Briefing
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Natural Resource Governance Institute

Answering Questions About the Commodity Slump

A summary from the 2015 NRGI conference

David Manley

There has rarely been as large a commodity boom, with such resounding effects, as the one that has recently ended. Policy makers and commentators saw the boom as an opportunity to pull hundreds of millions of people out of poverty. But, after the crash of commodity prices, one might ask whether this opportunity been largely missed. Policymakers and citizens of resource-rich countries should draw lessons from the experience and ascertain what risks and opportunities they now face in a period of depressed prices. To contribute to this thinking, NRGI gathered more than 180 experts for two days of discussion at St. Catherine's College, Oxford, in June 2015.

We learned that the weak state of government finances left some countries ill-prepared for the fall in commodity prices. Some countries missed an important opportunity to accumulate productive assets during the boom. Further, governments' efforts to diversify from extractives were weak.

Public expectations were seen as a critical driver of policy and must be managed carefully. However, the post-boom period presents an opportunity to reset expectations and a chance to reflect on mistakes made during the boom.

Participants learned that much work remains in improving the way governments and companies disclose information, managing the information that is disclosed, and ensuring other ingredients of good governance are strengthened. Some argued that the hypothesis of establishing transparency before other critical aspects of policy and governance was no longer valid and that a re-evaluation of impact and drivers of change—by governments and the international community—might be warranted. Some participants suggested that in the extreme, a focus on transparency in a vacuum could be counter-productive.

We discussed how investor capital has shifted away from regions seen to be politically risky or poorly governed. The ensuing response from governments might be to reduce taxes or reduce other regulatory burdens, but better options are available.

Last, the sentiment at the conference was that, despite the dangers it has brought, the slump in commodity prices is an opportunity for governments and civil society. Now might be a better time for governance reform than during the boom. But given that some missed the opportunity afforded by the boom, are government officials ready to take the opportunities afforded by the bust?

About this briefing

This note summarizes some of the proceedings at the 2015 Natural Resource Governance Institute Conference. It does not cover all the ideas expressed at the conference; the full agenda, as well as select slides and session videos, are available on NRGI's website.

The 2015 conference is a continuation of an annual series, intended as a platform to facilitate discussion among public officials, civil society representatives, academics, practitioners and others concerned with the governance of resource-rich countries.

WERE COUNTRIES PREPARED FOR THE BUST?

Volatility in commodity markets is a well-known fact. Still, the fall in commodity prices (see figure 1) left some countries ill-prepared for a long slump.

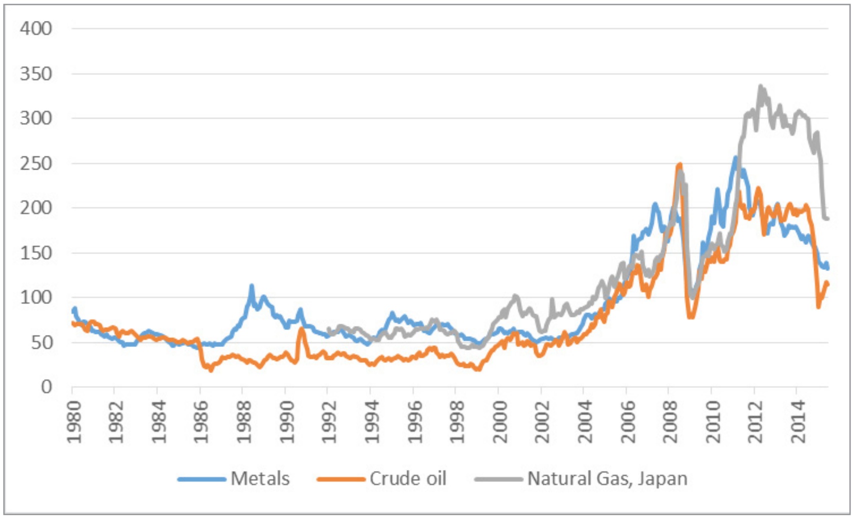

Figure 1. Price indices for metals, crude oil and natural gas (for delivery to Japan)

Source: IMF Primary Commodity Prices and author's calculations

Research presented at the conference shows that going into the crisis some countries were in a better macroeconomic position than others. The research defines a country as "well prepared" if a government meets two conditions. First, the government has low public debt levels and/or relatively large holdings of foreign assets to withstand a prolonged commodity price slump. Second, the government has acted in a saved and invested responsibly meaning that if it was capital-rich a significant portion of resource revenues were saved, and if it was capital-scarce it was investing well in human and physical infrastructure. Table 1 presents the countries analyzed.

Well prepared	Poorly prepared
Bolivia	Alberta (Canada)
Brunei Darussalam	Congo, Republic of
Chile	Equatorial Guinea
Libya	Iran
Norway	Malaysia
Peru	Mexico
Qatar	Mongolia
Saudi Arabia	South Sudan
Timor-Leste	Venezuela
United Arab Emirates	Zambia

Table 1. Countries with sound public finances going into the commodities bust

Source: Andrew Bauer and David Mihalyi. "Why Weren't Governments Better Prepared for the Commodity Price Crash?" http://www.resourcegovernance.org/news/blog/why-werent-governments-better-prepared-commodity-price-crash

Politicians and other experts at the conference highlighted several tough experiences of the commodity crash around the world. [1] They considered Nigeria, which had failed to save enough even before the price crash and now is struggling with high costs of debt—the costs of servicing debt takes up 26 percent of the Nigerian federal budget.

1 Dr. Kwabena Duffuor, former Minister of Finance, Ghana; former Governor, Bank of Ghana; Dr. Akoto Osei, Member of Parliament, Ghana; ranking member, finance committee; former Minister of Finance; Prof. Charles Soludo, former Natural Resource Charter Technical Advisory Group member; former Governor, Central Bank of Nigeria; Odein Ajumogobia, former Minister of State Petroleum Resources, Nigeria; and Adrienne Klasa, This is Africa (Financial Times). In the session "Challenges and Opportunities of the Fall in Oil Prices for Nigeria and Ghana" https://youtu.be/NoKDSHggX7c

On top of this, the debt of states within the federation was USD 7.38 billion in 2013 and will likely rise.[2] Panel members identified two cause of Nigeria's troubles. First, states had an incentive for pro-cyclical spending. Past federal governments had pushed states to save some of their oil windfall. But recently, this arrangement had broken down as the federal government started acquiring large debts itself. Its sermonizing of the necessity to save started to lack credibility in the eyes of state governors who took it upon themselves to spend more. A second cause of Nigeria's predicament, according to the panel, was the mismanagement of the Nigerian National Petroleum Corporation (NNPC). The company was treated as a "blank check" for the federal government, leaving too little to support investment in the gas infrastructure and refineries required to address Nigeria's energy challenges.

In mineral-rich Mongolia, exuberance around mining prospects contributed to a public and private sector spending boom.[3] The fall in copper prices, and consequent decline in fiscal revenues, has widened the government's budget deficit. Now the IMF says that Mongolia is at high risk of debt distress.[4] The government and its state-owned companies are currently paying some of the world's highest interest rates on international sovereign debt markets due to perceived financial risk. The Trade and Development Bank of Mongolia, a government-guaranteed, state-owned institution, is now borrowing at over 8 percent annually in real terms. The government itself is borrowing at annual rates 4 to 6 percent higher than Vietnam, another fast-growing Asian emerging market, but which is shielded more from the commodity market fall.

Libya faces a double whammy of falling prices and falling oil output, with production having dropped from 1.8 million barrels a day before 2013 to an estimated half million in 2015. This is draining foreign exchange reserves and causing a budget deficit of USD 30 billion this year. Libya has done well along some parts of the extractive resource decision chain, with an accumulation of USD 67 billion in assets held by the Libya Investment Authority Fund. However, it has failed to convert these assets into a vibrant private sector that creates jobs,[5] an essential development for the country as the already high level of youth unemployment may contribute to further conflict. Unfortunately, in the current context of lower oil prices, the government's capacities to provide for private sector needs such as infrastructure, or even to maintain employment in the public sector, are limited. Nor can Libyans expect that conflict will peter out as oil prices fall. Panelists thought that oil wealth might cause conflict, but a fall in the value of oil does not appear to stop conflict, or the corruption that often goes with it. One panelist asked, "What do smoking, corruption and conflict have in common? They are all price-insensitive, and you are likely to get killed because of them."

"What do smoking, corruption and conflict have in common? They are all price-insensitive, and you are likely to get killed because of them."

2 A. Ekpo, Dauda Garuba, and Max George-Wagner, "Petroleum Pulls the Purse Strings: Implications of Low Oil Prices for the Nigerian Economy." 18 May 2015. http://www.resourcegovernance.org/news/blog/petroleum-pulls-purse-strings-implications-low-oil-prices-nigerian-economy

3 Andrew Bauer, "Wrestling With a Mining Slump, Mongolia Plans for Its Next Boom." 22 October 2014. http://www.resourcegovernance.org/news/blog/wrestling-mining-slump-mongolia-plans-its-next-boom

4 IMF Country Report Mongolia. http://www.imf.org/external/pubs/ft/scr/2015/cr15109.pdf

5 IMF. "Libya beyond the Revolution: Challenges and Opportunities." 2012. https://www.imf.org/external/pubs/ft/dp/2012/1201mcd.pdf

WAS A LACK OF TRANSPARENCY AND ACCOUNTABILITY REALLY TO BLAME FOR COUNTRIES' POOR RESOURCE GOVERNANCE EFFORTS?

There was agreement among some participants that the principles outlined in texts such as the Natural Resource Charter were still valid ,but in need of wider dissemination. Renewed efforts are therefore needed to clarify and communicate these principles and to understand how countries, each with their own political and economic contexts, can adapt these principles for their own use.

Professor Tony Venables, director of OxCarre, reminded attendees that while the long-run development of the non-resource economy should be paramount in decision makers' minds, it is often forgotten in the immediate task of policy making. The development of the non-resource economy is the surest guarantor of sustainable economic growth and poverty reduction, Venables said. It requires building up assets for a sustainable future to balance the depletion of non-renewable assets. That should be the first principle of much of the debate on natural resource management. However, as the stories of Nigeria and others discussed above show, this has not necessarily been the case. Additionally, as members of a panel on Latin American discussed, even when governments have diversification plans, they still fail to follow them.

Public expectations and perceptions are in some cases seen as important factors. Despite fiscal rules and other macro fiscal instruments, countries like Ghana still find themselves in financial difficulties. Professor Sir Paul Collier suggested that the demands from citizens to spend their country's oil, gas or mineral money was part of the problem. These demands were stoked by public information on revenue figures, without complementary pillars of governance (such as capacity of government and a knowledgeable citizenry) being strong enough to balance the resulting demands of citizens. In the two African countries to which Collier referred, Ghana and Zambia, the weakest links in the chains of policy decisions were over-borrowing, overspending and ultimately the failure to accumulate productive assets. Why did this occur? Collier said:

> *We misdiagnosed the problem. We thought the problem was overwhelmingly transparency and accountability. It wasn't. Is [a lack of transparency] a problem? Of course it is. Is it* the *problem for natural resources? No … The bulk of the international effort, things like [the Extractive Industries Transparency Initiative (EITI)], went into this emphasis on transparency and accountability . . . EITI was the wrong focus. . . If you just have [transparency] and nothing else it in fact just makes things worse because in the country . . . The message is heard as, "Your government are crooks."*

But without other elements of good governance and efforts to inform citizens in place, Collier went on to say, transparency created an "explosion of expectations" from people who want more from their natural resources. "What the government does in desperation is borrow and spend on flashy stuff that everyone can see," but does not provide long-term economic gains for the country. The "transparency and accountability message, not matched by other messages, pushes you in the wrong direction," he said.[6]

6 Conference session: Welcome and opening plenary https://youtu.be/k8BDT9hzqwk

Guides like the Natural Resource Charter make it clear that getting transparency and accountability right is just one of a number of tasks for governments.[7] Along with transparency, there is a need to create a critical mass of informed citizens in order to ensure that the information disclosed by governments and companies is properly understood. The latter is a much harder task, according to Collier.

In response the EITI Secretariat wrote that transparency is a "building block, not [a] stumbling block." EITI chair Rt. Hon. Clare Short highlighted the work of EITI organizations in Nigeria, DRC, Philippines and Myanmar in achieving significant reforms on the back of their EITI country reports.[8]

At the conference, NRGI president and CEO Daniel Kaufmann said the efforts of the EITI have acted as a base for broader reform. Kaufmann explained that the EITI began with a narrow focus: the disclosure of payments between companies and governments. This information alone cannot provide analysts with much to understand a country's governance performance. However, the initial success in that niche helped EITI broaden its standard to include other forms of disclosures. A participant in the open data session said: "Is this the beginning of the end of the transparency movement? No, it's the end of the beginning." The foundation that EITI has put in place is now being built upon by many other initiatives, including those led by NRGI, to broaden what is disclosed and, as importantly, how information is used to improve policymaking and governance.

HOW CAN TRANSPARENCY BE MORE USEFUL?

Part of the discussion outlined above centered on the way citizens use information to understand how their governments work. We found that work is underway to build on the early successes of the transparency movement.

The way revenues and reserves are presented to citizens should be thought about carefully in order to manage expectations. Keith Myers, managing partner of Richmond Energy Partners and an NRGI advisory council member, explained that expressing oil revenues on a per person basis shows that citizens of some "oil-rich" countries, particularly those with large populations, aren't really that rich. Nigeria, for example, produces roughly 1 billion barrels of oil equivalent, or USD 54 billion worth of oil and gas each year (assuming oil is priced at USD 50 per barrel).[9] This sounds like a lot. But people are rather bad at perceiving the true scale of large numbers. Putting this number in the context of a single person is easier to understand. On average, the country produces 6.4 barrels of oil (or the equivalent in gas) per Nigerian, which equates to just under a dollar a day in value. What seem like large volumes of resources in absolute terms should be put into context if governments wish to manage expectations of wealth.

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7 NRGI. Natural Resource Charter, 2nd ed. 2014. http://www.resourcegovernance.org/publications/natural-resource-charter-second-edition

8 EITI. "Transparency as building bock not stumbling block." 26 June 2015. https://eiti.org/blog/transparency-building-block-not-stumbling-block

9 Conference session: Africa's Experiences and Challenges Managing the Petroleum Sector: A Multi-Stakeholder Perspective. See the video at: https://youtu.be/sNU9pTjY7hM

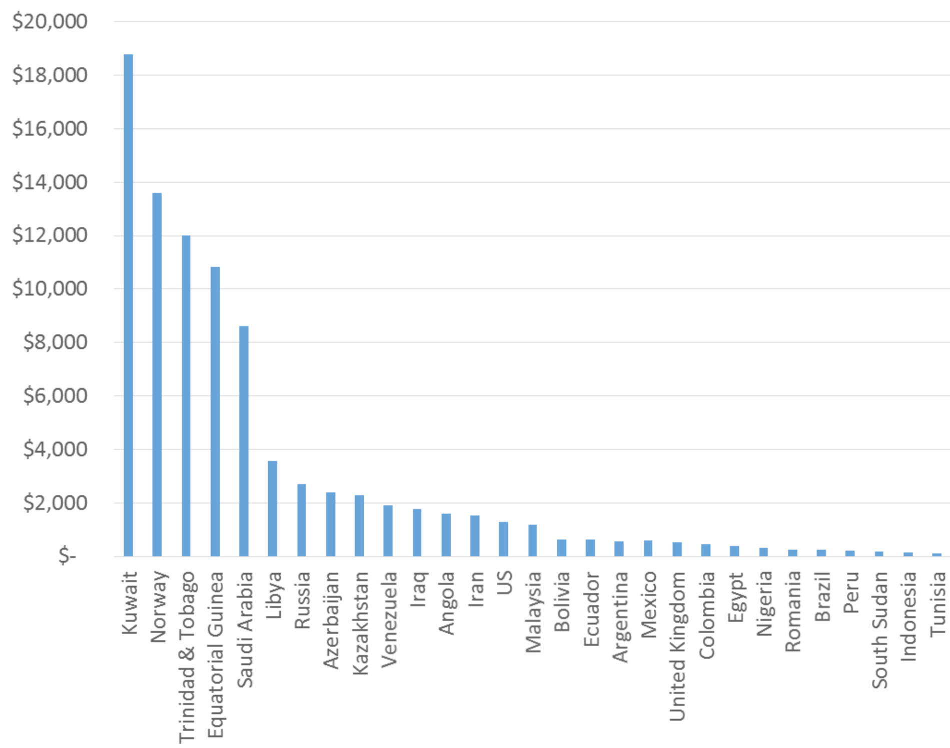

Figure 3. Value of production at USD 50 per barrel of oil, per capita, in selected countries

Source: Author's calculations based on Keith Myers' analysis

Another challenge is the use of data that is already available. Some participants thought that analysts in civil society and government were not using EITI information because EITI reports are typically presented in "frozen" PDF format, and structured differently from one country to the other. This makes it more difficult to analyze the information than if the data were presented in standardized and machine-readable formats (such as Excel or CSV). NRGI has recently taken one step to counteract this, converting some parts of EITI reports into an Excel format.[10] Another step would be to link datasets with relevant contextual and third-party information. Payment data on certain projects, with a certain set of definitions, is of only limited value on its own. When set within the context of the entire lifecycle of a project, the information can provide richer insights.

Likewise, analysts will find it difficult to manage the deluge of data that will soon come about because of reporting requirements in the US Dodd-Frank Act and the EU Transparency & Accounting Directives. One solution highlighted was ResourceProjects.org, an online tool that will focus on collating and linking data sets around specific extractives projects to reduce the costs of analysis.

Despite all of these transparency initiatives, empirical studies on the use of disclosed information are scarce. Participants heard that after several years of EITI reports in Tanzania, we still have little insight into whether these promote citizen understanding. Justin Sandefur, from the Center for Global Development, presented a novel experiment from Tanzania to evaluate whether increased information shifted voter beliefs on resource governance issues. The experiment found that the provision of information alone had no discernible impact on preferences, but that participants shifted their beliefs when the provision of information was coupled with discussion. More studies in other contexts may well be valuable.

10 Marie Lintzer and Chris Perry, "Dataset: Unlocking EITI Data for Meaningful Reform." 22 June 2015. http://www.resourcegovernance.org/publications/dataset-unlocking-eiti-data-meaningful-reform

These findings have implications for transparency advocacy, both in terms of whether more information alone is sufficient and also what steps might be needed to transform transparency into understanding and changes in attitude. More transparency is probably a good thing regardless of whether its impact has been measured. However, studies like Sandefur's help sharpen our approach and point to what else is needed to improve the impact of transparency.

HAS THE PRICE SLUMP CLOSED THE DOOR ON NEW INVESTMENT?

As well as considering the impact on the macroeconomics and public perceptions in countries, participants discussed the reactions of the extractives industry to the price environment and implications for countries seeking investment.

Exuberance during the boom was not solely a government phenomenon: companies in the extractive industries, particularly mining, also appear to have overextended themselves. One conference participant noted that many projects in developing countries had either stalled, been delayed or altogether cancelled, writing off significant value for extractive companies. The top 10 miners have cut capital expenditure by an estimated USD 64 billion this year, from USD 80.8 billion in 2013.[11] The oil industry has halted up to USD 200 billion worth of planned capital expenditure, with 46 big oil and gas projects deferred, particularly in the Gulf of Mexico and West Africa.[12]

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Not only has capital expenditure fallen, but it is shifting to regions considered politically safer. Simon Thompson, chairman of Tullow Oil, warned participants that investors have typically become more risk-averse, willing to sacrifice return for lower risk. Capital flows for petroleum over the last three years have shifted from developing regions like Africa to the US. Of close to USD 680 billion of capital expenditure worldwide, 29 percent now goes to the US, according to Thompson. US mid-cap companies focused mainly on US shale have been more successful in raising financing than European counterparts focused on emerging markets.[13] Thompson concluded that this was primarily down to political risk, prompting the question of whether governance has an impact on capital flows. His answer was, "Emphatically, yes."

Along with these changes in capital expenditure, the petroleum industry has also started to reduce its operating costs**.** Carole Nakhle, director of Crystol Energy, reminded attendees that, typically, costs in the extractive industries change alongside prices with a delay of about six to nine months.[14] A recent working paper from the University of Oxford substantiates this, showing that for every 1 percent decrease in the oil price in a given year, oil companies' costs decreased by 0.5 percent the next year.[15] Governments should take heed of changing costs as much as changing prices.

11 BMI Research. "Global Mining: The Five Key Themes." 2015. (Accessed via Nexis.)

12 "Oil groups have shelved $200bn in new projects as low prices bite." Financial Times. 26 July 2015. http://on.ft.com/1JnNvq3

13 Although since Thompson's remarks, US shale has also faced difficulties because of low oil prices. See Financial Times, "Cheap oil 'slams brakes' on US shale production." 11 September 2015. http://on.ft.com/1iBHagi

14 Conference session: "Race to the Bottom? How the Price Drop is Impacting Fiscal and Contract Terms." https://youtu.be/HNgZkm5tRt4

15 G. Toews and A. Naumov. "The Relationship Between Oil Price and Costs in the Oil and Gas Industry." 2015. OxCarre Working Paper. http://www.economics.ox.ac.uk/materials/papers/13819/paper152.pdf

IS THERE A RACE TO THE BOTTOM TO STEM CAPITAL FLIGHT?

At the end of the last commodity supercycle, many governments sought to attract capital by reducing taxes. Cutting taxes could once again be tempting to governments that find themselves in similar positions. However, government officials might wish to take heed of the misfortunes of those countries that subsequently found it difficult to increase taxes once prices rose, or were forced to rely on taxing other sectors that were less able to pay than the extractive companies.[16] We posed the question, "is there a race to the bottom to stem capital flight?"[17]

Members on a panel on taxation said that progressive tax regimes are still the best option. Prices have fallen, but so too will costs as the industry adjusts to new prices. Profitability therefore won't be affected as much over the longer term as is immediately apparent. This is an important consideration when reacting to price changes and also a warning that a tax regime that merely responds to a change in price and not profitability risks being inadvertently regressive. As prices rise, so too will costs – if taxes follow the price rise only the burden on companies may rise faster than profitability, and vice versa. According to panel members, the answer has been clear for some time: flexible rate taxes such as resource rent taxes. According to the latest research, only 10 percent of countries recently surveyed levied such taxes.[18] Further, whether based on profits or other measures, taxes with rates that automatically adjust to circumstances can help governments avoid tinkering with taxes each time the oil or mineral prices change. Such tinkering ends up creating a more complex tax system – a long-term negative for all concerned. However, a counterargument to using rent taxes (which was not expressed in the conference) is that that taxes based on profits may be so difficult to measure that any advantage is outweighed by the loss from tax administrators failing to collect the proper payments.

In addition to rent taxes, managing the possibility of contract renegotiations was considered important. Contracts are not perfect. Renegotiations happen. Accepting this reality and engineering provisions to reduce the conflict around renegotiations could be helpful. Industry attorney Sally Swartz, a partner at Artus Wise, highlighted the use of "periodic review mechanisms" by some in the extractive industry, although there have been few adopters to date. Swartz suggested review mechanisms could be improved by using a formula with objective data to determine when and how terms within a contract might be open to renegotiation.[19]

"Good revenue management...helps prevent rash changes in the tax regime"

– Satya Widya Yudha
House of Representatives,
Indonesia

Another important advantage, as Satya Widya Yudha—Deputy Chairman of Energy and Environment Commission, House of Representatives of Indonesia—pointed out, was the value of good revenue management. Having "fiscal space helps prevent rash changes in the tax regime," he said. The Indonesian government has reformed its fuel subsidy program, taking the opportunity while the pain of such reform for people is relatively low. As prices rise, the country will benefit from less spending on these

16 See, for example, Zambia's story. David Manley, "Caught in a trap: Zambia's Mineral Tax Reforms." 2012. International Centre for Tax and Development Working Paper no. 5. Found at: http://www.ictd.ac/sites/default/files/ICTD%20Working%20Paper%205.pdf

17 Conference session "Race to the Bottom? How the Price Drop is Impacting Fiscal and Contract Terms." https://youtu.be/HNgZkm5tRt4

18 Thomas Lassourd and David Manley. "A Taxing Question Arises When Commodity Prices Fall." NRGI Blog. 24 July 2015. http://www.resourcegovernance.org/news/blog/taxing-question-arises-when-commodity-prices-fall

19 J. Mandelbaum, S.A. Swartz, & J. Hauert. "Periodic review in natural resource contracts." July 2014. http://ccsi.columbia.edu/files/2014/08/Periodic-review-in-natural-resource-contracts-Briefing-Note-FINAL-8.11.pdf

subsidies. This highlights the value in thinking holistically along the whole chain of decisions required for governing resources:[20] the quality of governance in the macro fiscal framework and budgetary systems has an important influence on the management of the tax system.

As a way of attracting capital, broad improvements in other realms of governance might be better than tinkering with taxes. At the conference, a panel asked how realistic this ambition is.

Research presented at the conference suggests that better governance does attract more capital. A paper by Jim Cust and Torfinn Harding examining the distribution of oil exploration around the world finds strong causal evidence of governance affecting investment decisions.[21] Two times out of three investors will choose a better-governed country to drill in, all else being equal. This is the first study of its kind to isolate the influence of governance from other factors, such as favorable geology, in driving investment choices.

However, broad governance quality is not universally attractive to investors. Major international oil companies prefer investment in well governed countries more than national oil companies (investing abroad) and small- and mid-cap companies, on average. Moreover, the panel concluded that investors typically care about a narrow definition of governance, a less rigorous standard than what concerns citizens in resource-rich countries.

In particular, the speed of government decision making and the uncertainty of regulation are critical, said panel members. When valuing a company, equity analysts are spooked by delays and uncertainty. Indeed, a few years delay in a project can have a large impact on the project's net present value. A recent study on the delays to a Mozambique LNG project show this cost.[22] The authors estimate that a hypothetical three-year delay to the LNG project in Mozambique would cause a 67 percent fall in the present value of government revenue in the first 6 years of the project, and 4 percent in the first 16.

Some larger companies want to improve their host country's governance. It is in the interests of those companies looking to operate in a country in the long term and minimizes the need for arbitration, which can cause delays and is politically costly. For example, BP helped Azerbaijan establish the country's state oil fund with macro-economic modeling.[23] But rather than work directly with governments, one panelist thought it better that companies support initiatives through the international development community rather than work directly with government counterparts.

The fall in prices therefore need not start a race to the bottom, but can be an opportunity to improve efficiency in fiscal regimes and improve governance more generally. In this new price environment, government officials will need to attract capital while delivering good returns on their citizens' resource wealth. However, there is a fine line between actual improvements in governance that are attractive to investors and benefit citizens, and reducing the burden of regulations on companies to the detriment of the wider population.

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20 Natural Resource Charter.

21 Jim Cust and Torfinn Harding. "Institutions and the location of oil exploration." OxCarre Working Paper. 2014. http://www.oxcarre.ox.ac.uk/images/stories/papers/ResearchPapers/oxcarrerp2013127.pdf

22 See page 123 of Standard Bank (2014). Mozambique LNG: Macroeconomic Study. http://www.mzlng.com/content/documents/MZLNG/LNG/Development/2014-MozambiqueLNGReport-ENG.pdf

23 BP Azerbaijan Social Review Commission – Response. September, 2008. http://www.bp.com/content/dam/bp-country/en_az/pdf/ASRC-reports/BPs-responce-ASRC-2ndreport.pdf

CAN WE TURN THE CRISIS INTO AN OPPORTUNITY?

When asked whether the fall in commodity prices represented a “risk” or an “opportunity,” the majority of conference participants thought it was an opportunity. [24]

What opportunities can leaders and citizens now take, and are they in a position to take them? The latest data on government effectiveness suggests governance quality actually fell at a time when resource-rich countries needed to make the most of high commodity prices. Kaufmann showed that while governance quality increased on average for non-resource-rich countries during the period of the commodity boom (2002 to 2013), governance quality fell in resource-rich countries.[25] What will happen now that prices have fallen?

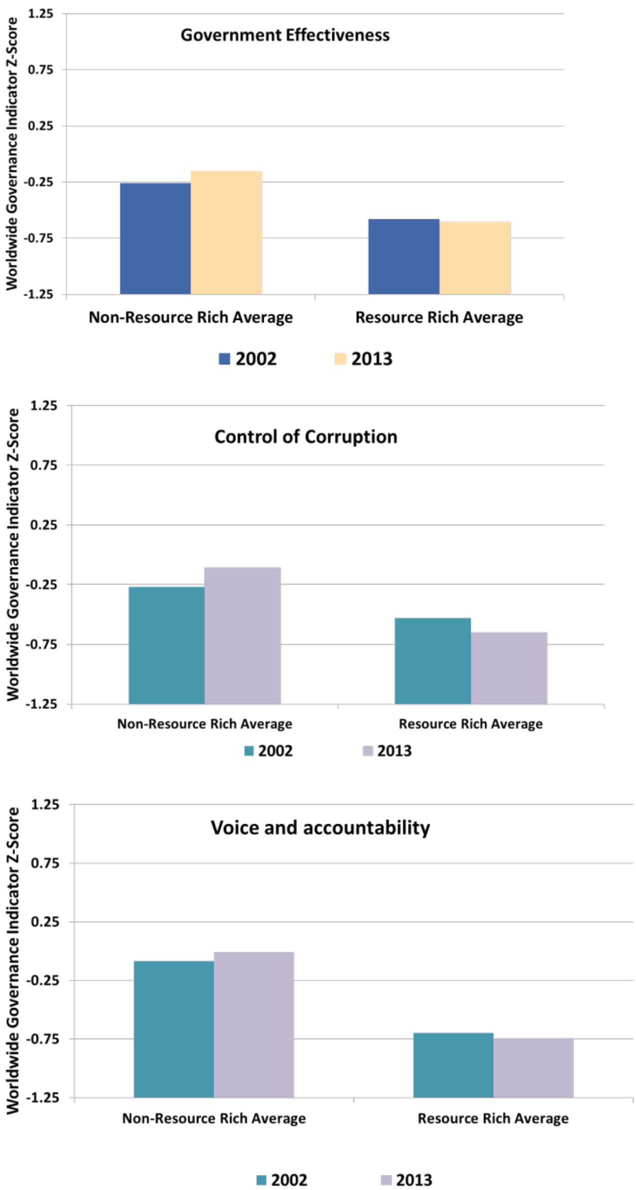

Figure 3. Trend in governance for resource-rich and non-resource rich countries during the commodity boom

Source: Worldwide Governance Indicators, www.govindicators.org

24 Conference session: Welcome and opening plenary https://youtu.be/k8BDT9hzqwk
25 Conference session: Open Plenary: https://youtu.be/k8BDT9hzqwk

Out of the potential misery that the fall in commodity prices could cause, participants hoped that governance could improve. Kaufmann made the point that it was unrealistic to expect governance reforms during boom times. Indeed, the political and economic incentives might point the other way.[26] During a period of low prices, leaders might lose office and be replaced by others with new ideas, while civil society may find renewed strength to push for better governance. The opportunity is to ensure that changes during these crises result in better ideas from leaders. Mongolia for example, having been hit hard by the fall in copper prices, is currently considering a revision to its fiscal rules and establishment of a new sovereign wealth fund.[27]

Sometimes such changes may be dramatic. Nigeria's former central bank governor Charles Soludo described this as "tearing up the whole house and building a new foundation." He also lamented that his country had seen more than one boom and bust cycle. "Nigeria was an accident waiting to happen," Soludo said, and leadership had not been able to avoid the problems Nigeria now experiences. "The tragedy is that we have gone through this experience over and over, but with little or no learning,"[28] he said. Crises provide an opportunity for society to learn how to better govern extractive resources. However, such improvements are not guaranteed without the strong will of civil society actors, government officials and the international community.

"The tragedy is that we have gone through this experience over and over, but with little or no learning,"

– Charles Soludo,
former central bank governor, Nigeria

Using the opportunity presented by the commodity price crisis will require the wisdom to learn from events and the humility to accept mistakes. Yet, both uncertainty and optimism cloud this process. As Kaufmann remarked in the opening panel: "a common fallacy has been to assume periods of high prices are permanent, and that when prices are low, they are usually transitory…there is a bias trend toward exuberance."[29]

"We have always treated this kind of shock as temporary and the response is very ad hoc," Soludo said, "and it is time for Nigeria to realize that oil is over and we have got to begin a new life." Armando Mendoza, researcher for Oxfam en Peru, suggested that collective optimism led many Latin America officials to ask, "Why go through the pain of learning and adjusting if prices are to rebound soon?" Mendoza said that this outlook keeps them from making the right choices.[30] Like putting one's head in the sand, taking an optimistic stance in the face of uncertainty might be too much of a temptation for some.

David Manley is an economic analyst at the Natural Resource Governance Institute.

26 Conference session - Open Plenary: https://youtu.be/k8BDT9hzqwk?t=3100
27 NRGI (2015). Discussion of Mongolia's Draft Future Heritage Fund Law. Found at: http://www.resourcegovernance.org/publications/discussion-mongolias-draft-future-heritage-fund-law
28 Conference session - Open Plenary: https://youtu.be/k8BDT9hzqwk?t=1851
29 Conference session - Open Plenary: https://youtu.be/k8BDT9hzqwk?t=3069
30 Conference session - The Super Cycle in Latin America: Its Legacy and the Emerging Agenda https://youtu.be/ideKJvefVIw