The Natural Resources Curse and What Firms Can Do About It: A PNG Case Study

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Agenda:

1. The curse: Research literature on:
   What it is. What it isn't. How it works.
2. The case studied: Misima Island, Papua New Guinea
3. Resource curse symptoms observed
   (a) rent seeking and corruption
   (b) change in importance of democratic institutions
4. Actions to dampen the curse at the project level
5. Implications for what managers can do
6. Future research directions

Based on:
Boutilier, 2017, Raiding the honey pot,
Extractive Industries and Society, online preprint

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Original hypothesis: Two distinct negative impacts

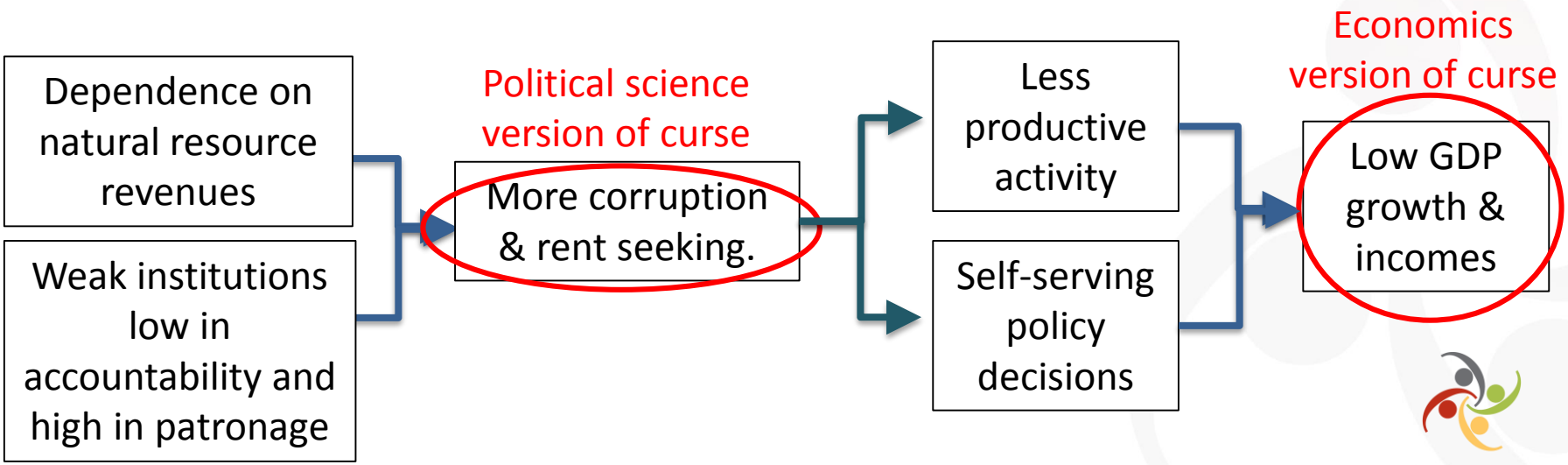
- Economics: Slow growth & income stagnation
  - Tendency for countries rich in extractable resources to have flat GDP and low average incomes
  - Particularly notable with
    (a) direct foreign aid (Knack, 2001; Brautigam & Knack, 2004)
    (b) oil & gas,
    (c) precious metals
- Political science: Less democracy, more corruption & violence
  - Rentier state:
    > Politicians don't need tax income & buy the support they need to stay in power, then repress opposition
    > Voters are indifferent because they don't pay taxes
  - Lack of revenue transparency
  - Secessionist movements more likely in resource rich regions (Bougainville, Katanga, East Timor, South Sudan)

… but for anthropologists, it's *any* negative impact

- Anthropologists studying resource communities have taken to labelling negative impacts as part of the resource curse.
- Reyna & Behrends (2008, p.11): "*The curse is the paradoxical situation where what should bring good brings bad.*"
- Even includes environmental impacts and/or fears thereof
- The resource communities also experience:
  - Loss of livelihood. The economic side of the curse is about no growth or slow growth *away from* the extractive project.
  - Loss of identity, indicated by decline in traditional beliefs or practices
  - Intensification of identity to protect boundaries of beneficiary groups
  - Social disintegration (e.g., alcohol/drugs, family problems, jealousies, etc) following 'easy money' or sudden wealth.
  - Entrenchment of self-serving local elites
  - Strains on regional infrastructure and cost of living caused by presence of the extractive project.

Refined hypothesis: Weak institutions are pivotal

- Inconsistent anomalies led to refined hypothesis
  - Many countries should have the curse but don't: (Australia, Botswana, Canada, Chile, Norway)
- Resource dependence + weak institutions => curse
  - More investment in political capital, less in human capital
  - Low accountability, weak rule of law, especially regarding property rights
  - Patronage, clientelism, little meritocracy
  - 'Rent seeking' = monopolies, exclusive rights, bribes, extortion



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Hypotheses rejected. Hypothesis modified.

- The Dutch Disease: National currency rises, other exports fall
  - Kills manufacturing and agricultural exports
  - Is THE most tested and rejected hypothesis of all
- Debt overhang from borrowing at height of commodity cycle
  - It makes the curse worse but is not a necessary condition for occurence
- Butkiewicz & Yanikkaya, 2010. *Land Economics* 86, 313-328.
  - Biggest sample of countries over longest period of time on greatest number of possible hypotheses
  - <u>Conclusion</u>: Main motors of the economic resource curse are …
    (a) low human capital (e.g., education, health), and
    (b) weak institutions susceptible to rent-seeking,
    … but only in …
    (c) developing countries
    (d) with a high dependence on resource exports.

But what does it look like at the project site level?

- National to local cross-level verification: Questions
  - Are these purely national effects or population level claims?
  - Is there corruption and rent seeking at the local level too?
  - Are different effects predicted for project communities?
  - Are the effects related democracy/autocracy only national?
  - What can project managers do about it, if anything?
- Site level predictions:
  - Growth may be faster in resource communities (according to one version of the dutch disease explanation)
  - Corruption and rent seeking should be evident in the communities that have a a 'honey pot' (i.e., a large flow or accumulation of cash)
  - Democracy can go either way. If it improves, there should be signs of clientelism (e.g., white elephants, public works in villages of supporters). If it deteriorates, responsiveness to public should decline along with rule of law.

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Case context: Misima Island, Papua New Guinea

- Cultural context
  - Louisiade Archipelago, Prov. Milne Bay
  - Subsistence gardening, fishing
  - 7,000 native speakers of Misiman
  - 100 yrs. of missionaries, English speaking
  - Melanesian Wantok system
  - Non-market land, matrilineal, administered by clans
  - Democratic institutions co-exist with traditional clan authority. Both legal.

- Mining activity
  - Placer Dome's MML co-owned with PNG and clans whose land was used
  - Operated 1988 to 2004. Employed up to 700, 86% Misiman, 14% FIFO Aussies

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Observation methods

- Study from 1999 to 2004
  - Interviewing by senior UPNG students, Dr. Albert Mellam supervising
  - 172 interviews with leaders of stakeholder clans, groups, organizations:
    (a) open-ended concerns, priorities
    (b) social capital ratings (some items now measure social license),
    (c) inter-organizational network connections
- Additional information sources
  - MML library of historical documents and commissioned reports
  - Pre- and post-interview conversations with stakeholders & employees
  - Long-term community relations employees, including local residents
  - Resident and visiting anthropologists, missionaries, and government agents
  - Academic specialists on Misima and Melanesia
  - PNG media reports

Curse phenomena observed

- Initial claims for compensation and royalties
  - Clan organization (MTSA) formed to receive and distribute payments
  - Completion of genealogies showed payments going to **imposters**
  - MTSA split into EMEL (mining lease lands) and MROA (outside lease)
  - MROA led by prominent imposters
- MROA retail store and court trial
  - 3 MROA leaders used clan funds to open only retail store on island with hundreds of well-paid workers
  - Store bankrupt within 18 months owing to partying and buying of 'social capital' via the Wantok system (example of non-productive rent seeking)
  - Fraud investigation found 'grave irregularities.' A court ordered MROA disbanded and took control of the Future Generations Trust Fund (FGTF)

Curse phenomena observed

- MTSA revival and the Future Generations Trust Fund
  - FGTF was intended to pay school fees for children of clans whose land was used for the mine.
  - 3 ex-leaders of MROA registered a new version of MTSA and 'convinced' a judge to give them a cut of the FGTF (rent-seeking, alleged corruption)

- Surge in democracy: 2002 local election (LLLG)
  - 3 ex-leaders of MROA supported candidate who promised infrastructure benefits mostly for MROA clans (i.e., clientelism = monopolistic rent-seeking). He won. EMEL lost influence.
- Closure criteria
  - LLLG pressured provincial government to make its infrastructure election promises into closure criteria for MML

MML's curse dampening tactics

- Direct payments of compensation and royalties
  - Realizing that fraudsters had taken control of the umbrella clan organization receiving payments, in 1997 MML started making the payments directly to individual clans.
- Training in trust fund administration & community planning
  - Leaders in EMEL villages got training in strategic planning, administration, and accounting
  - Jackson (2002) called the FGTF the best designed trust fund in Melanesia – accountability and inclusiveness of neighbours
- Arrangement of legal EMEL'S defense against raids on the FGTF
  - Before, during, and after the court case against MROA, MML helped EMEL find a lawyer, prepare its case, and comply with the court's conditions for receiving control of the FGTF.

Post-closure Misima

- Environment
  - Former mining lands rehabilitated. No reports of permanent damage.
- Infrastructure
  - For first 7 or 8 years, everything deteriorated – collective action prob.
  - Airport and hydro-electric system left by MML are back in operation.
  - Cellphones and internet (Misima Facebook page)
- Economics
  - Remittances continue. Alluvial mining has grown.
    Population up over 10k (unofficial)
  - FGTF gone – rumours of suspicious circumstances, indicating that the administrative training and accountability mechanisms were ineffective
- Governance
  - Clans back in control. Democratic institutions controls fewer assets.

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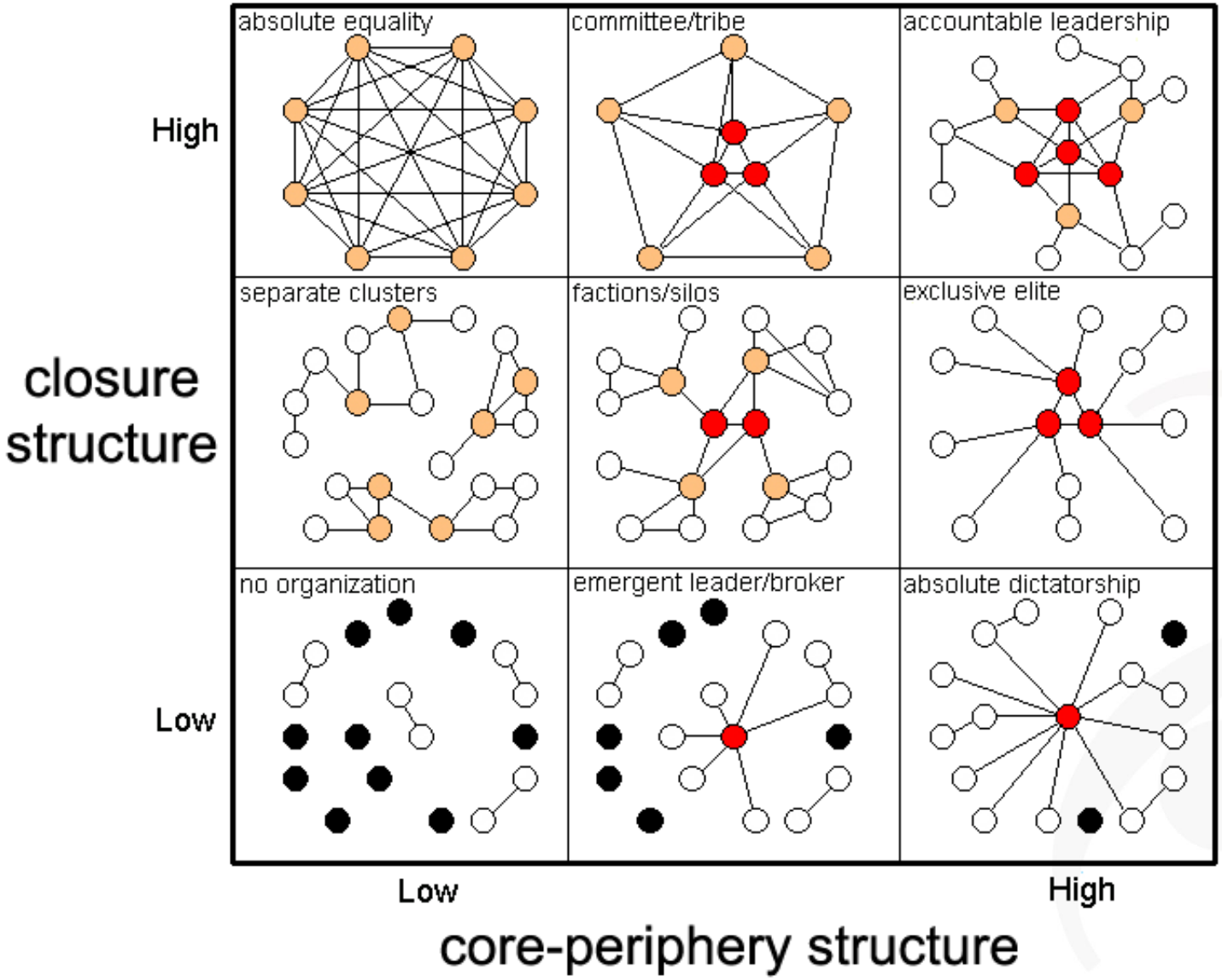
Take-away lessons: Preventing corruption/rent seeking

- The phenomenon identified by national level analyses have manifestations at the local project level
  - Misima was a case stacked against corruption & rent seeking by the Wantok system, yet they both were still observed
  - Cutting out the middle-man role of local leaders worked, but created ongoing political dissent among their clients
  - 'Sunlight' is not enough by itself (Kaskende et al, 2016; Sovacool et al 2016)
- Pre-existing divisions deepened when the stakes rose
- Reliance on legal remedies and education in administration did little to dampen curse dynamics

Take-away lessons: Ethnocentric expectations

- "One day rich"
  - Misimans had different aspirations regarding 'development'
  - CSR-style development is too 'Western'. To be useful, managers need to focus on convening and facilitating dialogues, not development outcomes as defined in the West
  - Imitating developed world institutions (e.g., trust funds) fails without the local groundwork to establish a social contract. Same problem encountered with shared resource management and conflict reduction efforts
- It's not the resource extraction; it's the lure of easy money
  - Critics of 'extractivism' often claim that the curse comes from 'greed' which is caused by Western economic institutions (e.g., neoliberalism, neocolonialism, capitalism). That may be too optimistic.
  - Even outside capitalism, "honey pots" provoke the 'voracity effect' (Tornell & Lane, 1999). The real motive may be rooted in pre-human evolution.

Effects of easy money depends on network structure



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Going deeper to understand development dynamics

- Can theories of corruption deepen our understanding of "weak institutions"
  - Ekeh's (1975) two publics: Civil vs Primordial (e.g., national vs tribal)
  - Radius of trust and social capital (Realo & Greenfield, 2008)
    Narrower radius should make primordial public more influential & therefore encourage rent-seeking from Ekeh's 'civil' institutions
  - Evolution of social contracts in Botswana vs Angola
    (Acemoglu, Johnson & Robinson, 2012; Ganson and Wennmann, 2013, p.137)
- Why only in developing countries that depend on resources?
  - Is there a level of education &/or economic diversification that "drowns out" the effect in data? More sub-national analyses needed.
  - Were regulators of BP's Deepwater Horizon corrupted? Do we see rent-seeking by Canadian pipeline opponents?
  - Does the *relative* size of the honey pot matter? Is there a threshold, *relative to alternatives,* for triggering the curse?

Future research directions

- Project managers may have a role to play in curse prevention
  - Much more research needed on *when* managers should do *what*
  - e.g., Transparency regarding payments to landowners: Several case where it made recipients the targets of extortion
- Corruption as a collective action problem
  (Persson, Rothstein & Teorell, 2013)
  - Research feasibility of same multi-stakeholder techniques that work in:
    - Shared resource management
    - Conflict reduction
    - Shared future vision development

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The End: “Bye-bye dim-dim!”

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