A New Oil Strategy for Africa

by Dr Franklin Obeng-Odoom

Introduction

In 2012, Africa accounted for 5 per cent of global oil reserves and 7 per cent of global oil production. Currently, one in three oil discoveries in the world is in West Africa. This oil is mostly high grade and attracts considerable investment interest. Around 500 companies are prospecting or drilling for oil in West Africa, including major Australian oil companies.

The key oil producers in West Africa are Nigeria, Angola, and Equatorial Guinea, recently joined by Ivory Coast, Ghana, and Sierra Leone.

Some cities in West Africa have been given a leg up by new oil flowing nearby. Such is the case in Abidjan and Sekondi-Takoradi in Cote d'Ivoire and Ghana respectively. National capitals, even where they are not the site of oil extraction also benefit as the seat of power. That is the case in Freetown, Sierra Leone where power over exploration and even self determination, perhaps excessive amount of it, has been concentrated in the presidency.

Some of the key questions in the resource rent debate are: whether governments view resources as common property, whether citizens are getting a fair share of oil revenues, and how to determine the best way to share oil revenues.

These questions are often overlooked in mainstream discussion about oil in Africa. Yet, answers are urgently needed to replace dichotomous analyses framed around euphoria and pessimism.

The Place of Oil in Africa's Development

Radical ecological economists typically argue that oil must be left in the ground as drilling inevitably fuels capitalism's onward march to environmental destruction. According to the Nigerian ecological activist, Nnimmo Bassey:

"Africans need soil, not oil. The environment is the cradle in which Africans are nurtured. Crude oil extraction has effectively uprooted the people from the soil. It has polluted their waters and poisoned their air."

Friends of the Earth Nigeria, which Bassey leads, recognises that stopping oil production would throw oil dependent countries into a crisis and hence offers a carefully developed alternative, based on a three-step logic. First, calculate how much oil revenue can be obtained per capita. Next, ask the citizens to pay this amount in taxes, so that the state will get the same amount of revenue anyway. Then, as not everyone can pay these taxes, share the remaining 'unpaid taxes' among those who can shoulder more. Rich civil society groups can also support the initiative by buying oil under the soil – without actually receiving it, a quasi Ecuadorian strategy. Leaving oil under the soil has many benefits, according to Bassey's group: it is a sure bet against flaring, pollution, and oil-extraction related climate change. It will put an end to the displacement of local communities, nip corruption in the bud, put an end to violent conflicts, and maintain a clean environment. This, however, is a minority view.

The so-called 'oil for development' view dominates, advocated by the African Union and the African Development Bank, but the African Progress Panel is the boldest:

"Effectively harnessed and well managed, Africa's resource wealth could lift millions of people out of poverty over the next decade. It could build the health, education and social protection systems that empower people to change their lives and reduce vulnerability. It could generate jobs for Africa's youth and markets for smallholder farmers. And it could put the region on a pathway towards dynamic and inclusive growth."

Contrary to popular perceptions that regard this standpoint as naïve, it has solid economic foundations. The staples thesis developed by Canadian radical political economists posits a strong theoretical connection between resource abundance and development. The successful Canadian economy is based on mineral extraction.

Recent advances in geography, anthropology, sociology, and applied local economics, all support the view that Africa can use its oil resource for prosperity without disease, poverty, and ecological pillage. Geographers use the notion of clustering to show how oil extraction can unleash localisation and urbanisation economies for entire cities and regions. Anthropologists have concretely documented many cases of mining transforming settlements positively as have modern sociologists who take a more critical view of predictions of social disruption made by their forebears, while specialists in local economies stress positive forward and backward linkages between the extractive industries and local economies.

Yet, the African approach has been widely discredited not only on empirical but also on theoretical grounds. Empirically, critics provide a litany of examples of how oil rich countries have not succeeded in providing social services and economic prosperity, and how oil resources make regimes despotic. These criticisms feed into and are shaped by two conceptual approaches: 'resource curse' and 'rentier state', essentially corruption and individual greed.

Taking Stock

These criticisms are long standing and soundly based. The original resource curse idea warns against the ever-increasing desire for growth - driven by natural resources - by drawing attention to broader socio-economic and ecological concerns such as environmental degradation, and inequality that are often overlooked in conventional drives for growth.

The original resource curse argument is, therefore, principally a challenge to laissez-faire economic analysis by noting the vulnerability of markets and their operating logic, namely while a natural resource boom can enhance GDP growth, fundamental market problems, such as exchange rate volatility, crowding-out problems, and the tendency to stifle diversity in economic development can often erode growth in the long run. The rentier state paradigm, on the other hand, takes aim at the oil state not only as an independent actor which can be corrupt but also as an institution with a dialectical relationship with transnational corporations and capitalist metropolises. Not just that the comprador state is corrupt but that the state moulded by neo-colonial and neoliberal forces work with transnational capital against local people and against self-determination. Yet, current rentier analyses only stress corruption in Africa.

Many African governments, politicians, and their cronies are corrupt of course. Individuals on the continent have become fabulously rich within a short period of time. In 2013, Isabel dos Santos, daughter of the leader of the Angolan petrol state, became the first African woman to be listed in the Forbes List of the nouveau riche in the world and legal proceedings on corruption have been initiated against Teodoro Obiang Mangue, son of President Obiang Mbasogo of Equatorial Guinea.

However, these social problems do not imply a 'culture of corruption' which must herald the death of the African state, whose place in economic management must be taken by capitalist markets. Corruption has a major root in the market too. Brutal ambition typically drives capitalists to compromise the state; and some elements in the state view capitalist processes as avenues for personal enrichment. So, there is a strong connection between free markets and corruption. The existing emphasis on 'good governance', stressing 'transparency' and private sector management as the best way to manage Africa's resources invariably leads to the expansion of markets as the state is subjected to a discourse of corruption. Attention is diverted away from big corporate corruption to improprieties among state officials, although the two are intimately related. But, even more fundamentally, the current analysis disregards a central pillar of progress and poverty: economic rent.

Enter the Georgist Strategy

The silence on rent in the discussion on oil in Africa is deafening. For Henry George, rent - how it arises, and is shared, the opportunity cost of not privatising the commons (i.e., not generating rent), the existence of rent and how it impacts on ecological concerns - is key to social progress, economic prosperity, and environmental sustainability. Rent arises in land, that is, in all natural resources, when the commons are commodified. It increases with social, public, and private investment, but is appropriated by private landowners. The position of the rentier class, in terms of the rent it extracts, increases manifold with population growth and speculation. Such increases, according to Henry George, are expressed in higher land and estate values.

In Africa, the economic rent in resource extraction is captured by oil companies. As rent is socially provided but privately appropriated, the income

Dr Franklin Obeng-Odoom

divide widens between the expropriators of land and the rest of the society. Without taxing land – an interim measure to change resulting dynamics – or turning land back to common property, social problems will metastasize into a socio-ecological crisis. With unbridled privatisation of land and the generation of more rent, the pressure to develop land further afield increases as does rent in the core.

Georgism has recently made major inroads in China and elsewhere in Asia, but does it have anything to offer the political economy of Africa's oil resources? I will argue so. While there are not many Georgist analyses of oil in Africa, a few studies point to directions that can be salvaged for such analysis. One relates to inequality between oil companies and the African countries where they work. This maldistribution of rent arises from (1) oil contracts that are heavily skewed in favour of oil companies and (2) fiscal regimes that do not tax rents.

Another type of inequality relates to inequality between landlords, local people, and local oil communities. This arises from increases in site values, housing, and hotel prices which are driven by migration into oil towns and cities, public investment in such settlements, and private investment, speculation and expectation of prosperity. I have analysed many other types of inequality related to rent in Sekondi-Takoradi, Ghana. The extent of such experiences depends on whether the city abuts the oil field, whether it is within the region of the field, or is the national capital. I document this process in Oiling the Urban Economy: Land, Labour, Capital and the State in Sekondi-Takoradi, Ghana. The levels of inequality differ but they share common features such as the encouragement to exploit without concern for the environment and the absence of funds devoted to compensate those struggling from rent-related environmental crisis, which aggravate these contradictions.

Rent-related inequality – as with other types of inequality - leads to exclusion and marginalisation, harsh accommodations for profit, and widespread evictions. In addition, the power to extract rent or the freedom from paying rent leads the oil companies to extend and defend its property rights, at the expense of nature. Spillage aside, extractive activities disturb marine life, reducing fish catch for fishers in oil communities. In Ghana, for example, incomes of fishers and the size of the fish harvest have both declined as a result of extraction activities. While there is much talk about corporate social responsibility, unequal power, arising largely from the creation and control of rent or appropriating rent, undermines attempts at democratically resolving the social, economic, and ecological crisis related to the extraction of oil.

George proposed two remedies for such problems, one interim; the other more permanent. George's interim measure is to introduce land taxation. That is, require resource extractors to pay tax on their economic rent, super normal profit, or windfall. A tax should also be placed on the site value they (and others) appropriate. The revenues from this tax base can then be put into social investment. This taxation system has the additional benefit of reducing rising land and housing costs and can divert some profits from oil companies to fishing and farming communities whose activities are disturbed by oil extraction.

While potent and used to great success in Alaska, for example, colonial and neocolonial processes such as neoliberalism have weakened state capacity in Africa so much that most African states do not even have the capacity to collect taxes. A UN-HABITAT report showed local revenues collected by city authorities in Africa is eleven times lower than the experience of industrialised countries. Even accounting for differences in land values, the state in Africa has much room for improvement. In the meanwhile, it is worth attempting to start collection now! even if only a small part can be realised. In future, however, George's proposed solution is to return land to its status as 'common property'. This is where the Africans have greater leverage. While under the aegis of the World Bank, the IMF, and the German development bank, common land is being dissipated; customary land in Africa remains widely recognised and widespread. Colonial forces made the management of some of these lands undemocratic either by reifying fluid customs or privileging men's rights over women's, so some mangled 'customs' ought to be revised. But, contrary to the now popular view that the only way for Africans to 'develop' is to create rent by privatising and commodifying the commons, there is a substantial body of research that shows that using the oil commons a la Henry George can bring progress without poverty or with rapidly declining poverty levels.

Implementing a Georgist philosophy, even his interim proposal of land taxation, is a Herculean task. For instance, recent attempts in Ghana to introduce windfall taxes at 10 per cent in the mining sector were blocked by mining interests. According to Ghana's President, his government:

"Introduced a windfall tax which is applied in several countries the mining companies come from for example in Australia and yet they will not allow us to implement a windfall tax in our country. They threatened to lay off workers if we implemented the windfall tax and because we needed the jobs and you don't want workers laid off you are coerced to go along. So these are major issues we have."

While the ten per cent tax rate is new, suggestions that the government was attempting something novel and was springing surprises on the extractive industries are unfounded. The country had a windfall profit tax in the 1986 Mining Code, pegged at a much higher 25 per cent, but it was reviewed and revised in 2006 and, by 2010 when the draft National Mining Policy of Ghana was introduced, the requirement for a windfall profit tax had been dropped. In 2012, its re-introduction was proposed, but the mining lobby defeated it. The spirit of George, however, would not lie still: the imperative for a mining tax emerged again in 2013 and in 2014 but again the mining lobby ganged up against it.

All is not lost, however. At a time when the mining industry has made such heavy investment in Ghana, the state can flex its muscle, not by nationalisation – which George opposed – but by threatening to revoke mining licenses if they lay off workers - most of whom have more innate ownership claims to the resource being mined than the foreign owners of capital. Next, it could go ahead to introduce the tax not only in the mining but also in the oil sector, and then enforce it multilaterally through the community, state, civil society groups, faith-based organisations, and the media. A variation of this reclaiming resources as a common has been used to much success in Botswana where the government renegotiated diamond contracts and placed a stronger emphasis on community ownership and involvement in the co-production, monitoring, and evaluation of mineral extraction together with investing revenues from rent in the provision of social services. For the record, while Botswana has had problems in wiping out inequality levels which seem to be increasing, it is one country in Africa where economic growth has been accompanied by falling levels of unemployment, poverty, and misery. Botswana and others show there are many sources of inequality beyond what George analysed and need to be tackled.

Conclusion

Most Africans and their leaders seem to opt for an oil-for-development approach. Contrary to widespread opinion that this is a naïve paradigm, there is a solid body of theory and empirical evidence that it can work, for the society, environment, and economy. Transparency in the management of oil contracts is important, but it is a disaster to focus on transparency only within the local state and leave out transnational oil companies. It is even more disastrous to omit the creation, control, and distribution of economic rent in analysis and policy-making. There are societies in Africa and elsewhere with a proven record of using a rent-based approach to oil-led sustainable development. While countries in Africa have substantially different histories and contemporary experiences and capacities, and hence will take different times and turns in the march towards reclaiming oil as a common, promoting this Georgist counter argument to the dominant, but deracalised 'resource curse' and 'rentier state' analyses, can, and should, be part of Africa's new strategy to oil-led development.

Franklin Obeng-Odoom is the Chancellor's Postdoctoral Research Fellow at School of Built Environment, University of Technology, Sydney (UTS). He is a World Social Science Fellow and Editor of African Review of Economics and Finance. A graduate of the Henry George School of Social Science in Chicago, he is author of Oiling the Urban Economy: Land, Labour, Capital, and the State in Sekondi-Takoradi, Ghana (Routledge 2014) and Governance for Pro-Poor Urban Development: Lessons from Ghana (Routledge, 2013). He teaches urban economics and property and political economy at UTS.

Email: Franklin.Obeng-Odoom@uts.edu.au.
Website: www.obeng-odoom.com