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A Contrarian View of Oil and Democracy

The Politics of Governing Oil Effectively

A Comparative Study of Two New Oil-rich States in Africa

By: Sam Hickey, Abdul-Garfu Abdulai, Angelo Izama, and Giles Mohan

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Poor governance always seems to get the blame when African countries fail to get the most out of their oil resources. In Nigeria decades of poor governance are blamed when petrodollars are unable to drive any meaningful economic growth. In Algeria poor governance is blamed for burdensome hydrocarbon laws that discourage robust foreign investment. In Equatorial Guinea poor governance is blamed for creating blatantly kleptocratic elites that siphon off the country's oil wealth while leaving most ordinary citizens desperately poor. In short, the term "poor governance" has become a catch-all term used to describe many of the woes that affect oil producing countries, especially countries in Africa. Used carelessly or excessively, it becomes broad enough to be nearly meaningless.

Fortunately, when used as a specific term in the field of political science, "poor governance" is generally defined much more precisely. For political scientists poor governance usually means oil revenues are not subject to oversight by democratically elected legislatures or savvy civil society actors. Poor governance means a lack of democracy, weak institutions, widespread opportunities for corruption, and a lack of transparency. When applied to oil rich countries, places like Angola and Nigeria are held up as the poster children of the perils of poor governance, while Norway is often touted as the shining example of the positive effects of good governance. At first glance, it is certainly difficult to argue with this view. The strong democratic institutions enjoyed by Norway are easily contrasted with the tribalism of Nigeria or the single party dominance that characterizes Angola. As a result, international agencies have whole-heartedly endorsed a slate of reforms in oil rich African countries that are designed to strengthen democratic institutions. To put it in more overtly wonky language, "There is a strong consensus within mainstream governance thinking that the quality of institutions within resource-rich countries is the key to how successfully they will manage (oil revenues). Based on an analysis of what seems to have worked well in countries like Norway, this perspective has led international agencies to promote a remarkably similar range of reforms and institutional arrangements in countries with new-found oil wealth in sub-Saharan Africa."

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The words come from a new paper written by Sam Hickey, Abdul-Garfu Abdulai, Angelo Izama, and Giles Mohan, a group of researchers based in both Africa and Europe. Their paper, "The Politics of Governing Oil Effectively: A comparative Study of Two New Oil-rich States in Africa," takes a decidedly contrarian view of what should be done to encourage responsible management of oil resources. Instead of banging the drum of "good governance" the authors argue that strong democratic institutions are not a panacea for the poor decisions that fritter away petrodollars.

Fortunately for Hickey et al, the continent just happened to produce conditions fairly ideal for comparing how oil resources are managed in a country known for "good governance" and one that scores significantly lower marks for its democratic institutions. Ghana, considered a beacon of democracy on the continent, struck oil around the same time as Uganda, considered by most measures to be a "semi-authoritarian" state. Since 1992, Ghana has held six elections, with the government peacefully handing power over to a democratically elected opposition twice during that period. During the last two decades the country has also seen "an explosion of political voice;" a fancy way of saying that an active civil society and free media encourage the participation of ordinary citizens in politics.

Uganda also holds regular elections, but since 1986 they have always resulted in the same man, Yoweri Museveni, continuing his vice-like grip on the presidency. *The Economist* summed up Museveni's

preferred campaign strategy by saying, "Mr. Museveni… operates the politics of patronage, with family and friends' businesses benefiting from access to the president and first lady." Uganda is far from an absolutist dictatorship, but it is certainly not on the same level of democratic governance as Ghana.

Yet both countries struck oil at roughly the same time, so the authors are able to use them to compare how a country with strong democratic institutions fairs against a less robust democracy when it comes to managing oil resources. The results are somewhat surprising. Ghana's path to oil production has been comparatively rapid, with the first oil coming from the ground in commercial quantities back in 2010. By contrast Uganda has yet to begin exporting oil, and is unlikely to do so until 2018.

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However, the authors point out that Ghana's rush to production has resulted in great fiscal inefficiencies, and has cost the Ghanaian people money. As the authors write, "In the case of Ghana the imperatives created by closely fought elections have clearly helped accelerate the pace of oil production… moving to production *before* getting the usual legislative and institutional arrangements in place." In other words, successive elected governments in Ghana were so eager to monetize the country's oil reserves as a means to hang onto political power that they took shortcuts in regulation and oversight. As a result, the country did not fare well at the negotiating table when it inked deals with international oil companies. At the same time Uganda was notably cautious in its oil legislation and negotiations with international oil companies, largely because the slower pace of political change (and the lack of winner take all elections) encouraged lawmakers to form coalitions across party lines to protect the national interest vis-à-vis oil.

The authors also credit what they call "pockets of effectiveness" within the bureaucracy of Uganda for helping to make the government more effective in its management of oil resources. Their argument centers on the idea that where there is a strong head of state (like Museveni), the relative security of political elites allows them to take a longer term view regarding the best way to handle natural resources like oil. Of course these pockets of effectiveness don't just magically appear; if that was the case there would be no oil rich dictators presiding over naked kleptocracies (we're talking about you, Equatorial Guinea). These pockets of effectiveness within the bureaucracy still need to be shaped by competitive hiring practices based on merit. Fortunately for Uganda, there are parts of the government that are relative meritocracies and not just bloated islands of nepotism.

Of course, Uganda's oil legislation is far from perfect, and Ghana's oil industry is far from a disaster. Still, most observers would say that semi-authoritarian Uganda has handled its oil wealth better than democratic Ghana. Ultimately Hickey, Abdulai, Izama, and Mohan offer a compelling, if controversial, explanation for the differences in the two countries' management of their oil. While it certainly won't convince every reader that democracy isn't the best form of governance, it definitely provides food for thought.