

Natural Resources Wealth, Foreign Aid and Institutions

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ABSTRACT

There is a growing literature on the implications of natural resources and foreign aid for economic development. Different stakeholders have different views regarding the usefulness of these windfall gains. To some, it would enhance investment and productivity in the economy while to others, it is a curse; it would increase rent-seeking and thereby, hamper long run sustainable economic development. This study is the continuation of this debate. The paper, combining the theory of rent-seeking with the availability of rents, explores the implications of natural resources wealth and the receipts from foreign aid for institutions. Using the cross-country data, we have found that both of these variables have a significant negative effect on the quality of institutional framework. This would be the possible mechanism that can explain the curses of natural resources and foreign aid.

JEL Classification: P48, P16, P14, O43.

Keywords: Institutional framework, natural resources wealth, foreign aid, sustainable economic development.

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