Challenges and solutions to the resource curse

Ideas and evidence from the social sciences

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PRG Matchmaking Workshop, November 2018
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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)

- Do I understand the information?
  - No Impact

- Is it *new* information?
  - No Impact

- Does it suggest that the situation is worse than I had expected?
  - No Impact

- Do I care?
  - No Impact

- Do I think that it is my responsibility to do something about it?
  - No Impact

- Do I have the skills to make a difference?
  - No Impact

- Do I have the sense of efficacy to think that my efforts will have an impact?
  - No Impact

- Are the kinds of actions I am inspired to take different from what I am already doing?
  - No Impact

- Do I believe my own individual action will have an impact?
  - Impact

- Do I expect fellow community members to join me in taking action to affect change?
  - Impact
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)
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?
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
Please help! Stuck at conference, need coffee (donuts if possible).

Thanks for contacting Ulula!
Which do you prefer?
1: English
2: Español
3: 한국어
4: 中文
5: Other
Type the number 1-5.

If this is an emergency, please call 911.

How would you describe the problem?
1: Dust or noise
2: Injury
3: Jobs
4: Blasting
5: Other

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)

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