

Challenges and solutions to the resource curse

Ideas and evidence from the social sciences

Graeme Blair
PRG Matchmaking Workshop, November 2018
Accra



PRG
Project on Resources
and Governance

What is the resource curse?

Countries rich in natural resources

- Less democratic
- Less economically stable
- More violent



Challenge 1:

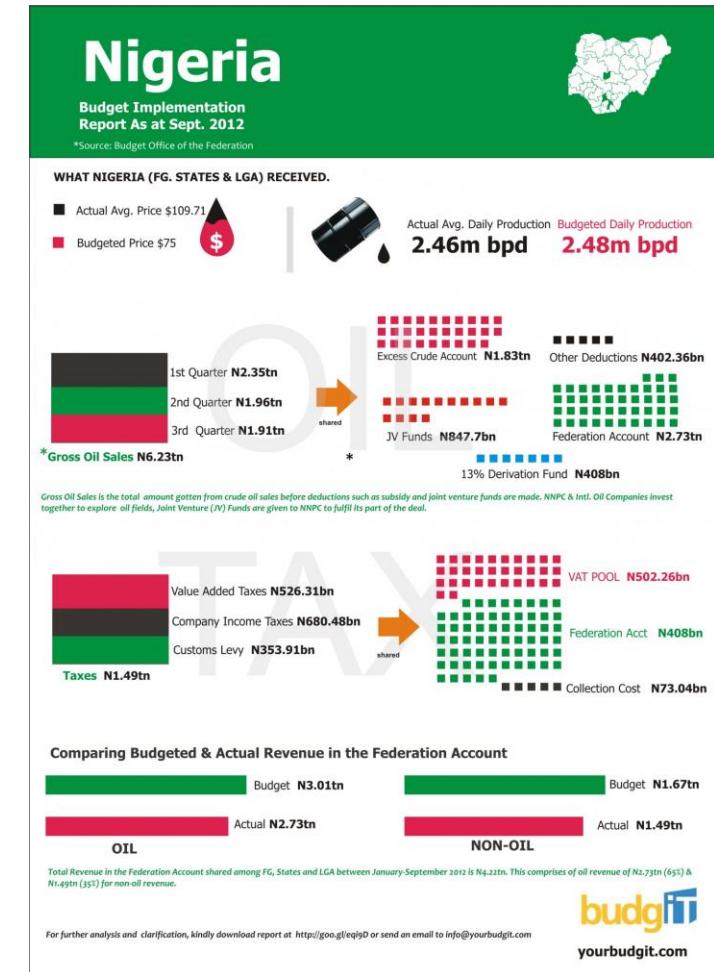
What are natural resources worth and who holds this information?

- Companies and central governments know value
- Citizens, civil society, and regional governments cannot demand accountability for *how* money if *how much* is available is unknown
- *Beliefs about value* drive expectations about benefits
 - Service delivery, employment, revenue distribution, and ability to mitigate harms from extraction

Challenge 1:

What are natural resources worth and who holds this information?

- Motivates interventions to share *information* about value of resources, where they are produced, and how revenues are spent
 - Enables accountability mechanisms
 - Levels expectations
- But who should be informed? Will they take action?
How?



Challenge 2: How can benefits of resources be equitably shared?

- What should resource revenues be spent on?
- When should they be spent?
- Who should benefit?
- Who decides?

Challenge 2: How can benefits of resources be equitably shared?

- Improve *policies*
 - Ensure public services are provided to the poor
 - Save resource revenues for the future
 - Share benefits widely, including to those affected by extraction
- Improve *decision-making processes*
 - Bring citizens, underrepresented minorities into decisions over sharing benefits

Challenge 3: How can negative externalities be minimized?

- Economic *inflation, property destruction*
- Social *displacement, drugs, and alcohol*
- Environmental *water, air, soil, noise*
- Health *workers, neighbors*
- Political *corruption*

Challenge 3: How can negative externalities be minimized?

- Aim: prevent harms, maximize remediation efforts
- Problems stem from companies failing to pay costs themselves
- Solutions push costs back onto companies
 - Administrative penalties
 - Legal remedies
 - Public relations consequences

Challenge 3: How can negative externalities be minimized?

- Imposing costs for violations requires *monitoring*
 - Citizens know about harm to themselves, incentives to overclaim
 - Companies know about operations, incentives to hide
 - High-capacity government, civil society can independently verify
- Collect information from citizens
- Verify independently

Three challenges from resource wealth

- **Challenge 1:** Uncertain value
- **Challenge 2:** Unequal benefits sharing
- **Challenge 3:** Negative externalities

If we successfully address these challenges,
what outcomes should change?

- Governance *service delivery, regulation*
- Development *livelihoods, inequality*
- Conflict *social conflict, insurgency*
- Health *worker health and safety, asthma rates*
- Environment *water quality, air quality*



What works?

Challenge 1: Uncertain value Potential solutions

- Community mobilization or awareness campaigns
- Publishing extractives-related information – mining contract, revenues, projects funded by resource revenue
- Increase media coverage of resource wealth

Challenge 1: Uncertain value

What do we know?

- Releasing audit results led to electoral losses in Brazil
- Newspaper ads on legislator behavior led to electoral losses in India
- Disseminating legislator score cards to voters improved behavior of legislators in Uganda, but only in competitive districts
 - Another showed score cards *did not* change voter or legislator behavior in Uganda
- Teacher score cards did not lead to mobilization of citizens to demand improvement in Kenya
- Backfire effects of information on municipal corruption in Mexico

Does Information Shape Electoral Choices

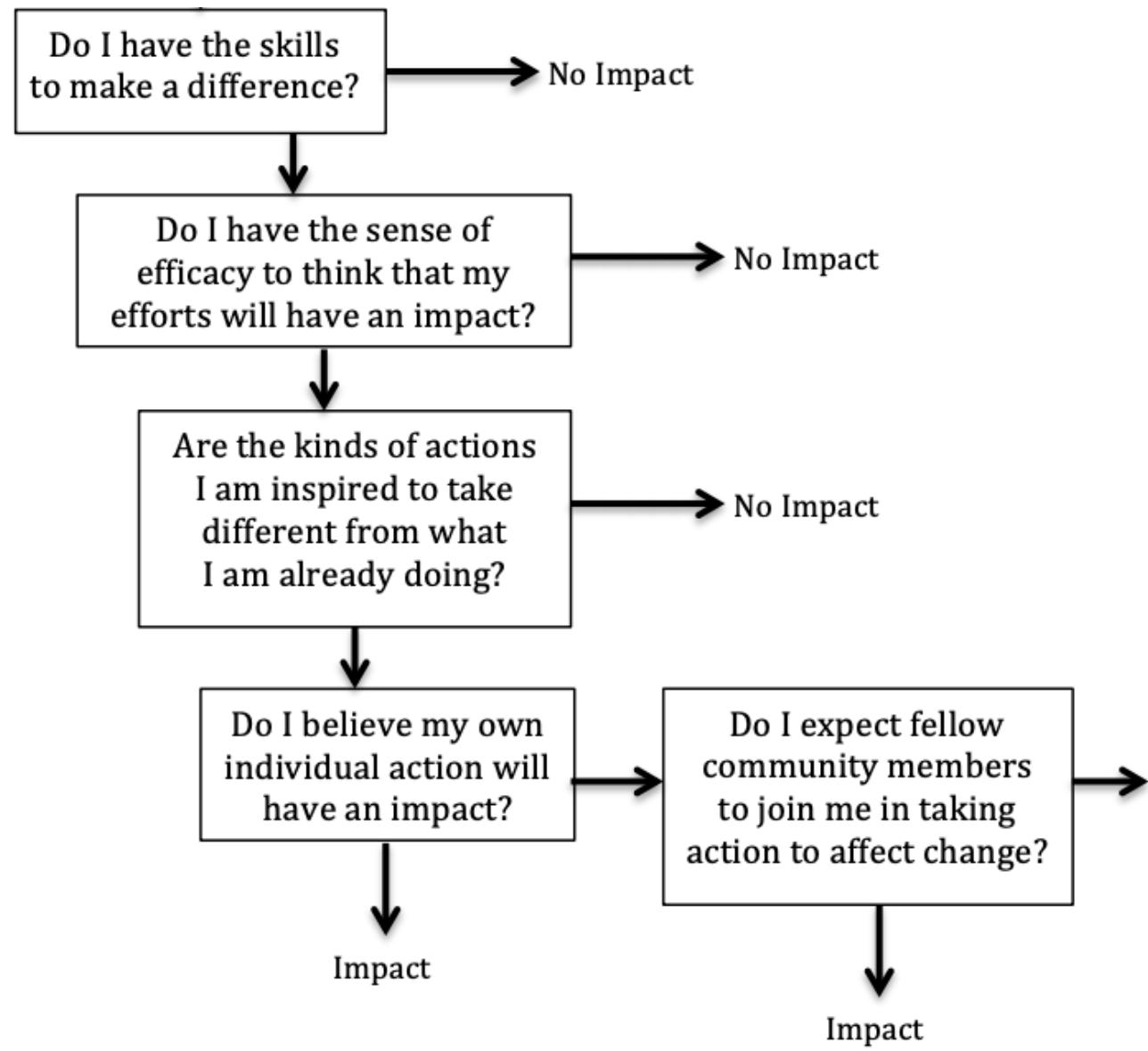
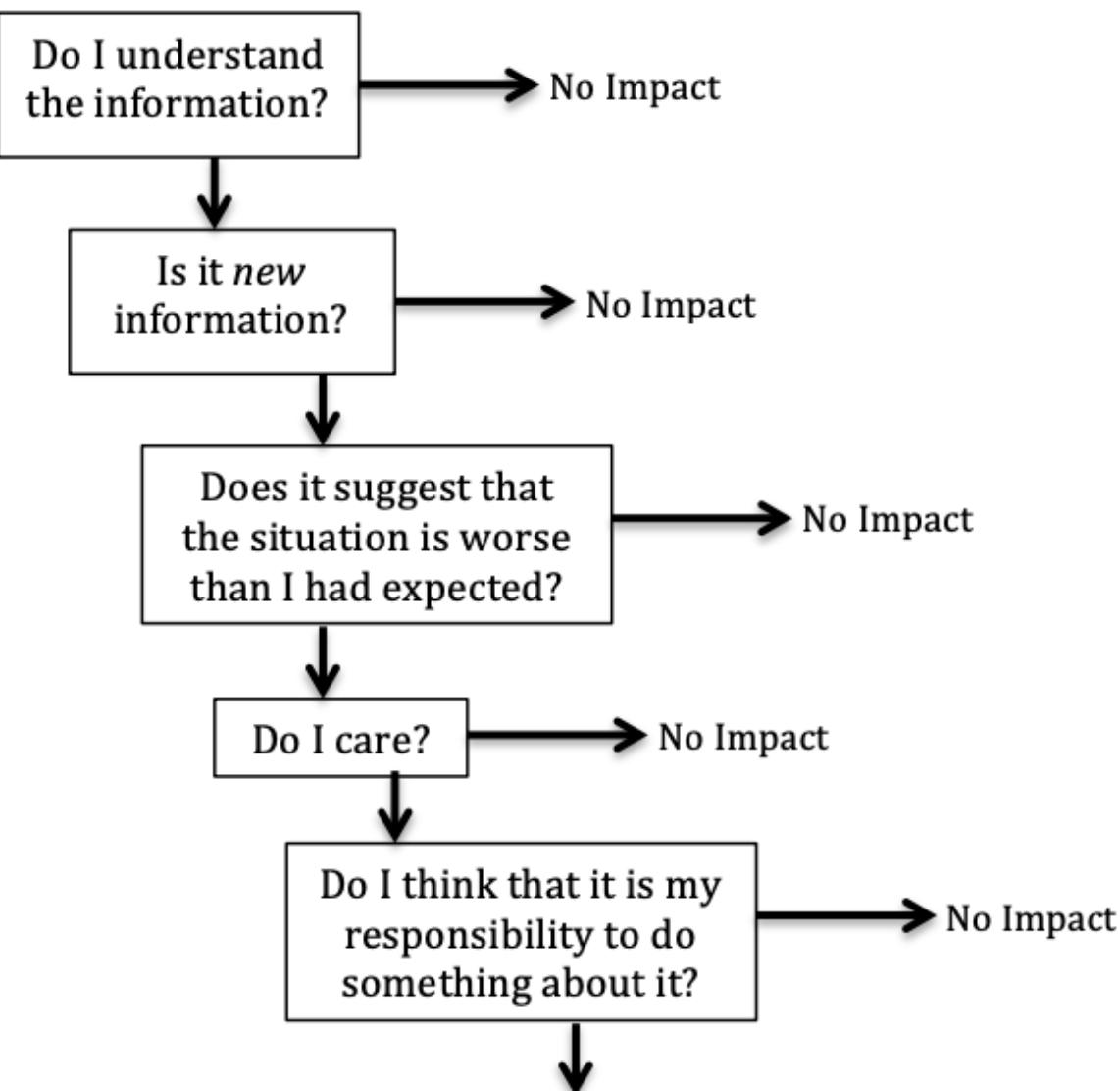
(EGAP Metaketa Initiative)

- Does sharing information about the performance of incumbent politicians before elections change voters' choices?
- **Interventions:**
 - Information on incumbents in terms of service quality, corruption, or candidate quality
- **Main finding:** No effects of any type of information on vote choice
- **Remaining gap in research:** Can information provided to citizens be combined with interventions that generate *demand* for information or *skills to take action* on information generate change?



Does Information Shape Electoral Choices

(Lieberman, Posner, and Tsai 2014)



Challenge 2: Unequal benefits sharing

Potential solutions

- Resource revenues distributed to affected communities (revenue sharing)
- Affected population given priority in employment, procurement, and other economic activity generated by extractives (local content)
- Give citizens voice in how resource revenues spent (participatory decision making)
- Enforcement (audits, civil service recruitment)

Challenge 2: Unequal benefits sharing

What do we know?

- Participatory decisionmaking
 - Locally-derived decisions often not radically different
 - Prone to elite influence
- Audits
 - In some contexts, threat of audits may constrain politician misbehavior
 - In some contexts, revelation of audit results may shape vote choice
 - Top down rather than community-level audits more effective

The Role of Leaders in Democratic Deliberations in São Tomé and Príncipe (Humphreys, Masters, and Sandbu 2006)

- How important are local elites in deliberative decision-making bodies that are meant to increase citizen voice?
- **Intervention:** randomize *who leads* participatory decision-making process about how new oil revenues would be spent
- **Main finding:** As much as 49% of variation in decisions was determined by the *leader* of the deliberative body, rather than its citizen participants
- **Remaining gap in research:** What interventions can reduce the influence of elites and those leading participatory processes?



Combating Corruption in Community Development in Indonesia (Olken 2007)

- How can we reduce corruption of local governments for spending money allocated to public works projects?
- **Interventions:**
 - Community-led monitoring of road construction
 - Increasing the probability of centrally-administered audits
- **Main finding:** Although community participation was not found to have significant effects, the audits reduced missing expenditures from 28% to 19%



Challenge 3: Negative externalities

Potential solutions

- Push for legal action against violations
- Monitoring and audits of sites
- Grievance redress mechanisms
- Improve extractives practices to minimize damage

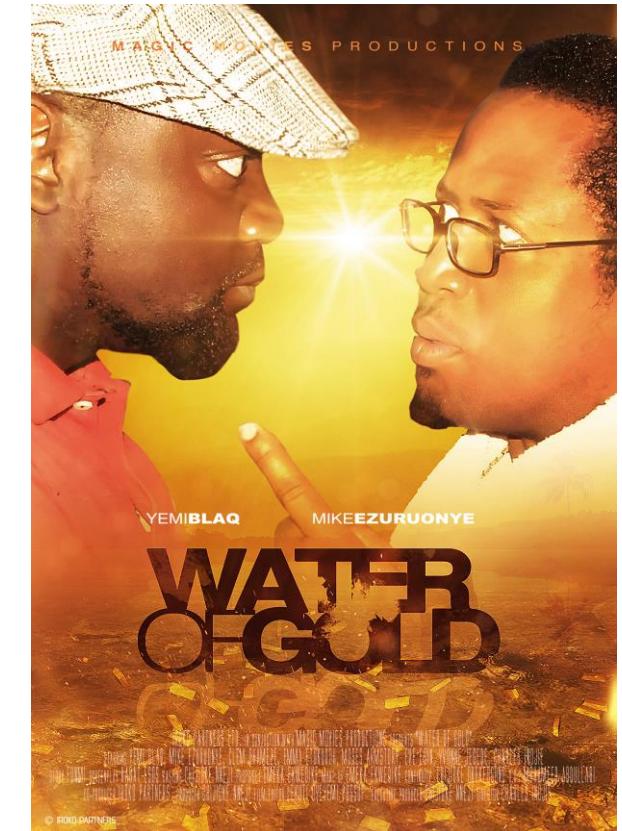
Challenge 3: Negative externalities

What do we know?

- Mixed evidence on effectiveness of audits
- Mixed evidence on community monitoring
- Social norms and nudges may be promising interventions to generate early adopters of technologies, sustain engagement

Motivating the adoption of new community-minded behaviors (Blair, Littman, and Paluck 2018)

- How can we motivate citizens to adopt new technologies and behaviors that benefit the community, i.e. reporting corruption?
- **Intervention:**
 - Change social norms through Nollywood film
 - Reduce small costs (“nudge”) to taking behavior
- **Main finding:** Reducing small barriers through nudges effective at driving initial adoption stage.
- **Remaining gap in research:** How can interventions that drive initial adoption and those that sustain use be combined to achieve lasting change?



Reducing pollution from factories in Gujarat (Duflo, Greenstone, Pande, and Ryan 2013)

- How can we reduce pollution from factories?
- **Intervention:**
 - Third-party auditors of compliance with regulation;
 - Second stage “back-check” of audits to reduce collusion between auditors and factories.
- **Main finding:** Combined, the interventions decreased the likelihood of false air quality reports by 80% and reduced emissions of air and water pollutants by 28%
- **Remaining gap in research:** Can cheaper interventions that change incentives for collusion be effective?



Grievance redress mechanisms in mining communities in South Africa

(Blair, Christensen, and Sexton, in progress)

- How can we increase responsiveness of companies and government to grievances in mining communities?
- **Intervention:** introduce grievance reporting platform
 - Citizens in mining communities submit complaints by SMS
 - Companies and civil society actors receive timely, representative information
 - When companies respond, citizens alerted



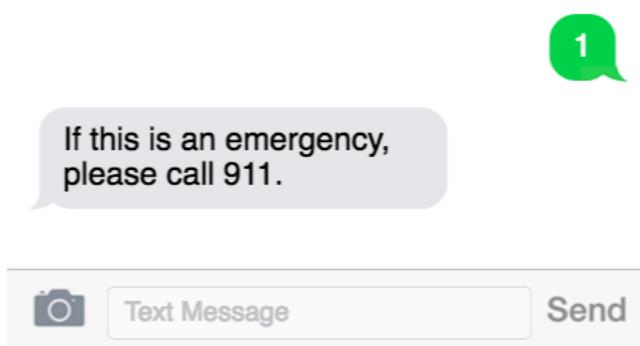


Thanks for contacting Ulula!

Which do you prefer?

- 1: English
- 2: Espanol
- 3: 한국어
- 4: 中文
- 5: Other

Type the number 1-5.



How would you describe the problem?

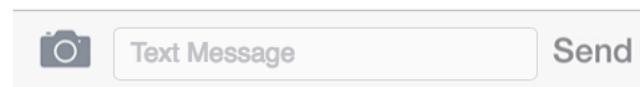
- 1: Dust or noise
- 2: Injury
- 3: Jobs
- 4: Blasting
- 5: Other

1

How urgent is the problem from 1-5 (where 1 is urgent)?

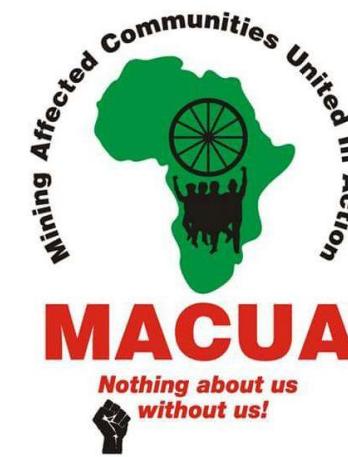
2...but getting worse

...



Grievance redress mechanisms in mining communities in South Africa

(Blair, Christensen, and Sexton, in progress)



J-PAL Africa

Pilot proof-of-concept: ongoing, funded by PRG

Fundraising for large-scale evaluation in 150 mining communities in
South Africa



To keep in mind as we move ahead...

- We are all aware of the challenges facing better governance of the extractive sector
- Evidence for what to do about it is sparse in general, and almost non-existent when it comes to extractives
- When there is evidence, it is often mixed
- It is important not to make assumptions about what works
- Also important to think about trying different versions of programs or combinations of programs