UNDER Pressure

Good management of a resource discovery needs informed citizens and informed governments

Oil rig, Turkana County, Kenya.

Paul Collier

MANY past resource booms in poor countries have failed to improve the lot of those countries substantially, leaving them almost as poor as before those resources were discovered.

During the past decade, there has been a new wave of resource, mainly oil, discoveries in low-income countries, and international organizations have undertaken three complementary campaigns to try to ensure that the new resource booms do not repeat history:

- The IMF and other economic agencies conduct training programs to help build technical understanding and capacity in governments.
- The Group of Eight industrial economies (G8), the Group of Twenty advanced and emerging market economies, and the Organisation for Economic Co-operation and Development have been tightening rules on international companies to curtail tax avoidance and bribery.
- Nongovernmental organizations, in a campaign now also taken up by the G8, are empowering citizens to scrutinize public revenues.

The responsibility for the failures is shared by the governments that controlled the rights to natural resources and the companies that extracted them, and these campaigns reflect a realistically critical view of the capacities and motivations of governments and companies. But they are incomplete.

The chain of economic decisions necessary for resources to be harnessed for development is long and complex. That, indeed, is why governments need so much specialized capacity building. But if governments need to strengthen their understanding, so do citizens—beyond just being able to scrutinize the numbers. In the absence of understanding, citizens can pressure governments to dissipate new resource wealth in populist gestures. A common populist response to resource discoveries is pressure for public sector wage increases. In 1974, Nigeria was one of the first poor countries to experience an oil boom. The following year, as a result of an explosion in citizen expectations, the government was pressured into raising public sector wages by 75 percent. In 2012, Kenyans reenacted these events.

Another form of resource populism is the provision of cheap gasoline to the middle classes. In 2012, when Nigeria's economic reformers tried to end the fuel subsidies that had built up as concessions to popular sentiment, the country erupted. In 2013, the same thing happened in Sudan. Some commentators have so much confidence in ordinary people's ability to make good decisions that they advocate distribution of resource revenues to citizens as handouts. This approach was adopted in Mongolia and triggered resource populism of dramatically damaging proportions. Voters pressured the political parties to compete in offering the largest handout, with the result that half of national income was distributed—far more than the government had received in resource revenues.

As these examples suggest, citizens do not automatically become informed about good management of a resource discovery. In countries that are small and poor, the media generally lack the specialized economic journalism that could help build such understanding. So governments have to build it themselves. Just as it is the responsibility of citizens to scrutinize how governments use resource revenues, so it is the responsibility of governments to build citizen understanding of the distinctive economic decisions required for the good management of those revenues.

Over the past decade, efforts to build citizen scrutiny of government have received enormous attention. The Extractive Industries Transparency Initiative and the legal obligation of companies to report their payments to governments are two landmark achievements of this effort. Yet no equivalent attention has been given to the distinctive challenge of government communication efforts to build citizen understanding, even though many governments lacked the capacity to undertake such an important effort. Communication is an essential role of political leadership. But a politician in office when oil is discovered normally lacks national experience on which to draw. Moreover, although leaders can tap into extensive global expertise on the economics of managing an oil discovery (see Box), there is no established body of international expertise on building citizen understanding. The professional economic policy advice of the international financial institutions (such as the IMF and the World Bank) is pitched mainly by technocrats to technocrats, with little to no concern for how it might be communicated to citizens. Meanwhile, the professional communication advice that public relations firms provide to politicians generally focuses on short-horizon politics, rather than on the long-term economics of natural resource management.

Here are some basic principles that policymakers might find useful in helping their citizens gain a realistic understanding of the effect of an oil discovery on their own and on national well-being.

Spreading understanding

Mass communication of *news* is straightforward: a press statement that announces "we've struck oil" will spread quickly. But mass communication of *understanding* is more difficult. Many adult citizens, long away from the classroom, will lack the patience to digest a lecture. So both crafting the content of a message and ensuring that it spreads are challenges as demanding as technical economic decisions. A communications fashion among governments in many poor countries is to present a *vision*. But while visions can instill an ambition, they do not instill understanding of the process by which it can be achieved. That is done through a *narrative*. Visions are static; narratives are stories—the mental vehicles by which people understand a process of change.

Harnessing an oil windfall responsibly depends on doing things that poor societies find difficult, such as saving for the future. Good leaders can capture tough messages in stories.

An oil discovery often triggers an explosion of unrealistic expectations.

During the Second World War, the United Kingdom needed to grow more food. Prime Minister Winston Churchill explained this with a simple narrative: "Dig for victory." Once Botswana discovered diamonds, its people faced an equally important challenge. Its leader, Sir Seretse Khama, also found a brilliantly effective narrative.

Narratives have to be disseminated, and governments cannot reach all their citizens at once. Stories spread through networks. Experts have found that success in spreading a narrative will often depend on reaching a relatively small group of influential people. Who these people are varies among societies and with the content of the narrative. Building a critical mass of citizen understanding about an oil discovery, then, is not achieved through press statements, but by crafting narratives and understanding networks.

Oil and gas (which is often found with oil) have three characteristics that make effective communication about them much more important than about most economic issues:

- A discovery can evoke glamorous images of achieving wealth without effort.
- The fossil fuels have no natural owners.
- The resources will eventually run out.

An oil discovery often triggers an explosion of *unrealistic expectations*. Such expectations are not confined to poor societies. When the United Kingdom discovered oil in 1966, the satire magazine *Punch* carried a prescient cartoon depicting a future scene: two tramps sitting together, one saying to the other: "and then we discovered North Sea oil and there didn't seem much point in working anymore."

Such unrealistic expectations can rapidly become a problem for governments. In March 2012, an oil company prospecting in northern Kenya announced that it had struck oil. At that stage there was no way to know whether the discovery was commercially viable—and even in the best scenario, it would be at least four years before oil would start to flow. Yet by the next month the public sector unions had made an ambitious wage demand.

Such lack of realism can be countered by smart presentation of the basic facts. Psychologists have discovered that how facts are presented, or "framed," makes a big difference in how people react to them. For example, in 2013 ExxonMobil Corporation paid the government of Liberia $50 million for prospecting rights. To ordinary Liberians,

After the discovery

Four decades of academic research have established what policymakers need to do following an oil discovery. Revenues from oil and other natural resources are distinctive: they are volatile—resources deplete—which means that revenues will end. To cope with volatility, some revenue should be saved when times are good to cushion spending when times are bad. To prepare for depletion, other assets should be accumulated so that by the time the natural asset runs out, the country can maintain spending thanks to the extra income generated by these new assets.

Jwaneng diamond mine, Botswana.

$50 million sounded like the onset of fabulous wealth. But there might have been a more realistic discussion of what the money could buy if the bonus had been reported as the amount each Liberian would receive—the equivalent of $12. Framed in this way, Liberians might have been able to see that the Exxon payment would not be life changing.

In Kenya, the essential fact that needed to be communicated was not the amount per person but the long lags and uncertainties that remained. Someone needed to respond to the premature wage demands by saying: "Don't count your chickens before they're hatched!"

No owners

Another characteristic of oil that makes a communications strategy important is that *natural assets do not have natural owners*. No one can claim the ownership of oil by right of having put it under the ground. Yet, because oil is valuable, there has to be some agreed basis for ownership. Psychology has demonstrated rigorously what is painfully evident from experience: people are overly inclined to accept arguments that best serve their interests. Unless it has been clearly established prior to discovery, ownership of any natural asset is, in principle, up for grabs. So people will adopt whatever basis for an ownership claim best fits their circumstances. Those living near the discovery will claim local ownership, while others will claim national ownership. In some societies, the rules of ownership are already beyond dispute, but in many poor countries a relatively recent national identity clashes with ancient and strongly held local identities.

Take the case of Tanzania, where, thanks to founding President Julius Nyerere, the country has a stronger sense of shared national identity than most of Africa. Local loyalties have been played down, and people from different ethnic groups have long learned to cooperate. Furthermore, when the Tanzanian government opened up prospecting for gas, the rights that it sold were only for offshore blocks. With Tanzania's strong sense of national identity and no onshore prospecting, the government reasonably assumed that it would be evident that any gas discovered would belong to the nation.

In 2012, oil companies found gas far out at sea off the coast of the southeastern Mtwara region. Citizen reactions demonstrated why even in a country with a strong national identity, a preemptive communications strategy is important. Local people learned of the discovery not from government announcements but via Twitter from the publicly traded companies, which were legally required to make their strikes public immediately. As news reached Mtwara, trillions of cubic feet became trillions of dollars. Expectations exploded: out of nowhere, a rumor spread that each household would receive an envelope containing $200 a month. Like the hoboes in the *Punch* cartoon, local youth quickly started claiming that they no longer needed to work. More disturbingly, residents of Mtwara asserted ownership and became angry that the gas was to be used for the national benefit. Indeed, people in the locality were so passionate in their belief that their imagined rights were being violated that they rioted: in May 2013, four people were killed. If offshore gas in Tanzania gives rise to these problems, then few poor societies are likely to be immune to them.

A vital aspect of a communications strategy, then, is to anticipate and resolve the ownership issue, beginning at the start of the exploration process. By acting preemptively, governments can probably guide public sentiment. Because valuable natural resources can be anywhere in the country, it should be possible to reach a consensus that whatever is found belongs to everyone.

Success in Botswana

Botswana, which is a rare success in natural resource management, showed how this can be done. Its first president, Khama, devised a message that was starkly simple: "We have nothing, so let's agree that anything we do find belongs to everybody." In tandem with the message came astute dissemination through a network. Khama toured the country, getting all the clan chiefs to accept the message. Such a consensus can be reached only behind the "veil of ignorance" that exists before discovery. If people have not explicitly agreed to this ownership rule prior to discovery, self-interest is likely to take over if there is a strike, provoking genuine outrage when local and national claims collide.

The third characteristic of oil that makes a communications strategy important is that *it is nonrenewable*. Because extraction depletes an asset, revenues can be short lived. In the discoveries typical in Africa, depletion occurs in approximately one generation. Moreover, rapid population growth reduces the per-person endowment. For example, suppose that steady extraction would deplete the oil in 50 years. If the population grows at 2 percent annually, after only 25 years the per capita endowment will have declined by 70 percent. Moreover, the future value of oil depends on its price. Because of climate consequences, global policies may so curtail carbon emissions that within a few decades many deposits could become "stranded assets"—worthless because of taxes or regulations.

As with any temporary source of revenue, some of it should be used to accumulate other assets so that spending can be stretched beyond the period of extraction (see "Extracting Resource Revenue," in the September 2013 *F&D*). With natural assets, the ethical case for saving revenues is even stronger because the oil does not belong exclusively to the present generation. If the current generation squanders the oil revenues on unsustainable consumption, the next generation will have reason to complain that their parents were irresponsible custodians. This is why the "we don't need to work anymore" narrative is so pernicious and must be discredited. In a poor country, new, effortless wealth does not reduce the need to work. Rather, oil presents people with a unique opportunity to grow the society out of poverty by investing the revenues. When diamonds were discovered in Botswana, the government swiftly introduced a counternarrative that became pervasive: "We're poor and therefore we must carry a heavy load." The consensus of opinion about the need to carry a heavy load enabled the government to invest a far higher proportion of its income than had been possible in the rest of Africa. Botswana went from among the poorest to among the richest countries in the region. This is the task now facing the governments of many poor countries. Through effective communication, as in Botswana, they can bring their citizens to see themselves as stewards of their children's opportunities, not lucky invitees to a party. The narrative that does this is, in essence, "good stewardship."

To be effective, a narrative must be matched to a process that spreads it across a network of citizens. Sometimes the most suitable strategy is determined by the structure of authority, as with the clan chiefs of Botswana. But sometimes it is determined by the content of the message. The narrative of good stewardship resonates with many religious teachings. In most poor societies, religion is well organized and plays a prominent role in people's lives. The narrative of responsible stewardship of an oil discovery therefore lends itself to dissemination through a nation's churches and mosques.

A prudent government will prepare the ground for a resource discovery by purposefully building a critical mass of citizen understanding through narratives and networks, thereby resolving ownership in advance of prospecting and puncturing fantasies by presenting facts that are easy to grasp. ■

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