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Insuring resource revenues against commodity price volatility

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ABSTRACT: Solutions to the so-called resource curse have been various and diverse. However, results have been at best inconclusive, if not counter-productive. In this research report, drawing from a thorough literature review on the resource curse, evidences are presented that a previously over-looked factor, volatility in commodity prices, is the cause of the resource curse. Building up on this conclusion, it is demonstrated that a simple insurance mechanism that would reduce volatility in commodity prices would help resource-rich countries to articulate sustainable macroeconomic and fiscal policies that would lead to sustainable growth. Back-testing this model, it is demonstrated that such an insurance mechanism would have withstood the financial crisis of 2008. Collectively, the results of this research report support the hypothesis that volatility carries an overwhelming share of responsibility in the process through which resource-rich nations lag behind resource-poor nations in terms of development, being economic or human. This research report concludes that this simplified model should serve as a foundation for future research and that this model should be expanded and tested on a greater scale to confirm its benefits. This research report provides an innovative approach to solving the resource curse which should certainly be used and expanded in future research.

Keywords: resource curse, development, volatility, commodity prices, Sub-Saharan Africa