Benefit of Extractive Industry Transparency Initiative (EITI) on the mineral dependent economies.

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1 August 2016

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Introduction

The EITI is a standard for countries with oil, gas and minerals, it requires all companies extracting oil, gas and minerals to publish what they pay in taxes and royalties and the government also publish what it receives, including other key information about the sector (EITI, 2016). These mineral dependent economies generate at least 8 % of GDP and 40 % of export earnings from the mineral (Auty, 1993). The lack of accountability and efficient management of these resources has led to political unrest, poverty on a larger scale and by extension severe macroeconomic issues thereby impacting negatively on growth and development. Given the negative relationship between economic growth and resource abundance experienced in these countries termed "Resource Curse" or the "Paradox of Plenty (Ross,2001; Haglund, 2011; Gylfason and Zoega, 2001), civil society and NGOs have come up with several initiatives such as the Global Witness initiative, Publish What You Pay initiative and so many more (Acosta, 2010). These have not had real impact on accountability and efficient management of the resources.

The extractive industries transparency initiative (EITI) was ushered in at the world summit on sustainable development in Johannesburg in September 2002 by the former United Kingdom Prime Minister, Tony Blair and was founded at a conference in London in 2003. Till date, 51 countries are implementing EITI and 31 countries are compliant with EITI requirements (EITI, 2016). The positive impact of EITI on these nations should ensure transparency, reduce corruption, and contribute to poverty reduction and achievement of the sustainable development goals (SDGs). It is, therefore pertinent to assess if these countries are benefiting from these initiatives and how they can further benefit.

1.1   Mineral dependent economies and poverty

The existence of countries with massive resources and poverty has led to debates on the relationship between mineral resources and development. Some researchers questioned the belief that mineral resources should lead to economic prosperity (Ross, 2001). For instance, the Democratic Republic of Congo which house about 34 percent and 13 percent of all the diamonds and coppers respectively in Africa and over $24 trillion worth of untapped raw mineral ore deposits has 90.73 percent of its population living under $1.90 a day, More so, Niger Republic supplies 44 percent of Africa's uranium, yet has 76.5 percent of its population living under $3.10 a day (Africa Leadership, 2015; World Bank, 2015). In addition, most of the conflicts and factors depressing growth and development in these countries have been traced to mineral dependency (Ross, 2003; USAID, 2005; Collier, 2006; Kucera et al., 2011; Carpenter, 2012; Maphosa, 2012; Berman et al., 2014). The genesis of the inability of

these countries to transform the valued minerals to growth and development are corruption, lack of accountability and transparency, in addition to mismanagement.

1.2 Dutch Diseases Syndrome

The effect of mineral dependency is seen mostly on how it erodes the competitiveness of the manufacturing sector, which has high capacity to create jobs and technical advancement that should promote growth. Export of mineral resources lead to an appreciation of the local currency and make other sectors less competitive on the world market, through spending effect and resource movement effect (Brahmbhatt, Canuto, and Vostroknutova, 2010).

Figure 1: Diagram explaining Dutch diseases syndrome
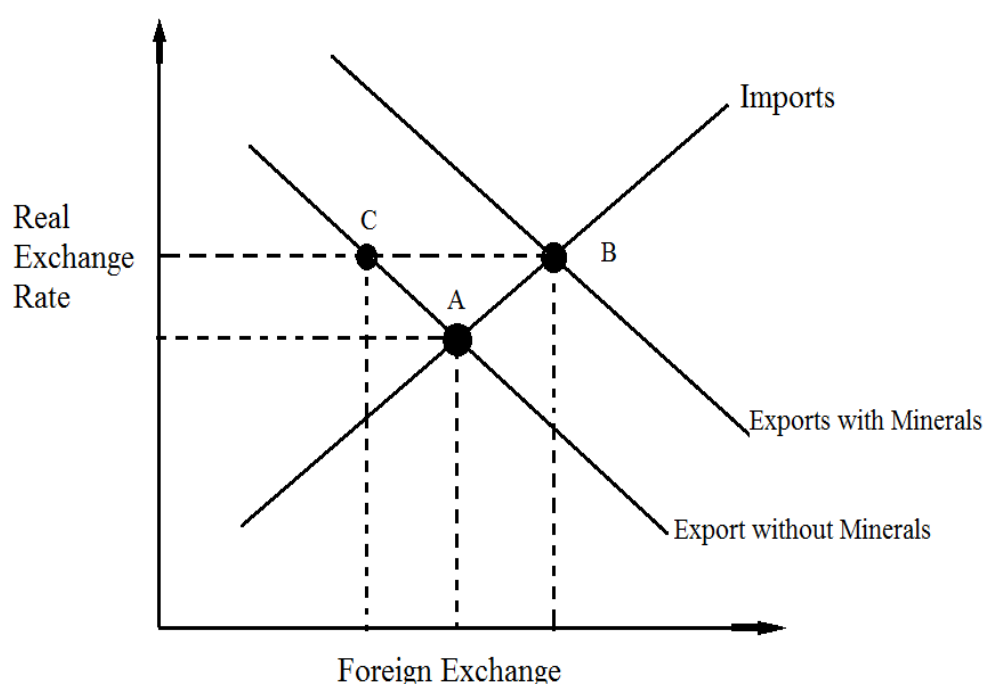
Source: Author, 2016

As seen in figure 1, mineral dependent countries witness a shift outward in exports (point A to B). This leads to massive foreign exchange and appreciation of the exchange rate in favour of the local currency. Since there is little or no value addition to these minerals, this leads to rent-seeking behavior and less competitiveness of the manufacturing sector, thereby causing wages to rise, promote mass importation and creating massive unemployment. This, in the long run shrinks the economy to point C.

2.0 Assessing the impacts of EITI so far

The number of implementing and compliant countries has been growing from only 4 countries - Nigeria, Azerbaijan, Ghana, and the Kyrgyz Republic to 51 and 31 countries respectively. Out of the

31countries classified as low-income economies (GNI per capita of \$1,045 or less) and has majority of its population living below \$1.90 a day (World Bank, 2016), 17 of them are EITI members, one has been suspended, while 4 have not met the EITI requirement, only 12 are confirmed to have met all EITI requirements as at March 2016. Using panel data from 1991 to 2014, a regression analysis of how mineral dependent affected growth and some development indicators (GDP growth rate, government expenditure on education, gross capital formation, government health expenditure and manufacturing value-added to GDP) before and after EITI membership was computed for 10 of these countries[1]. Using Burkina Faso as a base, the individual performance of each country in relation to the base country was assessed. Due to the individual country's heterogeneity component in ui, a clustered standard error was used to make the estimated variance –covariance valid

As a group, the results confirmed the negative relationship between GDP growth rate and mineral rents (-0.01765), which became positive after implementing EITI requirements (0.02067), although not significant at 5 percent level. This suggests that the impact of EITI has been positive for implement countries on GDP growth rate. Whereas, the relationship between government expenditure on education and mineral rent was positive prior to and after implementing EITI requirements. It was however weaker before (0.0080756), and slightly stronger after implementing EITI in addition to being significant (0.04905) at 1 percent level. This suggests that expenditure on education were not adequate before EITI came into place in these countries. More so, gross capital formation was negatively related to mineral rents (-0.0025105) before EITI in these countries and became positive and significant after being EITI compliant (0.07621) at 1 percent level. Expenditure on health was also found to be negatively related with mineral rents (-0.0056936) before EITI in these countries and became positive and significant after being EITI compliant (0.046158) at 1 percent level. The relationship between the Manufacturing sector Value-Added and mineral rent was observed to remain negative even after implementing EITI requirements. This suggests that EITI did not help countries diversify their revenue base but its aid them utilize their resources efficiently, as the performance of the manufacturing sector fell with increased mineral rents.

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[1] due to the availability of data; only the ten countries used have reliable data

Figure 2: Trend of mineral rents and GDP growth rate; Burkina Faso, Chad, Dem.Rep of Congo and Guinea
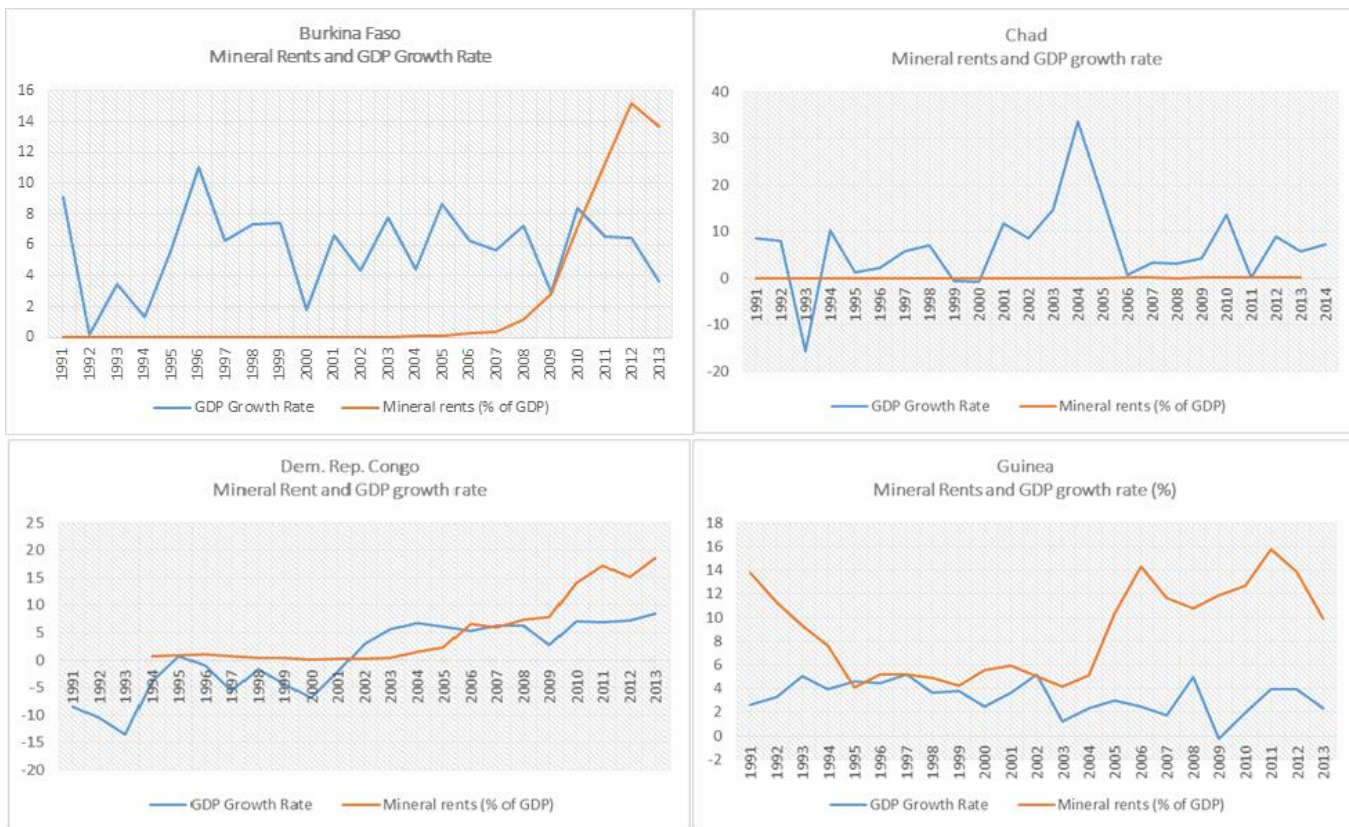
Source: Author, 2016

Figure 3: Trend of mineral rents and GDP growth rate; Mali, Mozambique, Niger and Tanzania
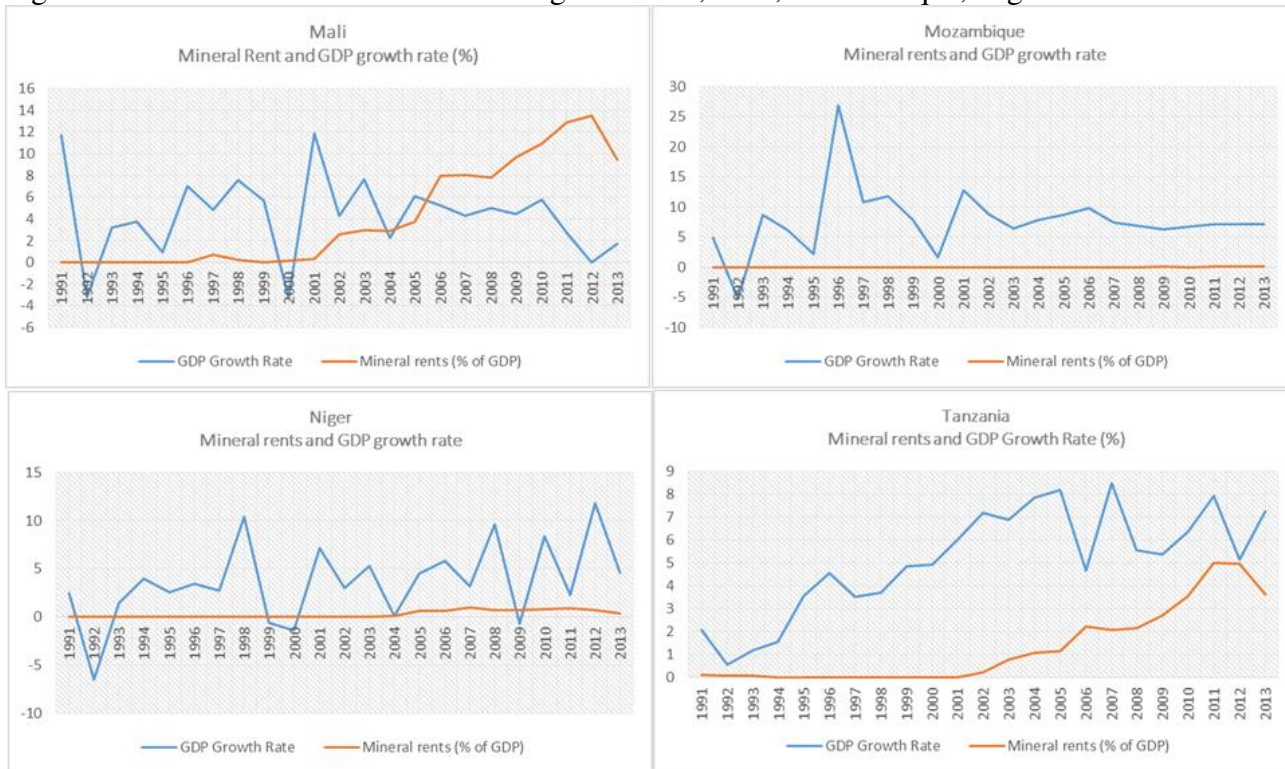
Source: Author, 2016

Figure 4: Trend of mineral rents and GDP growth rate; Togo and Sierra Leone
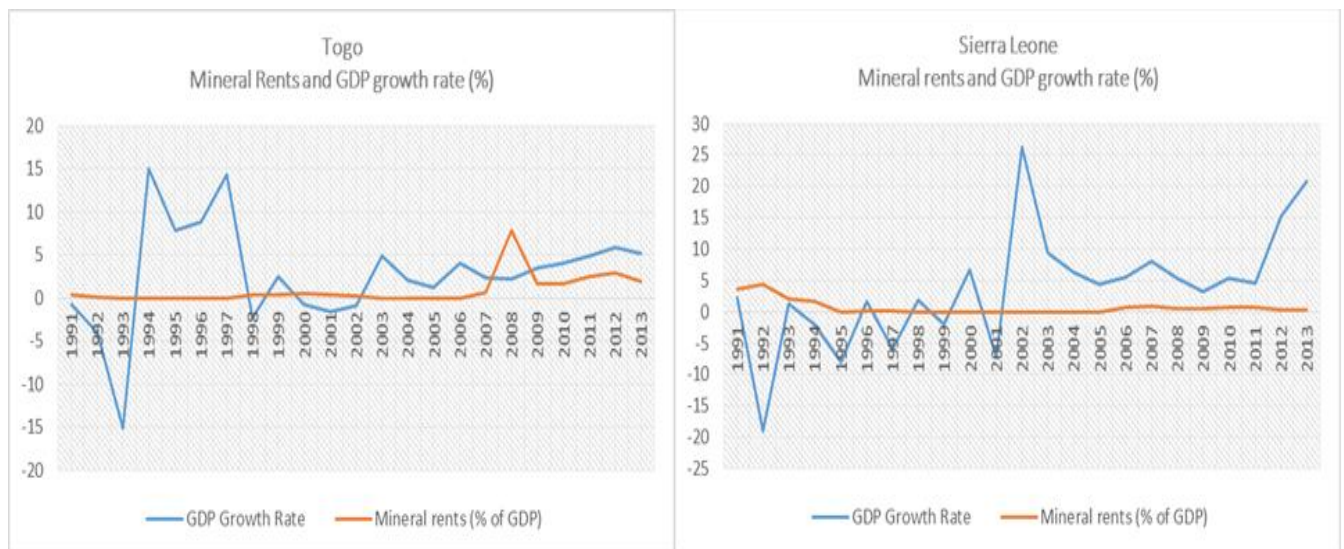
Source: Author, 2016

3.0   How mineral dependent economies can benefit from EITI

The EITI focuses on government disclosing all receipts of payment from mineral rents. In same manner, companies in the mineral sectors are mandated to publish all payments, while an independent administrator verifies the tax and royalty payments. On the basis of these, an EITI report is published. While this is aimed at ensuring transparency and keeping the countries' citizens informed, the dependent economies can benefit adequately from EITI given the following;

High literate level in the mineral dependent economies

Without the adequate ability of citizens to interpret the published information on mineral rents as expected by EITI and relate it to their daily lives, it will still be difficult for the citizenry to hold their governments accountable. Most of these poor countries have the highest illiteracy rate and political apathy in the world, thereby putting the masses at disadvantage compared to the few ruling elites. For instance, only 28.7% are educated in Niger, Guinea literacy rate is 30.4%, while chad has a literacy rate of 40.2% (UNICEF, 2013). The civil society should promote local awareness and easy interpretation of the reports (if possible, in local languages) detail enough for the non-educated people of these countries to understand. This enlightenment will empower citizens to demand accountability and translate the mineral rents into infrastructural development.

Practical development traced to mineral earnings

EITI should go beyond disclosing payments, but should also be extended to how these resources were expended. Detail information on the real impacts of mineral rents can also be submitted as part of EITI reports and made available to citizens in an understandable format. How many schools were built?

How many hospitals were constructed? Were the host communities presented with infrastructures and social facilities? For instance, Nigeria has always been cleared by EITI as compliant country since 2011, but these payment declarations and reports have never translated to better lives for the people of Niger delta, where the resources come from (Ebegbulem, Ekpe, and Adejumo, 2013), therefore, EITI did not drive reforms (Shaxson, 2009). Basically, the funds are still squandered after declaration of payment to EITI. Demanding reports on tangible impact of this payments from compliant countries will enable citizens to properly assess how the mineral sector has positively impacted their lives.

Existence of enforcement and Sanction machinery

Apart from the fact that EITI membership is voluntary, EITI does not have strong mechanism in place to sanction erring countries and companies. The only punitive mechanism use by EITI is to suspend non-compliant countries. For instance, Angola has refused signed up to the EITI and its government has been accused of missing billions of dollars generated through the oil sector. EITI has not been able to draw up incentives nor punitive measures to attract countries to the organization. In addition, Nigeria's 2005 audit report released in 2009 had a discrepancy of over $800 million of unresolved differences without any sanction from EITI (Baumüller et al., 2011). More compelling measures will help save billions of dollars that could have been channeled into provision of infrastructural facilities for the masses.

Access to Information and communication technologies

Due to the infrastructural decay in some of these mineral dependent countries, majority of the citizen lack access to information and communication technologies. So, the expected benefit of EITI to empower citizens through access to information is defeated. There is therefore need to make further make hard copies of reports available through the local civil society groups partnering with EITI or make available media where citizens can have access to these reports in the local offices of the civil society group in each of the participating countries.

Local monitoring group

The framework of corruption in some mineral dependent countries is usually in collaboration with mineral exploring companies (Amundsen, 2011, Dougherty, 2011). So, terming a country "a compliant" based on the agreement between what companies published as payment to governments and what government publish as receipt is not sufficient. The EITI can further benefit the poor in these mineral dependent countries with the presence of local monitoring groups that are free from intimidations and harassments. The civil society groups that attempted to assume this role in Azerbaijan were harassed without any protection from EITI nor was punitive measure against it (Human Rights Watch, 2015).

4.0   Weakness of EITI and policy Implications

The weakness of EITI stem from its foundation as a voluntary initiative, thereby weakening its real impact on development in communities where mineral resources are explored. Although it might not be totally feasible to instigate punitive measures against erring states, but working in collaboration with more existing international institutions such the United Nations, WTO etc. and creating more incentives to aid collaboration can be a way forward. Moreso, given the fact that the basis of establishing EITI was due to the divergence between mineral rents and development in mineral dependent countries, the EITI reports that only include revenues without assessing its real impact on developmental projects have not met its founders' objectives. The implication of all these weakness is continued mismanagement and persistent gaps between mineral rents and development indicators.

5.0   Conclusion

The resources of a nation should be used for the growth and development of such nation, as well as the improvement of the citizens' wellbeing. Corruption and mismanagement backed with lack of decent governmental institutions empowers the few elites in collaboration with some companies to waste these resources while subjecting majority to poverty and inhumane living conditions.

The recent Panama files scandals shows that actors in oil, gas and mineral extraction countries can use secrecy such as shell companies to starve nations resources meant for its development.

Transparency has been seen to be the mechanism to reduce corruption and corrupt practices. The new extractive industry transparency initiative was established to ensure transparency, If the world's poor must benefit from its operations and initiatives, EITI boards should also focus on ensuring transparency on the provisions of the core amenities and social services that liberate the poor from poverty, such health care, schools and basic infrastructures, while further restructuring its framework to be in consonance with developments in these countries.

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Appendix

Table 1a: regression of GDP growth on Mineral rents after before joining EITI

```
    Linear regression                          Number of obs =      143
                                               F(  1,      9) =     0.29
                                               Prob > F       =   0.6063
                                               R-squared      =   0.0051
                                               Root MSE       =  .78081


                                    (Std. Err. adjusted for 10 clusters in id)
--------------------------------------------------------------------------------
              |               Robust
  lnGdpGrowth |    Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
--------------+-----------------------------------------------------------------
lnMineralRent |  -.017653   .0330632    -0.53   0.606    -.0924472     .0571411
        _cons |  1.492424   .0902954    16.53   0.000     1.288161     1.696686
--------------------------------------------------------------------------------
```

Table 1b: regression of GDP growth on Mineral rents after Joining EITI

```
Linear regression                            Number of obs =      155
                                             F(  0,      9) =        .
                                             Prob > F       =        .
                                             R-squared      =   0.1023
                                             Root MSE       =  .84572

                                    (Std. Err. adjusted for 10 clusters in id)
--------------------------------------------------------------------------------
              |               Robust
  lnGdpGrowth |    Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
--------------+-----------------------------------------------------------------
lnMineralRent |  .0206692   .0263508     0.78   0.453    -.0389405      .080279
              |
    Countries |
         Chad | -.5248436   .0620831    -8.45   0.000    -.6652853    -.3844018
        Congo | -.1856254   .0749553    -2.48   0.035    -.3551861    -.0160648
       Guinea | -.6084247    .093136    -6.53   0.000     -.819113    -.3977364
         Mali | -.5511622   .0736076    -7.49   0.000    -.7176741    -.3846504
   Mozambique |  .3496335   .0843794     4.14   0.003      .158754     .5405129
        Niger | -.3032804   .0224747   -13.49   0.000    -.3541216    -.2524392
     Tanzania | -.1771388   .0165312   -10.72   0.000    -.2145348    -.1397427
         Togo |  -.477656   .0542453    -8.81   0.000    -.6003674    -.3549447
 Sierra Leone| -.1874077   .0031274   -59.92   0.000    -.1944825     -.180333
              |
        _cons |   1.73744   .0389463    44.61   0.000     1.649337     1.825543
--------------------------------------------------------------------------------
```

Table 2a: regression of Government Expenditure on Education on Mineral rents before joining EITI

```
Linear regression                                Number of obs =      82
                                                 F(  1,     9) =    0.10
                                                 Prob > F      = 0.7554
                                                 R-squared     = 0.0067
                                                 Root MSE      = .30462


                                   (Std. Err. adjusted for 10 clusters in id)
--------------------------------------------------------------------------------
               |              Robust
   lnGovtExpEdu |     Coef.   Std. Err.      t    P>|t|    [95% Conf. Interval]
-------------+------------------------------------------------------------------
  lnMineralRent |  .0080756   .0251438     0.32   0.755   -.0488037    .0649549
          _cons |  1.192129   .0994018    11.99   0.000    .9672669    1.416992
--------------------------------------------------------------------------------
```

Table 2b: regression of Government Expenditure on Education on Mineral rents after joining EITI

```
Linear regression                                Number of obs =      90
                                                 F(  0,     9) =       .
                                                 Prob > F      =       .
                                                 R-squared     = 0.7429
                                                 Root MSE      =    .169

                                   (Std. Err. adjusted for 10 clusters in id)
--------------------------------------------------------------------------------
               |              Robust
   lnGovtExpEdu |     Coef.   Std. Err.      t    P>|t|    [95% Conf. Interval]
-------------+------------------------------------------------------------------
  lnMineralRent |  .0490496   .0155137     3.16   0.012    .0139551    .0841441
               |
     Countries |
          Chad | -.5123316   .0717252    -7.14   0.000   -.6745853   -.3500779
         Congo | -1.125242   .0291871   -38.55   0.000   -1.191267   -1.059216
        Guinea | -.6134006   .0215531   -28.46   0.000   -.6621572    -.564644
          Mali |  -.111672   .0033553   -33.28   0.000   -.1192622   -.1040818
    Mozambique |   .320667   .0823516     3.89   0.004    .1343748    .5069591
         Niger | -.0191659   .0550549    -0.35   0.736   -.1437086    .1053769
      Tanzania | -.0270883   .0381722    -0.71   0.496   -.1134398    .0592633
          Togo |  .0387308   .0141833     2.73   0.023    .0066459    .0708157
  Sierra Leone | -.3285297   .0351653    -9.34   0.000   -.4080791   -.2489804
               |
          _cons |  1.418136   .0116973   121.24   0.000    1.391675    1.444597
--------------------------------------------------------------------------------
```

Table 3a: regression of gross capital Formation on Mineral rents before joining EITI

```
Linear regression                               Number of obs =      160
                                                F(  1,     9) =     0.02
                                                Prob > F      =   0.9036
                                                R-squared     =   0.0003
                                                Root MSE      =   .46491

                                  (Std. Err. adjusted for 10 clusters in id)
-------------------------------------------------------------------------------
              |               Robust
lnGrossCapi~m |    Coef.   Std. Err.      t    P>|t|    [95% Conf. Interval]
--------------+----------------------------------------------------------------
lnMineralRent | -.0025105   .0201458    -0.12   0.904   -.0480834    .0430624
        _cons |  2.881202   .1096059    26.29   0.000    2.633256    3.129148
-------------------------------------------------------------------------------
```

Table 3b: regression of gross capital Formation on Mineral rents after joining EITI

```
Linear regression                               Number of obs =      172
                                                F(  0,     9) =        .
                                                Prob > F      =        .
                                                R-squared     =   0.5701
                                                Root MSE      =   .32324

                                  (Std. Err. adjusted for 10 clusters in id)
-------------------------------------------------------------------------------
              |               Robust
lnGrossCapital|    Coef.   Std. Err.      t    P>|t|    [95% Conf. Interval]
--------------+----------------------------------------------------------------
lnMineralRent |  .0762081   .0187937     4.05   0.003    .0336937    .1187225
              |
    Countries |
         Chad |  .295057    .0442784     6.66   0.000    .1948922    .3952218
        Congo | -.995327    .0382166   -26.04   0.000   -1.081779   -.9088751
       Guinea | -.5378345   .0667654    -8.06   0.000   -.6888682   -.3868008
         Mali | -.2860867   .0485805    -5.89   0.000   -.3959834   -.1761899
   Mozambique |  .3005      .0601238     5.00   0.001    .1644906    .4365093
        Niger | -.0232746   .0211819    -1.10   0.300   -.0711914    .0246421
     Tanzania |  .0222119   .0117902     1.88   0.092   -.0044594    .0488833
         Togo | -.4069655   .0237449   -17.14   0.000   -.4606803   -.3532508
 Sierra Leone | -.8468043   .0020626  -410.55   0.000   -.8514703   -.8421383
              |
        _cons |  3.267375   .027777    117.63   0.000    3.204539    3.330211
-------------------------------------------------------------------------------
```

Table 4a: regression of Health Expenditure on Mineral rents before Joining EITI

```
    Linear regression                              Number of obs = 146

                                                   F(  1,     9) =    0.05

                                                   Prob > F      = 0.8342

                                                   R-squared     = 0.0020

                                                   Root MSE      = .39248


                                     (Std. Err. adjusted for 10 clusters in id)
--------------------------------------------------------------------------------
               |               Robust
    lnHealthExp |    Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
--------------+-----------------------------------------------------------------

lnMineralRent |  -.0056936   .0264156    -0.22   0.834    -.0654499    .0540627
        _cons |   1.638781    .126557    12.95   0.000     1.352489    1.925072
--------------------------------------------------------------------------------
```

Table 4b: regression of Health Expenditure on Mineral rents after joining EITI

```
Linear regression                              Number of obs =      158
                                               F(  0,     9) =        .
                                               Prob > F      =        .
                                               R-squared     =   0.8362
                                               Root MSE      =   .16048

                                     (Std. Err. adjusted for 10 clusters in id)
--------------------------------------------------------------------------------
               |               Robust
   lnHealthExp |    Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
--------------+-----------------------------------------------------------------
lnMineralRent |   .046158   .0125359     3.68   0.005     .0177999    .0745161
              |
    Countries |
         Chad |  -.3957679  .0295347   -13.40   0.000    -.4625801   -.3289557
        Congo |  -.6681803  .0261106   -25.59   0.000    -.7272466   -.6091141
       Guinea |  -.698703   .0438667   -15.93   0.000    -.7979363   -.5994697
         Mali |  -.0412453  .0324043    -1.27   0.235     -.114549    .0320583
   Mozambique |   .0981225  .0393502     2.49   0.034     .0091062    .1871387
        Niger |   .1330606  .0141288     9.42   0.000      .101099    .1650222
     Tanzania |  -.2623624  .0073324   -35.78   0.000    -.2789495   -.2457754
         Togo |  -.0278749  .0189924    -1.47   0.176    -.0708386    .0150888
 Sierra Leone |   .6259925  .0069572    89.98   0.000     .6102543    .6417306
              |
        _cons |   1.868191  .0185279   100.83   0.000     1.826278    1.910104
--------------------------------------------------------------------------------
```

Table 5a: Regression of Manufacturing Value-Added on Mineral Rents before Joining EITI

```
  Linear regression                               Number of obs =    149
                                                  F(  1,     8) =   0.01
                                                  Prob > F      = 0.9093
                                                  R-squared     = 0.0008
                                                  Root MSE      = .76604

                                  (Std. Err. adjusted for 9 clusters in id)
-------------------------------------------------------------------------------
              |               Robust
lnManuValue~d |    Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
--------------+----------------------------------------------------------------
lnMineralRent |  -.0069658  .0592542    -0.12   0.909    -.1436062    .1296747
        _cons |   1.957548   .199949     9.79   0.000     1.496465    2.418631
-------------------------------------------------------------------------------
```

Table 5b: Regression of Manufacturing Value-Added on Mineral Rents after Joining EITI

```
Linear regression                                 Number of obs =    158
                                                  F(  0,     8) =      .
                                                  Prob > F      =      .
                                                  R-squared     = 0.7875
                                                  Root MSE      = .35301

                                  (Std. Err. adjusted for 9 clusters in id)
-------------------------------------------------------------------------------
              |               Robust
lnManuValue~d |    Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
--------------+----------------------------------------------------------------
lnMineralRent |  -.0129079  .0203864    -0.63   0.544    -.0599191    .0341033
              |
    Countries |
         Chad |   -2.40827  .0480309   -50.14   0.000    -2.519029    -2.29751
        Congo |   .3504872   .043208     8.11   0.000     .2508493    .4501251
       Guinea | -.6775673  .0724234    -9.36   0.000     -.844576   -.5105585
   Mozambique |   .2048515   .065219     3.14   0.014     .0544562    .3552467
        Niger |  -.6240143   .022977   -27.16   0.000    -.6769993   -.5710293
     Tanzania |  -.2894678  .0127894   -22.63   0.000    -.3189602   -.2599754
         Togo |  -.2534802  .0257572    -9.84   0.000    -.3128765    -.194084
 Sierra-Leone |  -1.074412  .0032565  -329.93   0.000    -1.081921   -1.066902
              |
        _cons |   2.356032  .030131     78.19   0.000      2.28655    2.425515
-------------------------------------------------------------------------------
```