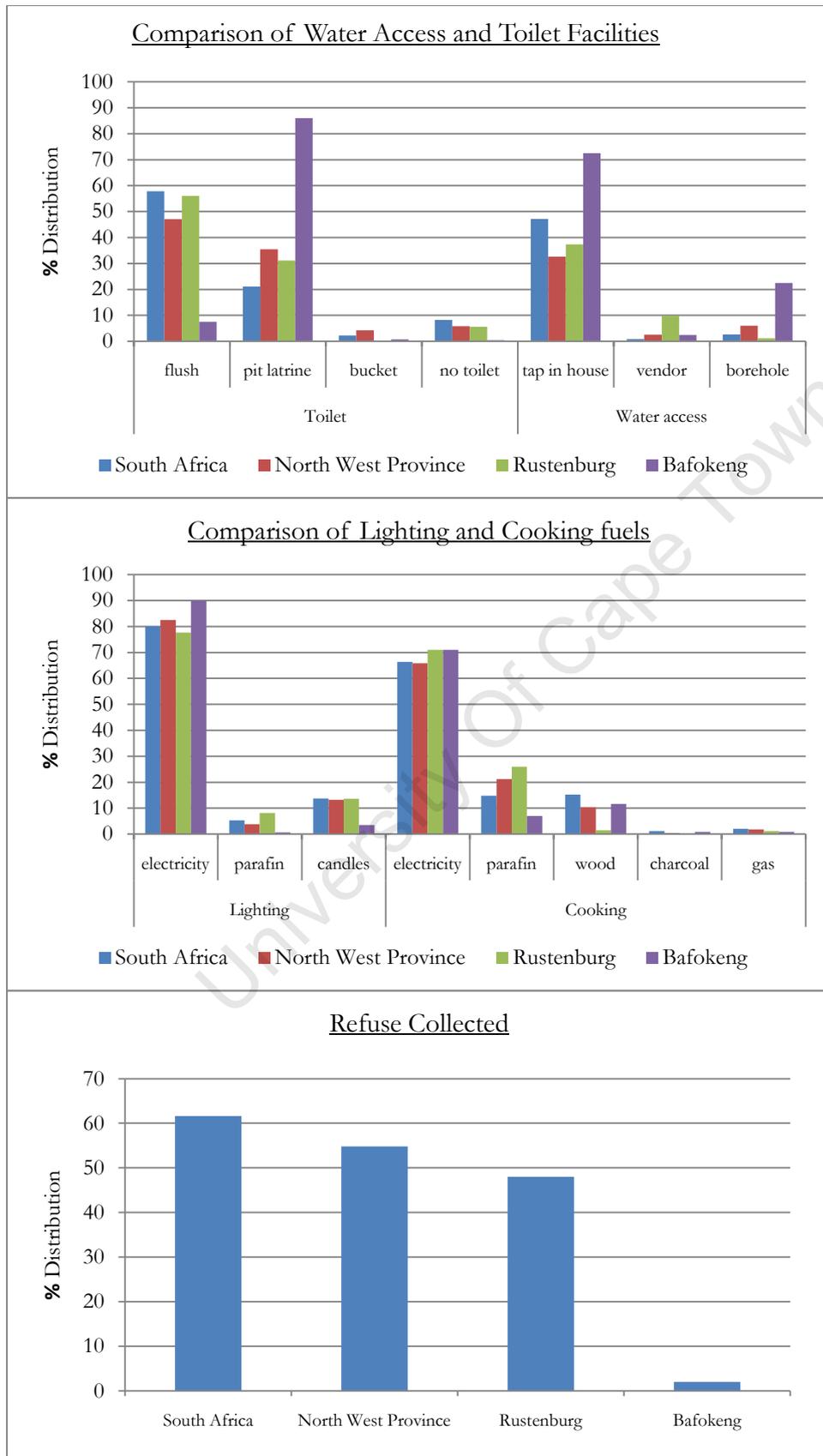
However access to running water inside their houses as well as access to electricity for both lighting and cooking are above the South African, North West province and Rustenburg averages. Over 70% of the Bafokeng sample have access to running water inside their houses, comparably, less than 50% of South Africans have access to running water inside their houses and less than 40% of households in Rustenburg and the North West Province have taps inside their houses. The statistics for electricity usage in both cooking and lighting do not indicate such a large difference between the Bafokeng and comparable groups. Although they are higher (90% of the Bafokeng versus 80% of South Africans use electricity for lighting), the difference is not very significant. However over 90% of

participants lived in houses with concrete walls and floors with corrugated roofs, permanent structures.

The Kgotha Kogthe Report of 2008 demonstrates efforts to move into health services. As health and health services lie primarily in the hands of the South African Government it was at first difficult for the Bafokeng to assist in this area. As of 2008 the Health and Social Development Services Department merged with the North West Department of Health in order to engage and deal with diseases such as HIV/AIDS and TB, chronic diseases and mother and child health (The Royal Bafokeng Nation, 2009). In addition to this they focus on orphaned and vulnerable children, people with disabilities, trauma support, youth programs and support for the elderly.

Since data about the effectiveness of management is still new and the Bafokeng have only had complete access to their funds since 2004, only time will tell if the spending is reaching the right people. However measures like the Bafokeng Economic Barometer will provide the data in a few years to come. Although physical infrastructure will probably become evident first, the true effects in terms of education will only show later. However the policies are focused on education, health and those in need (orphans and the elderly). The data at the moment might only be showing what the situation is and has not yet captured the effect of the resource.

Figure 3: A comparison of services and amenities available across South Africa, the North West Province, Rustenburg Municipality and the Bafokeng



(Source: Statistics SA 2007 and Royal Bafokeng Household Survey 2008)

5.4 Institutional malfunctioning as a result of the resources influence elites incentives.

Dunning's (2005) model attempts to understand the dynamism between resource wealth, elites and economic outcomes. Thus it is the incentives created by the resource that determine the outcome for the economy. Since diversification of the economy is arguably an important aspect of managing resource wealth effectively. However although it leads to improved economic performance, it also allows other bases of power to develop. The incumbent elite face a challenge of whether to diversify or not, since with prosperity comes challenges to power.

The following are the three explanatory variables used by Dunning to explain the incentives facing elites in the event of a natural resource endowment.

1. Volatility of Resource Revenues
2. Societal Opposition to State Elites
3. Prior Development of Non-resource Sectors

These three explanatory variables interact with each other providing incentives for the elite to invest or not in public goods. The result is Dunning's three intuitively derived equilibria discussed previously:

1. Path 1: "No revolt": Politically stable, economically flourishing and possibly diversified
2. Path 2: "No investment": Poor, resource dependent, fiscally volatile but politically stable
3. Path 3: "Investment": Diversified, growing economically but possibly politically unstable.

Botswana experienced, low volatility of resource revenues, low societal opposition to state elites and low prior development of non-resource sectors (see table 4). The result has been that Botswana followed path 1 of "no revolt". The stability of the diamond revenues has meant that there have not been incentives to diversify. However the societal opposition is very low and by lowering political risk for the incumbents, diversification is promoted. In Botswana's case the investment has been in infrastructure, education and health as opposed to diversifying the economy away from resource dependence. This has largely been because of the low prior development of the non-resource sector, as the benefits to investment in the private sector are small.

The first explanatory variable, resource volatility, is normally outside of the elite's control. There is a world determined price for the resource and such prices are often volatile. In this case Botswana and the Bafokeng differ in scores. Botswana's principal investor is De Beers, who control the world diamond market. This ensures a stability of prices not seen in platinum. The Botswana government also controls 50% or more of all their mines. In 1987 Botswana was the world's second largest producer of diamonds and the largest producer of diamond gems, today they produce one third of the worlds values of diamonds (Curry, 1987) (Dunning, 2005). Thus not only does their main extraction company control the world market price, they themselves produce a large percentage of the world's diamonds and control 50 percent or more all the mines in their country. This has meant a very stable income from the resource for Botswana and thus did not provide incentives for the elite to diversify their economy away from resource dependence.

In contrast, the Bafokeng sit on one of the world's largest deposits of platinum, the western lobe of the Bushveld Igneous Complex, which contains three quarters of the world's platinum supply and they own 13.4 percent of the one of the mining companies. The value of their portfolio went from R33.5 billion, peaked at R43.5 billion and finished at R22.5 billion in 2008. This was largely due to a slump in demand for platinum of about 40 percent (RBH Annual Review, 2008). It is not only the world price and demand for platinum which plays havoc on the income of the Bafokeng, but the volatile rand exchange rate (Russel, 2008). The incentives to diversify in terms of this variable are much larger as compared with Botswana. As Royal Bafokeng Holdings CEO Niall Carroll said: "A less volatile income stream is prudent to facilitate the planning of the Royal Bafokeng nation's social returns" (Hill, 2010).

The second explanatory variable is societal opposition to the political elite. In Botswana, as discussed above, the leadership structures are largely legitimised by their inherited traditional political structures (Acemoglu, Johnson, & Robinson, 2002). Thus the elite have a traditional authority, as is the case for the Bafokeng Nation. Botswana's president has changed only three times since independence, and the current president, Ian Khama is the son of the first, Seretse Khama. Dunning (2005) argues that the mostly rural society of Botswana has not provided any serious challenge to the Tswana elite.

The case of the Bafokeng is quite similar. The political institutions are inherited from traditional systems of governance. The Bafokeng have adopted some changes to their governance structure but the majority of the system has remained the same. Positions on the Supreme Council like that of kgosi and dikgosana are inherited positions, with the exception of the elected Bafokeng Councillors which is an elected position. In particular

kgosi Molotlegi is a part of a direct father son line leading back 15 kings. The structure of traditional leadership has meant that there is little political opposition to the ruling elite of the Bafokeng.

In the cases of both Botswana and the Bafokeng, the lack of societal opposition provides incentives for the elite to invest in public goods and diversify the economy.

The third explanatory variable is that of prior development of the non resource private sector. This measures the potential economic benefits from diversification investments. The more diversified the larger the potential benefits from diversification investment. Prior to the discovery of diamonds in Botswana, the economy was largely based on cattle ranching.

Similarly the economic profile of the Bafokeng is that of mining. Most people rely on mining incomes, either directly or indirectly via rental to mine workers. The policy of the Bafokeng is to become less dependent on minerals, not just in terms of their portfolio but also in terms of their economy (Cook, Meeting with Research and Planning Executive of Royal Bafokeng Nation, 2008). The Master plan illustrates their drive to reduce their financial dependence on mining from 80% to 60% (Russel, 2008).

Botswana and the Bafokeng began receiving an income stream from a natural resource at a time when their economy was not diversified. Botswana was largely a cattle ranching economy and the Bafokeng is largely a mineral dependent economy with few viable non-resource sectors. This means that the incentives for diversification are lowered, for both the Bafokeng and Botswana, as the economic benefits from investing in other sectors of the economy are not large.

In terms of the three variables and Botswana, the incentives to invest in public goods and diversify are not conclusive. Both the stable resource revenue streams and the lack of prior development suggest that diversification would not take place. Diversification in industries has remained quite low, with manufacturing only 5 percent of GDP. However the concern about a non-renewable resource and income volatility means that saving the resource in "Revenue Stabilisation Funds" and "Public Debt Service Funds" was deemed very important by Botswana. For instance, two fifths of rents were invested in offshore investments. However the lack of societal opposition meant that the elite could invest in public goods in order to benefit from increased economic growth without concern for their political positions. This continued investment, has allowed them to move from being one of the poorest nations in the world to the position of a middle income country (Beaulier & Subrick, Forthcoming). Investment has been around 20 to 30 percent of GDP. Finally the stability of their resource revenues is highly unusual. The steady income stream meant that there was a decreased

likelihood of revolt on the part of the non-elite. Furthermore it allowed for economic and fiscal stability in the country. Thus the outcome for Botswana was mixed to low diversification, fiscal and economic stability as well as political stability.

In terms of the variables, the Bafokeng face high volatility of revenue from the resource, low societal opposition and low prior development non-resource sectors. The high volatility and low societal opposition encourages diversification of the economy. 66% of their portfolio is made up of mining, 23% cash, 6% services, 2% manufacturing, 1% telecommunications, 1% financial and 1% sport. Thus they are still heavily invested in mining (RBH Annual Review, 2008). In contrast, in Botswana diamonds still made up 82.5% of their exports in 2003. The low societal opposition also encourages investment in public goods. The Bafokeng had an allocated budget in 2008 of R1.2 billion for community based spending. About 41% was allocated to infrastructure, and social programs, 29% to education and 11% to commercial and community level sports (Cook, 2009). However the low prior development of the economy into non-resource sectors does not encourage investment in public goods and diversification. As stated previously, the Bafokeng struggle to spend more than 60% of the budget allocated for social spending.

The lack of stability in the resource rents suggests that there may be a period of “bust” for the Bafokeng which would incentivise the non-elite to revolt. However the Bafokeng concentrate on savings as opposed to spending (there is a very conservative spending scheme), and this suggests that they may handle such a trough without challenges to the political elite. Thus Dunning’s variables point toward diversification and probable political stability. There would be mixed economic prosperity. This would be because of the instability of their revenues (but perhaps using stabilisation funds this would not pose a problem) and the lack of prior development of non-resource sectors which hinders the absorptive ability of their economy. However the incentives for diversification are stronger than for Botswana and so the diversification would encourage fiscal and economic stability in the future (refer to table 4).

Table3: Dunning’s factors influencing elites

	Botswana	Bafokeng
Volatility of resource revenues	Stabilised diamond revenues and large stabilisation fund savings (Dunning, 2005)	Volatile resource revenues, as demonstrated in 2008
Degree of societal opposition	Low opposition	Low opposition
Prior development of non resource private sector	Low	Low

Table 4: Predicted outcome for Path 1, actual outcome for Botswana and predicted outcome for the Bafokeng

	Diversified	Fiscal and Economic Volatility	Political Stability
Predicted	Yes	Low	High
Actual for Botswana	Mixed	Low	High
Predicted for the Bafokeng	Mixed to Yes	Mixed	High

However these are not the only explanatory variables affecting the incentives of the Bafokeng elite.

There is the fact the Bafokeng are a nation within a nation, and are governed by two sets of laws. There is incentive to invest and diversify and promote growth and economic stability since law demands this if they want to continue as a non-taxable organisation. Thus in order to retain the possible 40% tax payment, the elite has to invest in public goods and maintain economic stability.

Secondly there is a tradition of “community” within the Bafokeng. This is not an incentive as such, but it does play a role in decisions to invest. The reason the Bafokeng own their land is because as a community they displayed foresight and organisation. The then kgosi Mokgatle, organised for the young men of the tribe to get jobs on the mines in Kimberly.

Earnings were placed into a trust account, and then used to buy back their land from the Boers. The first farm was bought in 1883 for 1700 pounds. This system of community and working together to achieve something continues to provide incentives to the Bafokeng today.

These two incentives facing elites mean that the predictions in the above table 4 are strengthened in a positive direction. Diversification and economic and fiscal stability would most probably increase. Perhaps placing the Bafokeng, in terms of incentives facing the political elite, in an even better position to avoid the resource curse than Botswana.

Thus when utilising conventional theories about the resource curse, one has to include the unusual position of the Bafokeng, of a nation governing itself within another nation with its own set of laws and rules.

The combination of the two is their strength. Their traditional institutions are strong because of a tradition of accountability, but this is enforced by the institutions of South Africa. Firstly they directly require that the Bafokeng remain a provider of services and development for their tribe if they wish to remain a non-taxable organisation. Secondly the institutions of South Africa are considered some of the best in Africa. Property rights and a system of law are far stronger than most African countries and this provides a strong environment to negate corruption and misuse of funds. The external or internal institutional strength of the Bafokeng are not necessarily sufficient by themselves, but together they do suggest that the Bafokeng would not fall foul of the resource curse because of institutional weakness.

Perhaps the most concerning feature facing the Bafokeng is the lack of prior development into non-resource sectors. The area in which they reside has been a mineral economy for most of the 20th century. Since the mineral wealth has only come into effect in the last few years, this could only be engaged with recently. Capacity absorption of the income injection is important if they hope to avoid the resource curse. However there does seem to be conservative spending and more saving, which experience of Gabon illustrates may be the best way of dealing with the income if the country is not ready to absorb it efficiently. Trinidad and Tobago's government employed 50% of formal employment during their boom and this is blamed for their weak performance (Robinson, Torvick, & Verdier, 2006). In fact many attribute the failure of Ecuador, Venezuela, Zambia and Mexico to the over expansion of the public sector. Botswana comparatively saved their revenue, and they are heralded a success (Beaulier & Subrick, 2006). Botswana is testimony to overcoming dire economic conditions and a very poor economy (Beaulier & Subrick, Forthcoming).

6. Conclusion

Will the Bafokeng escape the resource curse? The evidence is not yet conclusive and of course hindsight will provide us with many answers, but at present, as examined in the literature it would appear that they will.

The literature moves from economic explanations to political economy models to try and explain the divergent results in growth for resource-rich nations. The conclusion reached is that institutions are decisive in determining the outcome for such nations. Although this seems to negate the use of the term “resource curse” for “institutional weakness”, it still is valuable in examining resource-rich countries. For many of the poor countries in Africa an income injection that such a windfall would provide is far too valuable and the returns to high to ignore the many failures in managing the resource.

By studying the Bafokeng within the context of the resource curse theories we are able to see the implications on a much smaller but relevant scale.

The Bafokeng Nation is examined in terms of Botswana, one of Africa’s success stories in order to provide comparisons and context for the debate. This comparison is very relevant given the anthropological history of both nations, and the subsequent relevance for their political structures. Both nations are examined in terms of their institutions as well as Dunning’s model of the incentives facing the political elite.

The institutions of both nations are founded on Tswana political structures which are unique in African history for the use of unanimity in decision making as opposed to neopatrimonial states. Leaders were subject to dissent and ruled at the will of the people. In the case of Botswana this has been instrumental in forming political structures that are accountable and effective. The Royal Bafokeng use a similar system to run their nation, all decisions are made in a consensual manner. This suggests that they will be successful in maintaining strong institutional structures essential for avoiding the resource curse. More importantly this is constrained by the laws that govern South African. In order to maintain their tax free position, the Bafokeng have to provide services and improve the lives of the nation. This is strengthened further by the strong institutions of South Africa which promote accountability, measures for corruption and protection for the non ruling elite. Although the evidence for effective spending is inconclusive and in many cases negative, it may still be too early to see any changes.

The incentive structures facing the elite in terms of Dunning’s model, point toward the equilibrium of “No Revolt”. Thus it seems they will diversify, experience low fiscal and

economic volatility and high political stability. Most significant however is the lack of prior development. Diversifying an economy takes time and the right policies. However they do seem aware of this, they spending conservatively and not overwhelming the economy beyond its absorptive level. The challenge will be to move the economy away from mining dependence.

Thus in terms of the literature, their institutions appear to be in a position to prevent the resource curse. The incentives facing the elite are similar to those the Botswanan elite faced, and the outcome will potentially be the same. The positive outcome is further strengthened by the external constraints of the South African. The unique position of the Bafokeng is thus their internal institutional strength and their external institutional strength.

The strength of the Bafokeng lies in their unusual anthropological history and their unusual situation as a traditional tribe, corporation and a group under the governance of South Africa. Each dimension strengthens their institutions and provides checks and balances for success. Further research will need to analyse the effects of the resource on the livelihoods and welfare of the Bafokeng people to see whether they have truly escaped the resource curse.

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