

AFRICA'S NEW OIL ECONOMIES: MANAGING EXPECTATIONS

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The recent discoveries of oil and gas deposits in some African countries, such as Ghana, Ethiopia, Sierra Leone, São Tomé and Príncipe, and Uganda, present new opportunities to chart a sustainable growth and development path that facilitates poverty reduction. Ghana and Uganda are two of the countries that are currently attracting most of the attention. Ghana's offshore Jubilee field, situated approximately 60 kilometers from the mainland is estimated to have oil reserves of 1.8 billion barrels as well as significant gas deposits. The Jubilee field, which began official commercial production in mid-December 2010, is initially expected to produce 55,000 barrels of oil per day with output set to rise to 120,000 barrels per day over the next six months. For Uganda, the quantity of oil reserves underground located near the Albertine valley is estimated at 2 billion barrels, translating to 100,000 to 300,000 barrels of oil per day. Commercial oil production in Uganda is expected to start in 2013.

Admittedly, in the absence of new large finds, these oil discoveries come nowhere near the over 30 billion barrels of reserves in Nigeria or the 12 billion barrels in Angola. Yet, there are growing expectations among the citizens of these new oil economies of the immediate upswings in their livelihoods and improvements in quality of life. The newly discovered natural resources and the associated windfalls are expected to be used to deliver substantial social, economic and infrastructure improvements in these African countries. The masses of unemployed youth are looking forward to new jobs; local fishermen fear losing their livelihoods while others are anticipating increased national prosperity and a possible end to donor dependence and conditionality.

These new oil discoveries have also come in the midst of serious concerns and controversies that have characterized the empirical relationship between oil rents and development, particularly in oil exporting African countries. The disappointing development

performance of many resource-rich economies has been a topical issue among policymakers, NGOs, civil society and academics. Many countries have failed to leverage their natural resource wealth to build strong and stable states with sustained long-term economic growth. For some of these countries, oil, gas and mineral wealth have instead become associated with high poverty rates, weak state institutions, corruption and conflict.

Clearly, these expectations—whether explicit or implicit, clear or fuzzy, realistic or unrealistic, evidence-based or opinionated—need to be managed in order to avoid any potentially negative consequences. Such consequences could include: a disappointed and disengaged public, an indebted government that has borrowed against possible incoming natural resource revenues, difficult development planning, Dutch disease, increases in rent-seeking, and general mistrust within society. All of these consequences will need to be managed accordingly. The good news for these new African oil economies is that there is now a broad understanding of some of the measures that need to be put in place in order to manage these expectations and avoid the resource curse. Botswana, Canada, Australia and Norway are among the countries that have effectively managed their natural resources to advance development.

Some common themes on how to manage the expectations and avoid the resource curse are summarized below:

1. There is the need to improve the quality of institutions and to insist on accountability and transparency of resource revenues. Transparency over the allocation of mineral rights, the revenues generated, and how the revenues are spent is essential.
2. Providing reliable and timely information to all stakeholders involved—including local communities, civil society organizations, the broader public, national and local government, Parliament, oil companies, private sector and the business community—is crucial in helping shape public expectations.
3. Strengthening the capacity of the legal system, government auditors, parliamentary commissions and civil society to regulate the sector and monitor activities on the ground in order to address the adverse economic, social and environmental consequences is necessary.
4. The absence of a long-term national development strategy with broad consensus on spending priorities may encourage wrong investment decisions, wastefulness and mismanagement of revenues with serious negative implications for the economy.
5. The design and implementation of appropriate policies matter. For example, fiscal strategies that smooth cycles have been raised in the policy discussion. A subsidy or tax relief for the non-resource export sectors that are hurt by a loss of competitiveness due to the natural resource bonanza and the spill-over effects have proven to be worthwhile.
6. With regards to how governments can use revenues from natural resources, the consensus is to invest in the long-term accumulation of all

forms of capital (human, physical and institutional), as opposed to financing current consumption. Spending and investment in education, health and infrastructure development is certainly a good thing. But if it is done in isolation without adequate spending on the tradable sector, it could adversely affect the employment and welfare of people engaged in the tradable sector.

7. Strategies should also take into account the fact that some resources are non-renewable. Thus, there is the need to limit fiscal discretion in order to avoid the over-use of revenues. In this regard, it may help to put some of the revenues into fiscal reserves or sovereign wealth funds to avoid over-use of revenues and to ensure that the interests of future generations are safeguarded.

It is important to mention the need for strong political leadership and for developing country partners to support the process by broadening the scope of engagement beyond extractive sectors and by enhancing technology transfer and learning. Stepping up technical support and training for national capacity-building by donors will be extremely helpful. Current global initiatives, such as the Extractive Industries Transparency Initiative and the IMF's multi-donor Tropical Trust Fund on Managing Natural Resource Wealth, need to be commended and given the necessary support. Also, given that China and India are important players in the new scramble for Africa's resources, African governments should take steps to ensure that their growing interaction with these rising economic powers result in economic diversification, technology transfer and learning, rather than simply the sale of African commodities and raw materials.