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Karina Mroß

# **Fighting the Curse by Lifting the Curtain**

**How Effective is Transparency as an Instrument  
to Escape the Resource Trap?**

Tectum Verlag

Karina Mroß

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## 1 Introduction

The proliferation of demand and discussions about resource scarcity or depletion have underlined the critical dependence of industrialized economies on natural resources. Their geographical location in many of the less and least developed countries directed attention to an old paradox: while intuitive thinking and the experience from, Norway or Chile suggest an immense potential for development inherent in natural resource endowments, many of the so-called resource-rich countries have instead demonstrated lower growth rates than their resource-scarce counterparts. This phenomenon, generally known as the resource curse, has caused numerous researchers during the last two decades to study the relationship between natural resource abundance and economic growth; to identify causes for these unfavorable interdependencies and search for solutions to them. From a developmental perspective, the resource curse phenomenon is particularly problematic, frustrating not only hopes for broad based development generated by natural riches but furthermore undoing achievements of previous development efforts.

More recently, researchers and policy advisors have centered on political-institutional explanations for the resource curse. Increasingly, they have come to concur on the primacy of institutional quality and good governance to determine the developmentally favorable impact of natural resource extraction. In particular, corruption is widely perceived as a root cause to the detrimental effects of the resource curse on development. Based on this point of view, policy recommendations of applied studies place a primary focus on transparency as a key instrument to fight corruption and, therefore, lift the resource curse. Likewise, the forum of the world's largest economies (G8) emphasized the importance of transparency and pledged their commitment to the worldwide promotion of transparency in the extractive sector at their 2011 summit.

While intuitively one may agree that transparency is important, it is striking how little explanations of the theoretical basis and underlying logic for the expected effects of transparency on the resource curse are given. As Lindstedt and Naurin note, the assertion that transparency constitutes an effective policy to combat corruption is “commonly stated, but rarely investigated” (2010, p. 301).

Despite the lack of theoretical grounding, the concept has already become the center of a number of prominent and widely supported initiatives which attempt to use transparency in resource governance to fight corruption and the resource curse. These are, among others global initiatives such as Publish What You Pay and the Extractives Industries Transparency Initiative

(EITI). Several policies at national or regional level likewise are based on this policy instrument, such as for instance the Dodd-Frank Act in the USA or the Chad-Cameroon Pipeline project under guidance of the World Bank.

Numerous statements in the political arena, academic literature, reports or applied studies point out the high importance of transparency in countering the resource curse without giving plausible substantiation of this claim. Therefore, the question arises how effective transparency truly is – in theory and practice – to curb the resource curse. This paper questions the apparently obvious relationship. It seeks to explore the underlying mechanism of the resource curse to subsequently apply and critically assess the potential effects of transparency in this context. The goal is to establish whether transparency indeed deserves such outstanding attention with regard to its ability to counter the detrimental dynamics of the resource curse.

While transparency might have more general positive impacts in other areas as well, focus is placed on transparency applied in the realm of the natural resource sector. The use of transparency as a policy instrument in this context derives from political-institutional explanations of the resource curse and thus, relates to a governance dimension. In order to critically explore the rationale for advocating the application of transparency in this context, the paper adopts this perspective and the assumption that corruption constitutes a root cause.

A number of scholars pointed out the varying impact of the resource curse depending on the specific type of resources present. This paper will concentrate on the category of point-source resources. These are associated with extractive industries and refer to geographically concentrated resource endowments generally requiring a high level of technological expertise and capital investments for exploitation. Commonly, they are controlled by the central government. Empirical studies have found that the resource curse is particularly prevalent in this context through mechanisms causing the deterioration of institutional quality and corruption (Bulte / Damania / Deacon, 2005; Isham / Woolcock / Pritchett, 2005; Sala-I-Martin / Subramanian, 2003).

Due to the extensive previous research on the resource curse phenomenon, a literature based study is well suited to tackle the question as close examination of existing literature and theories related to this topic is required. As research on specific links between transparency and the resource curse is relatively scarce, this paper pools different strands of literature. Going beyond the literature on the resource curse, it draws upon findings of related disciplines which provide insights into the workings of corruption and transparency for application to the resource curse phenomenon.

Even if the theoretical basis does not unequivocally support the focus and primary importance of transparency in addressing the resource curse, this idea enjoys global support which is apparent from a number of initiatives. Therefore, in this paper the theoretical findings are complemented with and applied to the examination of the practical implementation of this concept. For this purpose, EITI provides a valuable object of study. It is one of the most prominent initiatives enjoying widespread support from a diversity of actors, such as donors or civil society organizations (CSOs). This arises from the prevalent perception that it constitutes an important instrument to realize the hopes for enabling development entailed in natural resource endowments. The high concentration of efforts and resources on this initiative accentuates the significance of an effective approach from a perspective of development politics. Moreover, its approach and design closely reflect the theoretical discussion of the relation between transparency and the resource curse. Thus, the theoretical background serves well to evaluate how effective EITI promises to be and if the high expectations the initiative raised and support it obtains are justified.

EITI aspires to countervail the resource curse through the application of transparency to the natural resource sector, or more specifically, to natural resource revenues. Therefore, it is interesting to retrace the inherent logic and reflect on the implementation of the initiative so as to gain further knowledge about the potential and challenges entailed in the application of transparency in this field. The critical stance towards the widely assumed power of transparency in curtailing corruption, basically questions the fundamental logic of EITI. Thus, reassessing the initiative based on the theoretical findings of the first part of the paper can provide valuable information on how the problems and mechanisms identified in theory make an impact in practice.

The analysis of EITI relies on primary and secondary literature from internal and external sources. The popularity of the initiative resulted in a variety of academic contributions, policy papers and evaluations. Combined with primary sources from EITI, this allows a sound examination of the initiative. While an exhaustive analysis of the long-term impact of EITI could provide valuable insights, the limited period of time of its existence prevents such an analysis so far and remains for later research.

In order to answer the research question, the paper proceeds as follows. First of all, an intense discussion of the theoretical concept of the resource curse with its assumed underlying mechanisms is required. Therefore, after this introduction the paper continues with a brief literature review on the resource curse in chapter two. This serves to provide a general background on the theoretical foundations which range from economic explanations

over connections with violent conflict towards political-institutional aspects. Particular attention is placed on the latter part, with its focus on corruption as primary cause of the resource curse. Hence, the third chapter analyzes the mechanisms and effects of corruption in detail. It is necessary to understand the dynamics through which corruption is expected to cause the resource curse in order to assess the anticipated impact of transparency. Consequently, the concept of transparency is carefully analyzed in the fourth chapter, addressing its potential role as well as the limits to its application as a policy instrument in this context. The fifth chapter critically reassesses EITI, in order to complement the theoretical findings with experience from the field and gain further knowledge about the potential entailed in the application of transparency to resource governance. For this purpose, the paper retraces the inherent logic of EITI, reflects on the implementation and explores how EITI addresses the shortcomings and challenges identified in the theoretical discussion, in order to evaluate the prospective effectiveness with regard to its self-set goals. Finally, the last chapter concludes the previous discussion, evaluating the effectiveness of transparency and giving policy recommendations for its application.

The paper argues that although transparency is an important aspect, it is not crucial to combat the resource curse. As a consequence, the emphasis on transparency in efforts to counter the resource curse has to be viewed critically. It cannot target corruption directly, but relies upon indirect effects and external factors. Thus, it can only have diminishing effects on the governance dimension of the resource curse in concert with general conditions providing checks and balances such as independent media, a strong and independent judiciary system and a strong civil society.

The main purpose of transparency in countering the resource curse is to reduce corruption, primarily by promoting and increasing accountability. However, while transparency is not necessarily a prerequisite for accountability, effective accountability or leverage is a precondition for increased transparency to have any mitigating effect on the resource curse. Arguably, transparency can increase accountability which is already existent to a certain degree. Yet without this basic level, transparency cannot have any effects in building up accountability. More generally, the positive effects on governance and political institutions which are the motivation behind the call for more transparency are at the same time requirements for its effectiveness, which casts doubt on the rationale of this approach.

To be conclusive, further research conducting a comprehensive evaluation of the application of transparency as a policy instrument assessing its long-term impact is required. This, however, is not only beyond the scope of this

paper, but currently impeded by the relatively recent nature of the transparency approach and hence remains for later studies.

## 2 Resource Curse – Theoretical Background

The phenomenon of the resource curse has been a popular topic of research for the last two decades. This intensive study has produced an abundance of literature dealing with the topic from different angles, focusing on new variables and explanations. The present chapter is not aiming to provide an exhaustive overview of this literature, but it briefly introduces the most relevant aspects of this field to provide a background and context for the subsequent analysis<sup>1</sup>.

Within the ample literature on the resource curse, two generations of contributions are discernible. Whereas early contributions sought to empirically establish a link between the presence of natural resources in a country and low economic growth, later studies focused on explanations and underlying causes for this relationship (Jones, 2008). Seminal studies at the heart of the resource curse debate (belonging to the first generation) are due to Auty (1993) and Sachs and Warner (1995)<sup>2</sup> who pointed out the link between natural resource endowments and lower economic growth. Sachs and Warner conducted the first comprehensive cross-country analysis on this topic. Their findings empirically demonstrate that developing countries exhibiting high ratios of natural resource exports to GDP are prone to suffer from low economic growth (*ibid.*).

This hypothesis has been supported and contested numerous times. Yet despite continuing critical voices, the basic argument that many resource-rich countries tend to experience lower growth rates than their resource-poor counterparts is generally accepted and has proven statistically significant (Mehlum / Moene / Torvik, 2006; Robinson / Torvik / Verdier, 2006; Ross, 1999). However, there clearly are exceptions to this rule and a number of countries have experienced strong growth rates despite or rather because of their natural resource endowments (Norway being the most obvious example, but also Chile, Australia or Botswana are frequently cited). Therefore, from the late 1990s onwards the focus shifted towards searching explanatory factors why some countries suffered from this “paradox of plenty” (Karl, 1997). So far the debate has not been concluded, as neither the root causes nor the solutions have been entirely agreed upon. Generally, one can distinguish three sub-themes in the literature concentrating on: detrimental economic effects (2.1) the link between natural resources and violent con-

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<sup>1</sup> For comprehensive reviews of the existing literature see Rosser (2006) and Mildner / Lauster (2010).

<sup>2</sup> They later revised their research controlling for further variables and extending the database, which confirmed their original findings (Sachs / Warner, 2001).

flict (2.2) as well as the impact on political institutions and governance (2.3).

## 2.1 Economic Dimension

The oldest strand of literature emphasizes economic mechanisms as primary causes of the resource curse. One of the most popular explanations, which emerged in the early 1980s, has been the *Dutch Disease* effect. It refers to an appreciation of the real exchange rate due to a sharp increase of natural resource exports leading to a large trade surplus (coinciding with large imports of foreign currency). According to this theory, the resulting influx of cheap imports reduces the competitiveness and consequently the turnover of both other export goods on the world market as well as import substituting, domestic goods. As a consequence, local labor markets and economic activities outside the natural resource sector, such as manufacturing, agricultural and service sector, will be adversely affected (Bruno / Sachs, 1982) (see also for summary Humphreys / Sachs / Stiglitz, 2007b, pp. 5–6; Morrison, 2010, pp. 3–4).

Another central mechanism identified in the economic literature on the resource curse is *revenue volatility*. The underlying effect refers to the danger of devastating macroeconomic shocks which resource-rich countries are prone to face in the frequent event of sharp fluctuations of natural resource revenues. This is most relevant if they depend on a single natural resource for income. The volatility is due to variations in production rates, timing of payments as well as changes in the value of commodities on international markets. These boom bust cycles hamper long-term planning, impede prudent fiscal policies and facilitate debt accumulation due to easier access during peak times. Hence, more generally they obstruct sensible macroeconomic management (Humphreys / Sachs / Stiglitz, 2007b, pp. 6–8; Ross, 1999, pp. 301–302).

The focus on purely economic explanations which dominated the early days of research on the resource curse has subsided, to a large extent because of contradictory evidence. Macroeconomic policies to ameliorate these imbalances have been identified and implemented in a number of countries (Jones, 2008, p. 14). Thus, if this was the root cause for the resource curse phenomenon, adequate policies should have shown an effect – which has not been the case (Ross, 1999, pp. 305–306). Nevertheless, these macroeconomic imbalances certainly exist and must therefore not be disregarded entirely but need to be addressed with corrective economic policy strategies. The failure to solve the resource curse through purely macroeconomic policies, though, suggests the need to search for other explanatory

variables. As a result, many researchers engaged in scrutinizing the correlation with violent conflict.

## 2.2 Conflict Dimension

Much attention has been paid to the strand of literature which seeks to establish a link between natural resources and internal violent conflict. Based on differing explanations on how natural resource endowments influence the motives and opportunities for engaging in conflict, they identify effects on the onset, duration and intensity of civil wars.

The most prominent contributions come from Collier and Hoeffler (1998), who have shifted the focus from *grievances* and predominantly socio-political factors as main causes for civil wars towards the notion of *greed* as an explanatory factor. This argumentation highlights specifically economic incentives for violent conflict provided by the exploitation of raw materials. They demonstrate that statistically, natural resource abundance is a strong and significant determinant of civil war onset, although the risk decreases after primary commodity exports cross a certain threshold (Collier / Hoeffler, 1998, 2000). Yet, other authors question the sole reliance on greed or grievance as explanatory factors. Ballentine and Nitzschke (2003) as well as Murshed and Tadjoeeddin (2007), for example, argue that neither one is a primary cause of civil war, but both factors in concert can stipulate conflict.

State capacity has been identified as a significant variable by Karl (1997) and Humphreys (2005), among others. They argued very similarly to scholars associated with the governance dimension that there are detrimental effect of natural resources on state institutions weakening of the society-state linkage, promoting rent-seeking<sup>3</sup>, and preventing the establishment of a capable bureaucracy<sup>4</sup>. In combination with economic decline this makes countries vulnerable to political instability and reduces the capability of the state to respond accordingly (Humphreys, 2005; Karl, 1997).

Not all primary products seem to trigger the resource curse in equal measure, scholars observed. They conclude that countries richly endowed with *different kinds* of natural resources are neither generally nor to the same extent vulnerable to the resource curse. The type and characteristics of a

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<sup>3</sup> The specific definition of rent-seeking and its differentiation from corruption is undertaken in the beginning of Chapter 3.

<sup>4</sup> This argument has most prominently been brought forward by Fearon and Laitin (2003) who found that natural riches inhibit the need to develop of strong bureaucratic structures for tax collection leading to generally weaker state structures.

particular resource play an important role in determining the risk factors (Auty, 1997; Basedau, 2005; Boschini / Pettersson / Roine, 2007; Ross, 2004; Schure, 2007). These findings are principally related to the conflict dimension, yet also relevant for the other strands of literature. Therefore, it is necessary to specify the object of observation in a study on the resource curse. To address this, the next part will briefly introduce a typology of resources and their relevance for the resource curse.

Researchers developed several categorizations according to accessibility, location and concentration of natural resources they identified as relevant to the resource curse (Auty, 2001b). One of the most popular is the categorization used by Le Billon (2001) and others, differentiating between raw materials according to their *lootability*. Lootable resources are primarily characterized by easy accessibility and can be exploited by unskilled workers without high technological inputs. Typical examples are artisanal mined minerals or timber. In contrast, resources such as oil and gas display a comparatively low lootability due to high financial and technical requirements for their exploitation (Ross, 2004). Ross summarizes a number of qualitative and quantitative studies and concludes that lootability is positively associated to the prolongation of conflict, since resources can be seized more easily by opposition groups or warlords for financing (ibid.).

Further categories emphasize the importance of the location of natural resources. Le Billon (2008a) presents the distinction between *proximate* or *distant resources* – resources located closely to the center of power versus remote areas – which affects the ability of the government to maintain control. Auty (2001b) in turn distinguishes between *point-source* and *diffuse* resources. ‘Point-source’ refers to geographically concentrated resource endowments which typically need a high level of technological expertise for exploitation. They are generally easier to control by the central government, while resources which are widely dispersed are more difficult to control by a single actor.

Evidently, most of these resource types have implications for the conflict dimension of the resource curse. Some resources can be used more easily by small operators and warring factions due to their high lootability, diffuse location and remoteness to the center of power, which facilitates the formation and financing of violent factions. Above all, these characteristics have been found to be significant for the severity and duration of conflicts (Auty, 2001b; Le Billon, 2008a; Ross, 2004; Siegle, 2007).

The governance of natural resources is certainly significant in determining the likelihood of conflict as well. Franke and colleagues (2007) conducted an empirical analysis on the resource-conflict dynamic demonstrating that it is highly determined by the quality of natural resource governance. They

found a significant negative correlation between good governance and the outbreak as well as duration of conflict.

It becomes clear that both the economic as well as the conflict mechanisms of the resource curse are rendered possible or reinforced by weak political-institutional structures. These can not only hamper economic development, but may furthermore increase social and political instability and a country's susceptibility to violent conflict. On the other hand, sound economic policies as well as socio-political arrangements are central to reduce the detrimental mechanisms identified above. Thus, political-institutional factors are also important in determining the impact of the resource curse on the economic and conflict dimension. This is in addition to the significance of the dynamics which unfold with regard to the governance dimension, which will be discussed in the next section.

### **2.3 Governance Dimension**

More recently, scholars have come to agree on the relevance of institutional quality in determining the developmentally favorable or detrimental outcome of natural resource endowments (Mehlum / Moene / Torvik, 2006; Robinson / Torvik / Verdier, 2006). They have predominantly measured institutional quality by the prevalence of corruption, although some authors also point out other factors such as the rule of law (Bulte / Damania / Deacon, 2005). Mostly, though, researchers stress indirect political-institutional dynamics leading to lower growth rates through corruption and rent-seeking by political and economic elites (Auty, 2001a; Bhattacharyya / Hodler, 2010; Leite / Weidmann, 2002; Mehlum / Moene / Torvik, 2006; Robinson / Torvik / Verdier, 2006; Tornell / Lane, 1999). While these mechanisms also occur in resource-poor countries, they are enhanced by high windfalls of natural resources and facilitated by weak democratic institutions (Bhattacharyya / Hodler, 2010, p. 609).

Scholars have selected a variety of variables focusing on different aspects of the dynamics associated with natural resources in order to assess and understand this relationship. Some authors have gone as far as establishing direct links between natural resources and regime types. Most prominently, Wantchekon (2000) and Ross (2001) demonstrated that economic dependence – in particular on oil, but also on other mineral exports – can undermine democracy and promote authoritarian regimes. This is because resource rents accrue principally to the political elite, enabling them to consolidate and sustain their power by investing in internal security or providing privileges to their supporters.

Several academics argue that the relation between abundant natural resource deposits and the quality of governance and political institutions in a country is reciprocal. The level of institutional quality at the time of natural resource discovery significantly determines the impact of the resource curse (Mehlum / Moene / Torvik, 2006; Morrison, 2010). At the same time, the abundance of natural resources is likely to cause (further) deterioration of the institutional quality (Bulte / Damania / Deacon, 2005; Sala-I-Martin / Subramanian, 2003).

The type of natural resources is also relevant in this context. In particular, non-renewable point-source resources have been identified as the main trigger for the deterioration of institutional quality and corruption (Boschini / Pettersson / Roine, 2007; Bulte / Damania / Deacon, 2005; Isham / Woolcock / Pritchett, 2005; Sala-I-Martin / Subramanian, 2003). Similarly, Leite and Weidmann (1999) conducted an empirical study dividing resources into the four categories fuels, ores, agricultural product and food. They found that the negative growth effect of fuels and ores, which are the most obvious examples of point-source resources, are in their entirety caused by indirect effects through corruption (p. 190).

In accordance with these findings good governance is considered key to actively counter the resource curse<sup>5</sup>. In particular, anti-corruption measures and specifically transparency initiatives are commonly suggested to address this aspect of the resource curse (Kolstad / Søreide, 2009; Mähler / Shabafrouz / Strüver, 2011). However, in the literature so far there have been few contributions providing evidence of the theoretical and practical significance of – or even just seriously discussing – transparency in this context. In this regard, authors acknowledged as key contributors to the governance aspect of the resource curse, such as Tornell and Lane (1999), Robinson, Torvik and Verdier (2005) and Mehlum / Moene / Torvik (2006), while pointing the significance of corruption, do not make any reference to transparency in their work (see also Kolstad / Wiig, 2009).

One of few papers explicitly addressing this relationship is by Kolstad and Wiig (2009) who investigate the relevance of transparency to counter corruption in resource-rich states. They observe that “despite the popularity of the transparency concept, its role in reducing corruption and its importance in averting the resource curse are poorly understood” (p. 521). From their empirical analysis of the relationship between transparency and corruption in the context of the resource curse they conclude that transparency can indeed serve to reduce corruption to some extent, but only under specific cir-

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<sup>5</sup> See for example Boschini / Pettersson / Roine (2007), Kolstad / Søreide (2009), Bhattacharyya / Hodler (2010), Mehlum / Moene / Torvik (2006) or Weinthal / Luong (2006).

cumstances (*ibid.*). Their findings are confirmed by Lindstedt and Naurin, who empirically determine that external factors such as media circulation and education as well as the origin of information have significant effects on corruption (Lindstedt / Naurin, 2010). Williams (2011) analyzed the relationship from a different perspective and found that resource-rich countries display lower levels of transparency as a direct result of their natural resource endowments. This effect is particularly manifest in the case of point-source resources.

The present paper, therefore, seeks to further illuminate this issue by conducting a comprehensive theoretical analysis of the relationship between transparency and the resource curse in general and the key element of corruption in particular. Due to the limited previous discussion of this specific link it draws upon and combines more general research from related fields (corruption, transparency or governance) for application to the realm of the resource curse.

### 3 Corruption and its Effects

As previously outlined, institutional quality, and in particular corruption, are widely regarded as the main cause of the resource curse from a governance perspective. Therefore, this section goes beyond the literature on the resource curse exploring the concept of corruption to understand its causes, mechanisms and effects. Thorough understanding of the dynamics of corruption is necessary to subsequently permit an informed evaluation of transparency as a policy instrument aimed at its abatement.

Next to corruption, the concept of rent-seeking is often employed in this context. The vagueness of both conceptions hampers the discussion on this topic. Definitions not only vary and overlap, but sometimes even take opposite perspectives, defining corruption as a sub-type of rent-seeking and vice-versa. Therefore, the paper proceeds with a short clarification of the connotation as employed in this paper.

The focus of this research on the application of transparency as a practical policy instrument to curb corruption, suggests a definition of corruption with practical relevance. This paper, therefore, uses the popular definition of corruption as *the abuse of entrusted authority for private gain* (see Klitgaard, 1988, p. 24), which is also used by Transparency International<sup>6</sup>. This conceptualization is slightly more inclusive than the World Bank working definition as *the abuse of public power for private gain* (World Bank, 2001). Generally, corruption is associated with a certain degree of illegality and, as a consequence, usually characterized by a clandestine nature (Tanzi, 1998, p. 564).

For a more precise understanding it is helpful to adhere to the specification of political corruption as used by Amundsen (2006). Political corruption focuses on the elite of the political system holding political or bureaucratic posts with discretionary decision-making power. Amundsen differentiates between two broad subtypes of political corruption: (a) power preserving activities and (b) activities to extract or accumulate resources for individual or collective enrichment (2006, pp. 3–14). The latter is consequently termed *accumulative corruption*. These classifications are useful because they fit very well the analysis of corruption in natural resource governance. The concept of political corruption, however, excludes the role of the private sector which should not be neglected. While recognizing that corrup-

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<sup>6</sup> Transparency International is a global civil society organization prominently engaged in the fight against corruption. One important feature of its work is the promotion of transparency in politics, administration and business (Transparency International, 2012).

tion requires both a demand as well as a supply side, the private sector is primarily considered with regard to *rent-seeking*.

Rent-seeking, a term originally employed in the economic literature, refers to the use of resources “to gain an advantage in dividing up the benefits of economic activity” (Rose-Ackerman, 1999, p. 2) or, framed differently, the *socially costly pursue of rents* (Svensson, 2005, p. 21). It is here understood as a subtype of corruption<sup>7</sup>. Rent-seeking is highly relevant for natural resource governance due to the high natural resource rents which accrue in this sector. The most talented people or entrepreneurs are consequently incentivized to engage in unproductive activities oriented to gain a share of these windfall gains (Rose-Ackerman, 1999, pp. 213–214).

In this sense, rent-seeking is closely related to the category of private enrichment or accumulative corruption. Both refer to the reallocation of efforts from productive to unproductive activities, with the former focusing more on the private sector and the latter on the political realm. According to Amundsen, activities for corrupt accumulation also include “politically created rent-seeking opportunities” (2006, p. 10), which once again stresses the close connection between accumulative corruption and rent-seeking. For the purpose of the following discussion, corruption in the context of the resource curse can be summarized in two general types: a) power preserving activities and b) reallocation of efforts from productive to unproductive activities in order to accumulate resources. While a) refers exclusively to political corruption, b) includes activities of political as well as economic actors and subsumes accumulative corruption along with rent-seeking activities.

### 3.1 Mechanisms of Corruption

In order to evaluate the potential and limits entailed in transparency as an instrument to address corruption, it is necessary to establish the core mechanisms through which corruption works in hampering growth and economic development.

Extractive industries display a number of characteristics which provide fertile ground for corruption. As Tanzi (1998, p. 565) and O’Higgins (2006, p. 241) point out, monopoly and discretionary power without accountability<sup>8</sup>

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<sup>7</sup> In line with the usage by (Kolstad / Søreide, 2009, p. 214) and in contrast to (Bhattacharyya / Hodler, 2010, p. 609), who define corruption as one of many forms of rent-seeking.

<sup>8</sup> If not explicitly referred to as *public accountability*, the use of the concept in this paper is not restricted to the frequent association with democracy, but includes

are essential conditions for corruption. In extractive resource industries, these are commonly present, in particular given point-source resources under centralized control. This concerns both the structures and characteristics of the sector in particular with regard to power relations, as well as the specific features of resource rents. Therefore, these factors are analyzed in turn, as they provide the preconditions and opportunities for corrupt activities.

The characteristics of the natural resource sector render this context particularly amenable to corruption. The high capital investments and technological expertise which are required for extraction of point-source resources facilitate the establishment of monopolies. Moreover, such capital and expertise are usually not available in developing countries, which causes strong dependencies on global corporations. In the past, countries reliant on external financing have often experienced pressure from the international financial institutions (IFIs) to start extraction in order to clear international debts and had to accept disadvantageous terms of contract (Knoke / Binnewies, 2011).

At the same time, the global demand for securing natural resources, the finiteness of non-renewables and the high rents available in this sector create fierce competition. In combination with the asset specificity of investment (e.g. sunk costs and long-term investments), this gives governments of resource-rich countries a certain amount of leverage or discretion, since they are the exclusive provider of resource extraction permits on their territory. Truelove (2003) emphasizes the vulnerability of corporations once the production phase starts. This results from the specifics of the extractive sector closely tying the corporation to the land and, thus, the government. Long before the actual production starts, companies pay large sums for licenses and permits to search the territory. According to her, these huge sunk costs make companies vulnerable and willing to assent to almost any government condition in order to continue the process and recover their costs (Truelove, 2003, p. 220). Nevertheless, experience shows that the power and dominance of big extractive corporations should not be underestimated<sup>9</sup>.

Resource extraction is a long and complex process which involves numerous opportunities to engage in corruption. Executives frequently interact

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semi- or non-democratic systems which provide a type of accountability through answerability combined with sanctioning mechanisms.

<sup>9</sup> This has become particularly palpable in 2011 when mining corporations successfully opposed a planned tax increase and in the course even provoked the overthrow of the government – not in any developing country but in the OECD member Australia (Knoke / Hütz-Adams, 2011-2012, pp. 37–38).

with decision-makers in the government at different stages of the extraction process and a number of lump-sum payments such as signature bonuses or royalty rents have to be paid. Moreover, usually several intermediaries are involved, permits need to be acquired and contracts signed – which provides the combination of discretionary authority and secrecy that enables corrupt behavior (O'Higgins, 2006, pp. 240–243; Standing, 2007, pp. 3–9). Aaronson (2011, p. 51) points out that each of these interactions and associated decisions generates opportunities for corrupt activities (see also O'Higgins, 2006, p. 241). Moreover, contract terms often include strict secrecy clauses or clauses limiting the availability of information without mutual consent (Knoke / Binnewies, 2011).

Resource rents exhibit characteristics which provide further opportunities for corrupt activities. Payments are frequently undeclared, opaque and volatile because of constant fluctuations in the prices of commodities, often even within a single day. This leads to discretion and low oversight and reduces the threat of detection. The practice of lump-sum payments further complicates the process. Finally, transactions in this business are usually made in foreign currency and, therefore, can more easily be transferred to clandestine foreign accounts (Alba, 2009, p. 1; O'Higgins, 2006, pp. 240–243; Standing, 2007, pp. 3–9). All these characteristics provide a fertile ground for corruption by making it possible to engage in these activities under a veil of secrecy, without much risk of detection and consequent punishment (this is of course, unless constraining institutions are in place).

Next to opportunities, *incentives* for corrupt behavior are associated with the substantial resource revenues. These can be related to the two types of corruption identified in the previous section (3); namely incentives to engage in a) power preserving activities and b) reallocation of efforts from productive to unproductive activities in order to accumulate resources. In addition, there are incentives for the economically detrimental over-extraction of resources<sup>10</sup> which is not necessarily corrupt in itself (and therefore not considered in more detail) but provides opportunities for and can further promote corrupt behavior.

Power preserving activities are motivated by the high resource rents accruing to the government. The high rents increase the incentive for the ruling elite to remain in power and actively pursue this goal with power-preserving activities, which may be rendered possible by (mis)using the resource revenues. This can occur through patronage policies securing po-

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<sup>10</sup> Robinson and colleagues found that politicians tend to discount the future and therefore, engage in extraction of natural resources above the most efficient level of exploitation (2006, p. 449).

litical support from relevant groups<sup>11</sup>, a reduction of the tax rate which makes the government less accountable to the population<sup>12</sup> or upgrading the security apparatus to retain political power through oppression (Ernst / Hausman / O'Connor, 2007; Kolstad / Søreide, 2009, pp. 216–217).

The second category refers to incentives to reallocate efforts from productive to unproductive activities to gain a share of the available resource rents in the form of accumulative corruption or rent-seeking<sup>13</sup>. Collier highlights that the high sums at stake in the natural resource sector provide “enormous incentives for companies and politicians to enter into deals that are beneficial for each party at the expense of the country” (2004, p. 139). The effect is that of a zero sum game, with competition to maximize the share of a fixed amount of rents instead of cooperative, productive behavior which increases the net amount of income (Kolstad / Søreide, 2009, pp. 216–218). This refers both to entrepreneurs seeking advantageous treatment and regulations as well as the government. The latter, as a consequence, does not have the incentives to construct a productive environment, for instance by creating sound private property laws or a competitive environment. Instead, politicians can accumulate rent by giving political favors in form of market protection or monopolies, but also by direct theft and embezzlement for instance in manipulated privatization processes (Amundsen, 2006, p. 6).

### 3.2 Consequences of Corruption

Corruption, above all in its worst, endemic form, when it penetrates an entire system, has a number of severe effects. For that reason, the World Bank judged it the “single greatest obstacle to economic and social development” (in O'Higgins, 2006, p. 238)<sup>14</sup>. Similarly, Kolstad and Søreide claim that “corruption is the main reason why resource-rich countries perform badly in economic terms” and is therefore “*the* development problem

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<sup>11</sup> For example by expanding the public sector to provide employment posts to supporters or providing tax exemptions or through unproductive investments in form of white elephants employed as benefits to one societal group in order to secure political support (Robinson et. al., 2004, p. 449).

<sup>12</sup> For elaboration see effects of corruption in the next section.

<sup>13</sup> While corruption is generally associated with illegal activities such as taking or giving bribes, rent-seeking includes activities to capture a share of the rent which need not be illegal or secret, as for example lobbying.

<sup>14</sup> Nonetheless, some authors have argued that corruption can in fact be efficiency and growth enhancing, though this viewpoint is strongly contested (see Tanzi, 1998, pp. 578-582 for an overview of the discussion), which leads the present paper to disregard this argumentation and follow the generally accepted view on corruption as economically destructive.

in resource-rich countries” (Kolstad / Søreide, 2009, p. 214, emphasis in the original).

In general, all the mechanisms identified above produce fairly evident economic losses through distortions induced by corrupt transfers. These can be significantly higher (and under some circumstances also lower) than the volume of the bribes themselves (Rose-Ackerman, 2004, p. 302). They prompt direct allocation inefficiencies and diversion of resources from potentially developmentally favorable usages, as they e.g. reduce government revenues (O'Higgins, 2006, p. 239; Tanzi, 1998, pp. 582–586; Tanzi / Davoodi, 2002). However, there are further, less intuitive but nonetheless highly distortionary and detrimental indirect consequences. They occur both at the political as well as the economic level (though these cannot be separated clearly, due to reciprocal influences and overlaps). These indirect effects are a) weakening of public accountability; b) inefficiencies and distortions both of the market and public policy; and c) increased uncertainty and mistrust which function similar to an additional tax and result in reduced private investments. Figure 1 presents an overview of the indirect effects, which are explained in more detail below.

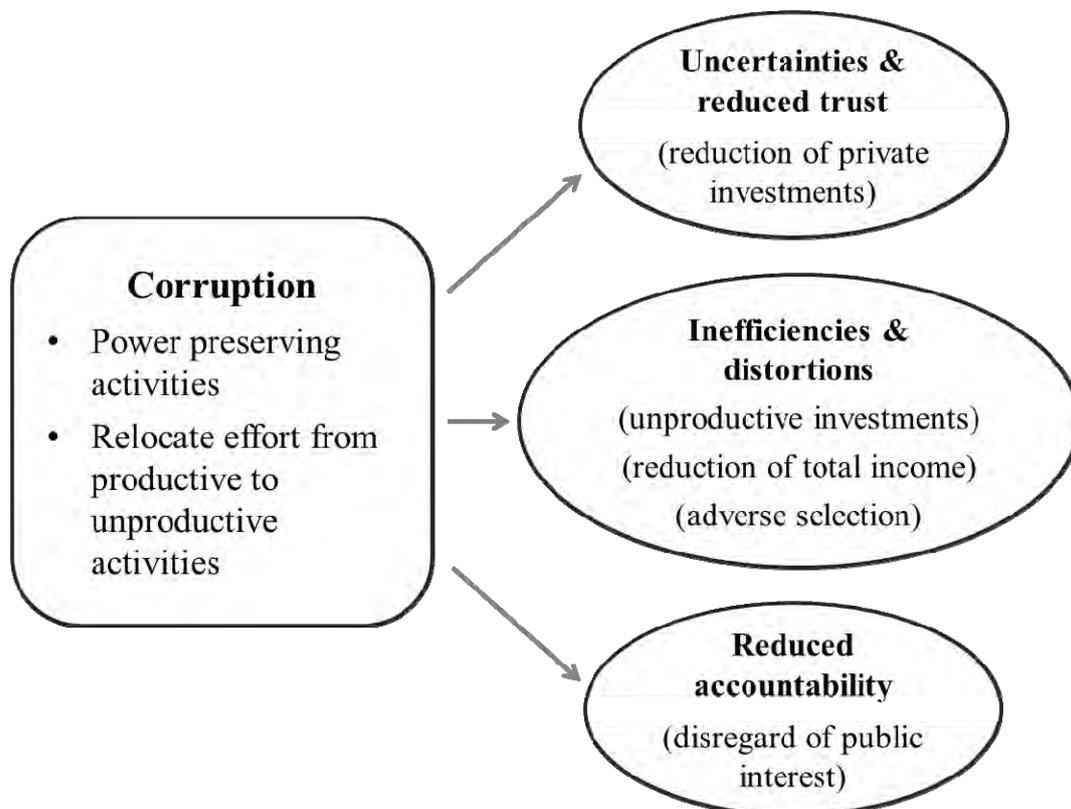


Figure 1 (own compilation)

In particular in the case of power-preserving variations of corruption, the indirect effects caused by (a) the loss of public accountability can be much more destructive than direct economic losses. As Collier states: “The key menace of sovereign rents is not that they are ‘wasted’ on patronage, but that they can destroy the normal incentive for effective government provided by citizen pressure (2006, p. 5). This reasoning rests on the assumption that when a government relies on taxation for revenues, citizens have greater leverage and motivation to influence the expenditure side, which renders the government more accountable (McGuirk, 2010; Moore, 2004). In countries which possess natural resources, regimes no longer have to rely on taxes as the main source of revenues. The loss of this reciprocal relationship reduces the ability of the population to scrutinize their government. This in turn enables the ruling elite to spend the money in its own interest instead of taking into account the developmental needs of the entire population in their decision-making (Collier, 2006; Humphreys, 2005; Siegle, 2007, p. 2). Mc Guirk (2010), after having concluded his quantitative study of 15 sub-Saharan countries, claims that leaders take advantage of this mechanism on purpose by softening “the burden of taxation on the citizenry as a means to render them more acquiescent” (p. 17).

As a second indirect effect, corruption severely impacts the economy by producing inefficiencies and distortions of the market as well as of public policies (b). Consequently, higher prices and sometimes monopolies are generated. In societies where endemic corruption prevails, officials are induced to choose and remodel public projects according to their susceptibility to corruption. The presence of numerous opportunities for private gain becomes more relevant than possible public benefits (Amundsen, 2006, p. 6; Bulte / Damania / Deacon, 2005, p. 1031).

This has the double effect of adverse selection both in political decision-making as well as the market. High resource rents incentivize financing of unproductive investments, which reduces the productivity of public investments and leads to a loss of productive infrastructure (Bardhan, 1997, p. 1326; O'Higgins, 2006; Tanzi, 1998, pp. 582–586; Tanzi / Davoodi, 2002, pp. 296–297). In particular health and education sectors, which are less susceptible to corruption, are often underfinanced as a consequence (Mauro, 2002; Rose-Ackerman, 2004, p. 305). This crowding out of human capital is highly destructive for both social and economic development. Moreover, an uneducated populace is less able to hold the government effectively accountable for its decisions, further reinforcing the previously described detrimental effect of corruption on accountability (Kolstad / Wiig, 2009, pp. 524–525; McGuirk, 2010, p. 16).

In the private sector, entrepreneurs and enterprises are not rewarded for the most efficient and productive behavior, but instead selected for their ability to engage in corruption. The corrupt transactions affect the economy similar to a tax, but are more distortionary due to their arbitrary nature and adverse selection effect. The need for a convenient combination of opportunities for corruption, and secrecy to avoid punishment, leads to market distortions since public investments as well as contractors are not chosen according to their efficiency and productivity.

In particular small enterprises, which are often regarded as the engine for growth in developing countries, are strongly disadvantaged by prevalent corruption (Bardhan, 1997, p. 1326; O'Higgins, 2006, p. 239; Tanzi, 1998, pp. 582–586). In the context of natural resource extraction, disadvantaging small companies frequently means discriminating against national companies compared to predominantly big, multinationals dominating the business. This is even more damaging for the national economic development, as Multinational Corporations (MNCs) often provide little possibilities for downward linkages, further employment or value creation within the country. Foreign direct investment (FDI) in the natural resource sector tends not to produce the positive spillover usually associated with FDI (Asiedu, 2006, p. 64). Generally, these mechanisms reinforce the effect of corruption to misallocate resources and reduce the overall productivity of the economy.

Closely related to the afore-mentioned mechanisms, the prevalence of rent-seeking has damaging effects on the level of production. It becomes more rewarding for entrepreneurs to engage in rent-seeking, instead of investing their skills, time and energy in productive activities which would expand the total amount of wealth. In their econometric analysis of 42 resource-rich countries over a period of 25 years, Mehlum and colleagues (2006) even established a *net negative effect on production* caused by rent-seeking activities. They demonstrate that the amount of entrepreneurs leaving the productive sector and the resulting losses of production exceed the gains in resource rents.

As a third indirect consequence, perceptions of widespread corruption in government circles produce an environment of reduced trust and increased uncertainties (c). This effect of corruption is often emphasized and has further political, but also economic consequences. Corporate managers increasingly judge corruption as not only affecting profits, but also increasing business risks (Aaronson, 2011, p. 51). Thus, the resulting uncertainty often has the effect of averting or reducing private investment and in particular FDI flows, which means driving out a significant source of private invest-

ment and hampering economic growth (Aaronson, 2011; Amundsen, 1999, p. 19; O'Higgins, 2006, p. 239; Tanzi, 1998, pp. 582–586).

It is not established, however, if this relation holds true with regard to extractive industries. Hilson and Maconachie plausibly argue that there is "no evidence" of this effect within the natural resource sector, as extractive firms often operate in corrupt environments<sup>15</sup> (2009a, p. 71). If corruption prevented investments in the extractive industries, how could the substantial investments in this sector in countries such as Nigeria, Cameroon or Chad be explained, which are all ranked among the most corrupt countries in the world? (Hilson / Maconachie, 2009a, pp. 64–65). Instead, Mildner and Lauster observe that FDI in extractive industries "accounts for the bulk of FDI into Africa" (2010, p. 20). Hence, it seems that the uncertainty and mistrust associated with high levels of corruption might have negative consequences for the economy at large and broader economic and consequently social development. Nevertheless, they do not impede investments in the extractive sector itself – which thus continues to provide further sources to sustain corruption (Hilson / Maconachie, 2009a, pp. 64–65).

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<sup>15</sup> The mechanism is nonetheless included in the discussion because it is often offered as an argument for increasing transparency (which is supposed to counter the effects) disregarding the limited relevance for the natural resource sector.

## 4 Transparency as a Policy Instrument

There is hardly any policy paper or study on natural resource governance and the resource curse that gives policy recommendations without referring to the importance of transparency – very often in combination with accountability. Rarely, however, are there any references to the theoretical basis or specifications what kind of transparency in which areas is actually meant and how it can contribute to curbing the curse. As Kolstad and Wiig observe, its popularity notwithstanding, the role of transparency “in reducing corruption and its importance in averting the resource curse are poorly understood” (2009, p. 521). After having identified the main mechanisms of corruption in the previous section, the paper now proceeds to connect these with the effects of transparency in this chapter. It scrutinizes the (existence of) theoretical support for the upheld focus on transparency. For this purpose it identifies potentials and constraints entailed in the use of transparency as a policy instrument to combat the resource curse.

### 4.1 The Concept and its Relevance for the Resource Curse

The concept of transparency bears a certain degree of ambiguity. At first sight, it appears to be plausible and presumably everybody has an idea what it refers to. When going into more detail, though, transparency is a rather vague and general concept. Calls for more transparency, without specification of what kind of transparency in which area is referred to, therefore, are primarily normative and not very useful in a practical sense. For the purpose of analyzing transparency as a policy instrument, this paper uses the definition by Florini, which is especially suitable due to its emphasis on the connection between transparency and accountability. Accordingly, transparency refers to the “degree to which information is available to outsiders that enables them to have informed voice in decisions and/or to assess the decisions made by insiders“ (Florini, 2007, p. 5).

This definition is useful for a general discussion of the benefits and limits of transparency in resource governance. In practice, however, aspiring to absolute and universal transparency of this kind in all subject areas is unrealistic. Therefore, especially with regard to practical policy-making and policy recommendations, it is necessary to clarify which context is referred to when speaking about transparency. While recognizing that transparency can have a number of positive effects and is essential for good governance and economic processes more generally (Humphreys / Sachs / Stiglitz, 2007a; World Bank, 2002), the focus of this paper is on the potential effects of transparency on the resource curse and in particular on corruption-specific issues.

In the particular framework of natural resource governance, relevant areas are revenue streams, budget allocation, awarding of contracts – basically all the different elements of the extractive industries value chain (Alba, 2009; Kolstad / Wiig, 2009, pp. 525–526). Clearly, the specific nature of transparency, its preconditions and effects vary considerably between these fields, which makes it all the more important to be precise. Hence, after a more general introduction to the value of transparency in the next section, the paper will address the relevance of different subject areas with regard to transparency and its effect on the resource curse (4.2.1).

Despite its diffuse meaning, the idea of transparency as a policy instrument has become increasingly popular in international policy circles more recently. Above all, this is true for its application to the natural resource sector. Thus, authors such as Al Faruque (2006, p. 67) claim that lack of transparency, especially in revenue management, is the cause of widespread corruption and general social and economic underdevelopment. Similarly, a number of authors observe that transparency in the extractive industries is increasingly embraced as vital and regarded as the main governance challenge to “correct the distortions at the heart of the resource curse” (de Renzio / Gomez / Sheppard, 2005, p. 58) (see also Al Faruque, 2006; Mildner / Lauster, 2010, p. 100; Standing, 2007, p. 17). Kardon (2008) claims that EITI Chairman Peter Eigen “expresses a common view when he suggests increased transparency would lead to greater budget accountability, improved rent allocation, poverty reduction, and eventually greater political and social stability” (p. 61). Hale (2008) likewise notes that “few concepts have come to enjoy more popularity in international policymaking circles than transparency” (p. 73).

In contrast, other authors recognized as key contributors to the literature on the governance aspect of the resource curse do not make any reference to transparency in their work (see Mehlum / Moene / Torvik, 2006; Robinson / Torvik / Verdier, 2006; Tornell / Lane, 1999). Moreover, there are also openly critical voices which caution that the relationship between the resource curse and transparency has not been fully understood. They state that the strong advocacy for transparency might be dangerous, as its effectiveness remains doubtful (Bellver / Kaufmann, 2005; Hale, 2008, pp. 73–74; Kolstad / Wiig, 2009, p. 521; Standing, 2007)<sup>16</sup>.

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<sup>16</sup> Traditionally, research on the value of transparency as a policy instrument has focused on its application to economic processes. Only more recently has the problem of information asymmetries in political markets and the potential of transparency for increasing efficiency in the provision of services attracted attention (Bellver / Kaufmann, 2005, p. 41).

If the calls for transparency were merely rhetoric, this kind of knowledge would be less relevant. Yet “the reality is that transparency mechanisms are used as substantive policy tools in a surprising range of areas” (Hale, 2008, p. 73). This development is also a concern among practitioners as Gillies discovered. She interviewed a number of “leading NGO activists” who stated: “I worry that civil society is getting over-focused on transparency. I think some over-estimate its ability to bring about accountability” and “It’s like a bathtub with five holes in it and you’re making one of them slightly smaller” (2010, p. 122).

The focus on transparency to curb the resource curse is based on the political-institutional perspective on the phenomenon and the understanding that the curse is caused by governance failure. Transparency in resource governance is considered crucial to fight the resource curse. This derives from the logic that transparency can serve to impede corrupt appropriation of resource rents, but at the same time also strengthens domestic institutions or prevents their impairment, respectively. The latter effect assumes that access to information enables accountability while on the other hand a lack of transparency generates a fertile ground for corruption (Firger, 2010, p. 1048; Kolstadt / Wiig, 2007, p. 10; Tanzi, 1998, p. 575). Therefore, the following section will first analyze the potential effects of transparency on corruption and the resource curse more generally (4.2), and then examine more closely specific factors relating to the effectiveness of this instrument. In this regard, the relevance of the specific types of transparency (4.2.1), the relationship between transparency and accountability (4.2.2), as well as further limits and challenges (4.2.3) are addressed.

## 4.2 Expected Effects on Corruption & Rent-seeking

Literature on the relationship between transparency and corruption is highly inconsistent. While some authors praise transparency as the best way to fight corruption (Al Faruque, 2006; Eigen, 2007; Truelove, 2003, p. 207) others strongly criticize the rarely questioned assumption. They state that both phenomena and in particular their relationship is not fully understood and lacks substantiation in theory or empirics (Bellver / Kaufmann, 2005; Kolstad / Wiig, 2009; Lindstedt / Naurin, 2010). Hence, this link requires a careful analysis.

The principal and most obvious effect the application of transparency as a policy instrument can produce is *detection*. This facilitates *prosecution*, and thus the removal of corrupt actors from positions of power, but also works as a *deterrent* for other actors to engage in corrupt activities by reducing incentives as well as opportunities entailed in the resource sector.

The effect of transparency on detection is relatively straightforward. Disclosure of information can lead to the detection of corrupt activities and makes it more difficult for an agent to distort information in order to hide corrupt acts (Bac, 2001; Kolstad / Wiig, 2009, pp. 522–523). In the presence of credible punishment, this kind of public disclosure has a twofold effect. First of all, detection provides a first step towards prosecution and can thus contribute to removing corrupt actors from positions of discretionary power. The effect on prosecution is further reinforced, Kolstad and Wiig point out, because the availability of information facilitates the generation of proof and thus the imposition of sanctions (2009, pp. 522–523). Secondly, such transparency can trigger deterrence by moderating the incentives and opportunities entailed in the natural resource sector identified above, which are generally based on low oversight. Transparency clearly counteracts the clandestine and usually illegal nature of corruption. Therefore, the increased risk of detection if oversight is enhanced through transparency, makes it less attractive to engage in corruption and generally discourages such behavior. In this way, transparency reforms can effectively alter the incentives of the political elite to promote policies which are beneficial for the broad population (Bellver / Kaufmann, 2005, p. 33). However, the higher chance of detection predominantly impacts on accumulative corruption but less on rent-seeking activities. More transparency can also reduce the discretionary authority<sup>17</sup> and thus further diminish opportunities for corruption (Dabla-Norris / Paul, 2006, p. 18).

Despite this potential entailed in transparency, its impact remains severely constrained and need to be qualified. While transparency *can* constitute a first step towards detection, even this is not guaranteed. It presupposes that the relevant information is accessible to and comprehensible for actors who are willing and capable to process this information, draw conclusions and act upon it (Isaksen / Amundsen / Wiig, 2007, p. 52; Kolstad / Wiig, 2009, p. 524; Lindstedt / Naurin, 2010, pp. 303–304). For detection to produce positive outcomes, a strong and independent civil society or other actor must exist to take action and use the information to seek prosecution. Furthermore, even if the availability of information can facilitate law enforcement by allowing to prove transgressions, this has no effect without an effective judiciary. Similarly, a credible threat of consequences for one's corrupt activities is central for the deterrent effect of information disclosure on the opportunities and incentives for corruption. If corruption is generally accepted and tolerated behavior, and sanctions are unlikely to occur, the risk of exposure will not produce a change of behavior.

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<sup>17</sup> in the specific sense of the more precise German term “Ermessensfreiheit”

To some extent, transparency can counteract certain indirect consequences of corruption identified above. Whereas its effect on distortions and inefficiencies produced by corruption is least evident, its impact on the other two indirect effects of corruption (reduced trust and accountability) is significant. It can rebuild trust (Caselli / Cunningham, 2009; Isaksen / Amundsen / Wiig, 2007, p. 52), reduce uncertainty, and thus help attracting private investment (Al Faruque, 2006; Leite / Weidmann, 2002; O'Higgins, 2006). While this fact has been widely emphasized, it seems to apply to the economy in general, rather than the natural resource sector in particular. As has been pointed out before, the extractive sector appears to be less responsive to the political environment and level of corruption than other investment areas in the private sector. Therefore, the effect within the extractive sector is most likely not significant for the resource curse (Hilson / Maconachie, 2009a, p. 71).

Transparency is widely appreciated for its supposed effect on accountability. Accountability is indeed highly relevant in this context. On the one hand, it decreases as an indirect consequence of corruption, and on the other hand it is perceived as a main tool to counter corruption. However, it is uncertain, how big the impact of transparency by itself actually is on the dynamics of accountability. Therefore, this important potential effect is explored in detail in Section 4.2.2. Beforehand, the next section will discuss the relevance of specific types of transparency for the effectiveness of this instrument.

#### **4.2.1 Relevance of Specific Types of Transparency**

Some scholars point to empirical evidence for the significant effect of transparency to reduce the level of corruption. For this purpose, studies by Brunetti and Weder (2003), Ahrend (2002), Suphachalasai (2005)<sup>18</sup>, and Lindstedt and Naurin (2005) are referred to. However, closer scrutiny reveals that these results need to be qualified twofold. First of all, the authors used press freedom and media competition as substitutes for transparency. These are interesting but very specific indicators which cannot be equated with transparency as defined in this paper. Secondly, further quantitative studies qualified the results determining that the impact of these measures of transparency is conditional on the level of democracy and, most importantly, the level of education. Thus, while these studies provide valuable insights, the uncritical generalization that more transparency decreases the level of corruption is misleading (Brunetti / Weder, 2003; Kolstad / Wiig, 2009, pp. 524–525; Lindstedt / Naurin, 2005).

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<sup>18</sup> in Kolstad and Wiig (2009, p. 524).

These findings reinforce the introductory comment that it is essential to be precise when discussing this concept. The effectiveness of transparency as a policy instrument differs depending on the specific application of the concept. The definition of transparency by Florini (see 4.1) already indicates that it does not refer to any kind of information, but the kind which enables external observers to have profound knowledge on inside decisions. If it is supposed to serve as a basis for the evaluation of a specific institution, it needs to give details about the performance and must be both relevant and reliable (Bellver / Kaufmann, 2005, p. 4; Fox, 2007, p. 666).

Effective transparency in form of disclosure of information entails two broad elements: the relevance of information and the publicity attained (see Figure 2 for illustration). The relevance of disclosed information is determined by three aspects: 1) subject of transparency 2) sufficiency of information and 3) the origin of information. These elements are briefly introduced in the following, before the most controversial aspect, the choice of the subject of transparency, is elaborated upon in more detail. The remainder of the chapter will consequently discuss the importance of publicity, which comprises the two aspects outreach as well as comprehension.

For the effectiveness of the transparency instrument, it is decisive which

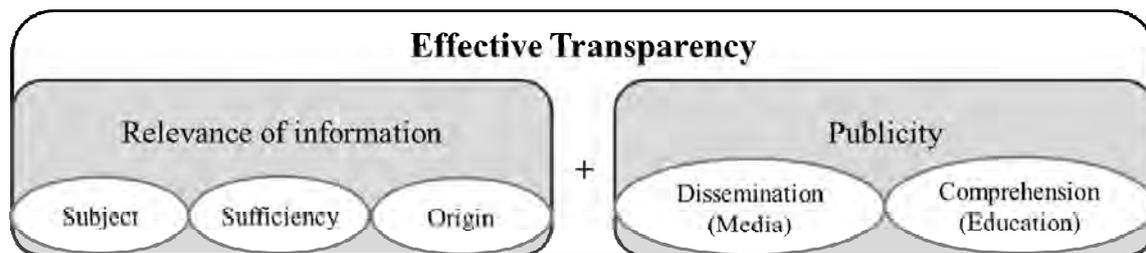


Figure 2 (own compilation)

*step in the policy process* is chosen for increased transparency (1). In the realm of resource governance, the different elements of the value chain of extractive industries lend themselves to this aim, as each involves a number of decisions and interactions which provide considerable leverage for corrupt activities. The four main aspects are: awarding of contracts and licenses, regulation and monitoring of operations; revenue collection as well as budget allocation (adapted from Alba, 2009; Kolstad / Wiig, 2009, p. 526). Certainly, transparency of procedures and transactions in all these areas is desirable, but often not feasible as it involves costs as well.

Expedient disclosure must cover all information concerning the selected subject which is relevant to make an informed judgment. Additionally, though, the disclosed information must be presented in a comprehensible and adequate form, so that it can actually be used. These two elements can be subsumed under the notion of *sufficiency* of information (2), referring

both to the completeness of data as well as adequate quality. The type or specific form of information also affects the probability that third actors react on it. Both the incentives to act on as well as the capacities to process information can thus easily be influenced by the type or form of information which is presented. Thus, Kolstadt and Wiig argue that highly aggregate macroeconomic figures (as used by EITI) tend to trigger collective action problems by providing weak incentives for individuals to take action (2007, p. 16).

Lindstedt and Naurin (2010, pp. 305–306) stress that the *origin* (3) of the available information is highly relevant as well. They differentiate between agent-controlled and non-agent controlled transparency. In the first case the agent him/herself releases the information and thus controls what information is published, either due to external pressure or a self-commitment to increase legitimacy. In the case of non-agent controlled transparency, third parties, such as independent media or whistle-blowers, provide the information independent of the agent. While both types have the potential to reduce corruption, agent-controlled transparency primarily makes sure that it becomes more difficult to engage in corrupt activities by constraining secrecy. The agent him/herself still has the power or discretion to decide what information is published, which inherently limits the effectiveness of this kind of disclosure. Non-agent controlled transparency, though, makes corrupt activities not only more complicated, but also potentially more dangerous (Fox, 2007, p. 666; Lindstedt / Naurin, 2010, pp. 305–306).

The specific choice of a subject of transparency and the relative relevance of different options is widely debated. So far, theoretical considerations as well as practical application have often focused on the stage of revenue collection. This approach, however, is increasingly criticized. Therefore, the discussion on the relevance and shortcomings of the different elements is briefly presented in the following.

Calls for transparency of revenues are most popular when it comes to practical application of this policy instrument<sup>19</sup>. Collier and Hoeffler (2004, p. 139), similar to Genasci and Pray (2008, p. 50), see transparency of revenues as a core principle to improve governance in the natural resource sector. Truelove argues that it is useful to combat corruption because “forcing and promoting disclosure of revenues arms those who combat corruption with vital information” (2003, p. 212). Considering the different types of corruption, however, transparency in revenues would potentially only impact accumulative corruption, while power preserving activities would

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<sup>19</sup> This has also been adopted by EITI which specifically addresses this area – see discussion in 5.2.1.

be better addressed through closer scrutiny of public expenditure. Recalling the three components of the category of power preserving activities, – resource revenues being used to reduce the tax rate, the feeding of patronage systems and oppression through military spending – all three are located at the expenditure side and refer to budget allocation processes. Furthermore, according to Kolstad and Wiig (2009, p. 527), in order to curb rent-seeking, it is necessary to focus on institutions governing the private sector.

Accumulative corruption is therefore the most important target of revenue transparency. Yet, while resource revenues are an important element, transparency at this stage is not sufficient for restricting accumulative corruption in the resource sector. All elements of the value chain are relevant and may lead to massive personal enrichment at the expense of provisions which are possibly more beneficial for the public good. Hence, disclosure of resource revenues only addresses one aspect of this. Direct bribes in return for more favorable contract conditions or treatment are not covered. Similarly, accumulative corruption during the negotiations of taxes and royalties, when contracts are awarded or in the course of monitoring processes will not feature in transparent revenue streams. This argument is reinforced by Standing, who states that enough possibilities for corruption remain even with disclosed revenue flows. According to him, conflicts of interest affecting policy decisions, state capture as well as political forces hindering investigation and prosecution of corruption continue unchecked (2007, p. 17). Even if the government, corporations or both (as is the case with EITI) commit to making revenue flows transparent, in case of corrupt transactions it is very unlikely that the incriminating statements are readily published. As stated before, the asset specificity of enormous investments makes companies inclined to assent to any conditions (on payments or non-disclosure) by the government once the production phase starts.

The complexity of revenue streams, moreover, makes it extremely difficult to verify public records (Lindstedt / Naurin, 2010, pp. 305–306; Truelove, 2003, p. 218). Truelove (2003) therefore argues that publicizing contract details is highly relevant for true oversight of government revenues. The different cash flows such as bonuses and taxes are determined by various inputs, as for instance production rates or capital and operating expenses. Thus, without knowing the concrete parameters specified in the contract, disclosure of public records is insufficient (p. 220). These limitations concerning the quality of data for transparency of revenues do not hold true for the other elements of the value chain to a similar extent. A sole focus on revenues is hence highly limited in its impact on corruption and accountability or the resource curse more generally.

Scholars emphasize the relevance of transparency in other areas to improve resource governance. Thus, according to Radon (2007) and Johnston (2007), transparent procedures for the awarding of contracts and licenses would render multiple benefits due to increased competition. Both Rosenblum and Maples (2009) and Truelove (2003, p. 220) stress the importance of contract transparency. They argue that secrecy of contract details conceals incompetence and mismanagement. This is sustained by the frequent use of confidentiality clauses in the natural resource sector which hamper disclosure of relevant information. While such clauses are often held to prevent transparency, Rosenblum and Maple emphasize that “Expansive confidentiality clauses, which companies and countries point to, are a symptom and not a cause of contract secrecy” (2009, p. 58). Contrary to common perception, “they are not barriers to disclosure that is required by law or resulting from mutual consent” (p. 58).

A number of academics insist on the primary importance of transparent budget allocation in order to foster government accountability and translate the generated resources into development (Basedau / Mehler, 2005; Carbonnier / Brugger / Krause, 2011, p. 259; Genasci / Pray, 2008, p. 52; Kolstad / Wiig, 2009, p. 528; Robinson / Torvik / Verdier, 2006; Shaxson, 2007b, p. 218, Snyder / Bhavani, 2005). Kolstad and Wiig state that “the expenditure side is clearly the key in many of the corruption related problems faced by resource-rich countries. Patronage politics, whereby funds or positions are transferred to supporters, is clearly about the expenditure side” (2009, p. 528). However, as Collier points out, it is common practice in many extracting countries that resource rents are not reported in the state budget, which impedes the close scrutiny of the allocation process (2004, p. 139).

Barely discussed in the context of promoting transparency is the second element of the value chain; the regulation and monitoring of operations. This is despite the obvious potential for accumulative corruption in this field and the detrimental social and environmental effects insufficient compliance can cause. So far, there has been no comparative research evaluating the relative expedience of the different subject areas, which could give a conclusive statement or recommendation for policy interventions.

Next to relevant information publicity is a key requirement for effective transparency, as already mentioned above (see Figure 3). Meaningful involvement and participation requires informed citizens who know about the potential consequences and alternatives of certain policies (Isaksen / Amundsen / Wiig, 2007, p. 52). Transparency as such, Florini points out, lets people merely see “streams of facts. It neither enables people to *do* anything about those facts, nor conveys any understanding of their mean-

ing” (1999, p. 8, emphasis in original). Lindstedt and Naurin’s distinction between transparency and publicity helps to understand this relationship better (2010, 2005). They state that transparency merely refers to the *availability* of information, so that an interested principal can access it if willing and able to search for it. Publicity, in contrast, entails that the principal actually *receives* the relevant information, which of course requires its availability, but is not an automatic consequence thereof. Availability of documents does not imply that the population is actually aware of their content. Hence, first of all the demand for a piece of information is necessary. Large parts of available information in public records will rarely reach the majority of the population, simply because the issues are of relevance only to a certain group of people.

Publicity presupposes the dissemination of information towards the broader public. Importantly, mass media can take over this task. Access to information, moreover, is not directly provided by disclosure of data, but the information must also be physically accessible. This is particularly relevant in the context of the resource curse, since in many resource-rich countries the physical infrastructure and information technologies are not very well developed (Pope, 2003, p. 16). This directly impacts the need for equal access to prevent information asymmetries and disadvantaging certain societal groups (Kolstad / Wiig, 2009, p. 526).

As a second element of publicity, the recipients must be able to comprehend and assess the information provided to them. A basic level of education is therefore crucial to attain the required publicity. Several empirical studies support the significance of these two elements for the effectiveness of transparency. Thus, freedom of press, media competition and, most importantly, education<sup>20</sup> are significant preconditions for the positive effects increased transparency can have on corruption (Lindstedt / Naurin, 2005; Svensson, 2005).

#### 4.2.2 Transparency & Accountability

Calls for greater transparency in governance processes are predominantly based on its expected effect on accountability (Bellver / Kaufmann, 2005). This is also one major motivation of CSOs, donors and politicians who aim to strengthen the voice of the population vis-à-vis the government – which in turn is supposed to improve political decision-making and reduce corruption. Conventional wisdom assumes a straightforward relationship of transparency leading to accountability (Fox, 2007, pp. 664–666). As a con-

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<sup>20</sup> In fact, Lindstedt and Naurin (2010) empirically demonstrate that the positive effect of freedom of press is dependent on the level of education.

sequence, it is often “advocated as a vehicle for making governments more accountable to their people” (Gillies, 2010, p. 105). The idea is that the information made available to the populace enables it to scrutinize the decisions of the government and call it to account for its actions. Genasci and Pray (2008) even consider it a ‘rule’ that “transparency [...] fosters accountability and good governance” by informing citizens which are consequently able to demand responsible use of the resources (p. 50). According to them, this can constitute a counterweight to a lack of government accountability. However, as Lindstedt and Naurin (2005, p. 8) point out, the link between accountability and transparency is not as straightforward as often assumed. Careful examination of this relationship as well as the prospects of and limits to this idea is necessary, which is undertaken in the following.

Several authors demonstrate that framing corruption as a principal-agent problem can explain how transparency theoretically contributes to increased accountability (Bellver / Kaufmann, 2005, pp. 62–63; Dabla-Norris / Paul, 2006, p. 20; Kolstad / Wiig, 2009, p. 523). Accordingly, the population or electorate constitutes the principal and the state or government assumes the role of the agent who takes decisions on behalf of the principal. Key to the principal-agent problem is the respective self-interest of both actors, combined with an inherent asymmetry of information. Principals are not able to monitor their agents perfectly, as agents always possess more and better information about any situation and the decision-making process than their principals. This is of course necessary and logical for the effective division of labor, but creates considerable scope of action for the agent to abuse its position of power. In combination with the usually prevailing divergence of interests between agent and principal, it becomes problematic. While the agent/government theoretically only acts as a representative of the principal/population and should therefore act in the principal’s primary interest, a lack of oversight hampers the scrutiny by the principal. Consequently, the agent is able to follow his/her own interests, which very often do not coincide with those of the principal. Hence, although corruption is definitely not in the interest of the principal, the agent can take advantage of information asymmetries which impede effective accountability, and engage in immoral behavior to gain personal benefits. Following this reasoning, increased transparency can reduce the asymmetry of information, and thus increase accountability.

Yet, there is a major flaw to this logic. While the availability of relevant information might enhance the power of accountability, there must be a minimum degree of accountability to be reinforced in the first place. Contrary to conventional wisdom, transparency on its own cannot generate accountability. Knowledge, unfortunately, does not directly produce the abil-

ity to take action and punish harmful behavior. Using government revenues as an example, transparency of revenue flows alone cannot force the government to restrain from mismanagement – let alone to employ those revenues in the best possible way for the public benefit, as stated by Shaxson (2007a, p. 1134).

It becomes clear that further factors are required to complement transparency in order to establish effective accountability. Schedler (1999) has outlined a way to think about accountability that helps explain the role and limits of transparency mechanisms. He sees accountability as the synthesis of two concepts. These are answerability: “the right to receive information and the corresponding obligations to release details”, and enforcement: “the idea that accounting actors do not just ‘call into question’ but also ‘eventually punish’ improper behavior” (p. 15). Answerability, in this sense, is closely related to transparency, although it is not restricted to the mere, possibly *voluntary, provision* of information. Additionally, it includes the ability to *demand* this kind of disclosure and, even more importantly, justification for its contents (Schedler, 1999, pp. 13–17). This second component, however, is apparently disregarded when the direct link between transparency and accountability is propagated. For the agent to be accountable to the principal, he/she must encounter adverse consequences in case the actions or decisions taken are contrary to the preferences of the principals. Access to information about misconduct is therefore essential to call agents to account for it, but has little effect if principals lack the ability to punish such behavior (Kahler / Lake, 2003, p. 389; Kolstad / Wiig, 2009, p. 524; Lindstedt / Naurin, 2005, p. 9). Mechanisms for sanctions can be provided by the institutionalization of checks and balances in the political system and/or an effective and independent judiciary (Isaksen / Amundsen / Wiig, 2007, p. 52).

Institutions of accountability with effective and neutral sanctions are most prevalent in consolidated democracies through the checks and balances this system is based on. Public accountability is the basic concept of modern democracy (Isaksen / Amundsen / Wiig, 2007, p. 52). Empirical studies confirm this link by identifying a democratic political system as one important factor determining the impact of transparency on corruption (Isaksen / Amundsen / Wiig, 2007, p. 52; Lindstedt / Naurin, 2005; Svensson, 2005). However, most resource-rich countries cannot be classified as consolidated democracies, but are under semi-democratic or authoritarian rule. This is particularly relevant as natural resources are found to reduce democratic accountability and democratic development (Bulte / Damania / Deacon, 2005; Kolstad / Wiig, 2009, p. 524; Siegle, 2007; Wantchekon, 2000; Ross, 2001).

Yet, the distinctive features of the extractive sector allow for a certain extent of external or indirect accountability. This holds true even if that kind of direct accountability is not provided for in the political system of a resource-rich country. The global scope of trade connections produces international power-relations and interdependencies, which brings along a broad set of actors and stakeholders and increases the levers of external influence. It has been pointed out that international corporations are dominant and powerful vis-à-vis the governments of resource extracting countries. At the same time, their global markets and increasing public awareness of social and ecological standards in many consumer countries increase their vulnerability. The need to preserve a good reputation in order to maintain high profits allows international civil society to exert (limited) pressure on corporations to behave according to international norms (Schieritz, 2009, pp. 116–117). More indirectly, this can also put pressure on the government of a resource-rich country facing the risk of losing important investors or international support (Gillies, 2010, p. 104). Nevertheless, the current high demand for natural resources in combination with their finiteness, increasing depletion and resulting strong competition in this sector reduce the power of this tool.

It becomes clear that while accountability and transparency are closely related, their exact relationship is often blurred by imprecise usage of the terms and implicit assumptions. Against conventional wisdom, there is no direct causal relationship from increased transparency leading to accountability. Transparency is necessary, but far from sufficient to produce accountability (see also Fox, 2007, pp. 664–666 or Kolstad / Wiig, 2009, p. 524). Additional factors are relevant for the effective application of transparency which is explored in the next section.

### **4.2.3 Limits & Challenges of this Instrument**

Apart from the specific application of transparency and the link between transparency and accountability, the effect of transparency is impacted by contextual factors. This creates further challenges and limits its potential effectiveness as a policy instrument in natural resource governance in practice.

One principal flaw of the transparency instrument has already come up in the previous discussion: its indirect nature, which renders it heavily reliant on external factors. As a result of this indirect nature, its major contribution is merely to reinforce other effects or institutions, rather than generating effects on its own. Thus, it can *increase* the risk of detection, *facilitate* prosecution, *strengthen* accountability and *support* deterrence by *reducing* possibilities and incentives. Similarly, it constitutes *one step* towards more

accountability, as well as a *first step* towards detection, but further steps are required to accomplish the objective. Most importantly, the indirect way in which transparency affects corruption makes it inherently reliant on third actors to possess the capacity and make use of the disclosed information, instead of directly impacting corrupt activities (Firger, 2010; Fox, 2007, pp. 664–666; Kolstad / Wiig, 2009, p. 524).

Even if information is highly relevant for the society at large and concerns a policy affecting the general public, people are not necessarily willing to get involved and bear the costs of doing so (Lindstedt / Naurin, 2010, pp. 303–304; 2005, p. 8). The power of transparency, consequently, depends on the response of other actors to take advantage of it (Fox, 2007, pp. 664–666). Thus, even in case of a system with a high degree of accountability, where stakeholder truly have the power to punish destructive behavior, two conditions need to be fulfilled in order for the access to information to actually have an impact: the right *incentives* for actors to become engaged must be present as well the *capacity and ability* of these actors to access, process and act upon the information (Isaksen / Amundsen / Wiig, 2007, p. 52; Kolstad / Wiig, 2009, p. 524; Lindstedt / Naurin, 2010, pp. 303–304).

Olken (2007) explores the importance of incentives to act upon information for corruption. His findings indicate that if individuals are not directly affected in their private interest, they are unlikely to react upon information about mismanagement unless their complaint provides direct personal (material) benefits. This applies even when they are adversely affected by those decisions – for example if public goods such as infrastructure projects are concerned. Drawing on the principal-agent framework, Firger argues that without properly incentivized stakeholders, citizens are the principals in theory, but in practice, the government takes the role of both agent and principals and thus severely damages the social contract (2010, p. 1048). In order to close this gap, additional actors or stakeholders are needed as information brokers to exhibit these incentives.

Media constitutes an important external factor supporting positive effects of transparency. Apart from contributing to publicity, it can facilitate increased accountability. Siegle, therefore, stresses the importance of a free press for creating the necessary checks and balances. According to him “independent media play an indispensable role in advancing transparency, investigating corruption [and] holding leaders accountable for their policies” (2007, p. 39). Besides, media can serve to insert “unwelcome but relevant information into the policy debate, and increase adherence to the rule of law, among other contributions” (p. 39). These findings, moreover,

support Lindstedt and Naurin's emphasis on publicity instead of mere transparency.

Finally, institutions are needed which enable the imposition of sanctions on transgressors. These should be effective, independent and third actors should be able to call upon them. This applies above all to the rule of law or other checks and balances for instance in form of democratic elections. Dependent on the specific institutions in place, the origin of information is

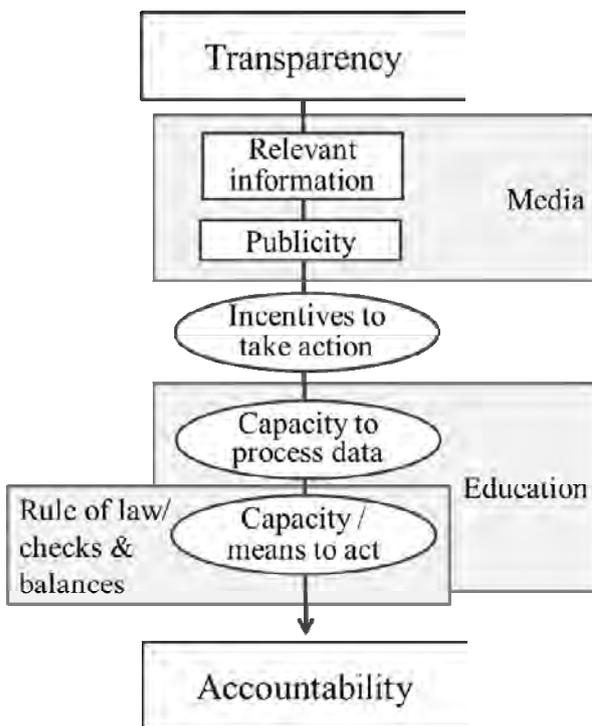


Figure 3 (own compilation)

transparency – which may be CSOs or informed citizens – must possess the right incentives as well as capacity and means to use the information. Lastly, these aspects require favorable general conditions, such as independent and competent media, a basic level of education and significantly, rule of law or other forms of checks and balances which can be applied to impose sanctions.

Beyond the limits and preconditions, there are further challenges thwarting the utility of transparency as a policy instrument. Thus, there is the danger of information overload, which authors describe as a white noise effect or compare it with the proverbial needle in a haystack (Florini, 1999, p. 9; Pope, 2003, p. 14). Excessive disclosure can thus be used as a political strategy to effectively disguise incriminating information in a flood of irrelevant data, which makes it all the more difficult to identify and make use of pertinent information (Kolstad / Wiig, 2009, p. 526; Pope, 2003, p. 14).

decisive for the effects of transparency. Thus, Lindstedt and Naurin conclude that non-agent-controlled transparency is most effective in systems of electoral democracy, while the determining factor for the effectiveness of agent-controlled transparency is the level of rule of law (Lindstedt / Naurin, 2010, pp. 310–316).

The adjacent graphic summarizes and illustrates once again the previous discussion of the relationship between transparency and accountability. First of all, the disclosed information must contain the relevant data and be accompanied by publicity. Secondly, the third actors which are supposed to take advantage of

Florini even proposes this tactic cynically as the best way to hide information. She emphasizes the need to use transparency judiciously in order to be successful, by minimizing the burden for both providers and users of information (1999, p. 9).

The danger of information overload reinforces the problem of opportunity costs with regard to the use of transparency. Extensive disclosure of information and data about policy processes and decisions may take resources away from other tasks. Furthermore, the risk of information overload demonstrates the importance of information brokers, who seem most able to sort through such masses of information. Pope suggests mass media to play this role, recognizing however, that in practice the media is often unable to meet this challenge (2003, p. 14).

Kolstad and Wiig (2009, pp. 525–526) even illustrate possible negative consequences of increased transparency arguing that it can help to identify the person which is best suited to be addressed with bribes. Bac (2001) elaborates on this and shows that the effect occurs in case of small increases in transparency, while in cases of more significant increases of transparency the positive detection effect is dominant.

### 4.3 Tentative Conclusion on Prospects and Limitations

The previous discussion demonstrates that the benefits of increased transparency are not always straightforward. Therefore, the emphasis on transparency in efforts to counter the resource curse has to be viewed critically. It cannot target corruption directly, but strongly relies on a number of other factors, which severely limits its effectiveness if these are not addressed in concert. Recalling the mechanisms of corruption in the realm of natural resources, transparency has the potential to curb the opportunities and incentives for corruption. Moreover, it can counteract some consequences and thus, indirectly, impact and reduce the level of corruption more generally. However, these effects are not as definite as often assumed, as they are dependent on a number of conditions and complementary factors to actually take effect.

The principle strength of transparency is to *enhance* other instruments and institutions, or alternatively, provide a *first step* to their achievement as with deterrence or prosecution. Transparency can have important effects on incentives and opportunities for corruption. Yet, these are dependent on the level of publicity provided through public media or CSOs and the credible threat of sanctions through institutions of checks and balances or the rule of law. Thus, individuals or groups must take action upon the information made available. Its effectiveness, therefore, requires properly incentivized

stakeholders who possess the necessary capacities to access, comprehend and use the information. Furthermore, it presupposes broader framework conditions to be present, at least to a certain degree. A free press, independent judiciary and adequate level of education and, potentially, democratic institutions prove the tools to ensure the success of the transparency instrument.

Importantly, transparency is often thought to produce public accountability. However, there must already be a sufficient degree of effective accountability in place for transparency to produce a significant effect on mitigating the resource curse. Transparency, thus, arguably is a necessary precondition for effective accountability by providing the information which can subsequently be used to hold the government to account. Nonetheless, it is far from sufficient to produce this effect. Next to the external factors, there is the danger of information overload and the challenge to gain access to relevant and reliable information.

Taken as a whole, the principal focus on transparency is problematic due to an inherent flaw in the logic. Transparency is used as a policy instrument with the objective to achieve greater accountability. At the same time, though, accountability appears to be a precondition for transparency to be effective. The following graphic visualizes this circular argumentation.

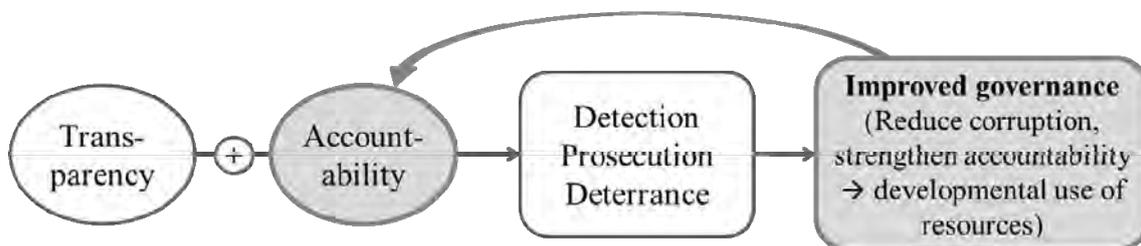


Figure 4 (own compilation)

Considering all these limitations to the effectiveness of transparency the complete and uncritical endorsement of this strategy must be seriously questioned. Transparency clearly cannot be promoted as an isolated, generally applicable strategy. Instead, it must be carefully adapted to the specific prevailing circumstances and be supplemented with corresponding policies and other efforts to provide the complementary factors required to produce a noteworthy outcome.

In democratic systems, with division of power, effective government accountability and a high level of education, transparency can be a powerful tool to combat corruption. Where such a system of checks and balances does not exist – as is the case in many resource-rich countries – and where even exposed cases of corrupt activities do not lead to the punishment of the culprit, increased transparency is unlikely to be effective in fighting corruption.

Conceding a certain merit to the use of transparency, the preceding discussion revealed that the benefits of increased transparency arise not without restrictions. Thus, a certain level of pragmatism is required to decide where it is worthwhile to exercise pressure for more transparency, and where other policies might be more conducive. In the end, pushing for transparency involves significant costs and it is not yet clearly established when and where transparency is truly effective. To determine the relative value compared with other interventions, systematic empirical studies are needed to evaluate its relative effectiveness vis-à-vis other policies, as hitherto such research does not exist (Kolstad / Wiig, 2009, p. 526). On the other hand, there can of course be positive side effects which occur alongside increased transparency without impacting directly on corruption, which may be more difficult to measure. These could be increased trust in government or a more positive outward perception as well as learning processes in society which might generate positive effects in the long term (Mildner / Lauster, 2010, p. 98).

If the theoretical backing for the transparency approach is rather weak, as demonstrated before, one could wonder why the idea acquired such a widespread support. One explanation for this is given by Gillies who investigates the “surprising and rapid spread of the transparency norm in developing country oil affairs” (2010, p. 103). She argues that in particular international oil companies (IOCs) as well as IFIs promoted this concept in order to serve their reputational agendas.

In her paper, she illustrates how close public scrutiny of the activities of IFIs and IOCs in the extractive sector threatened to damage their reputations when detrimental effects of their operations were increasingly discussed in public. Accordingly, embracing transparency, which emerged as a norm elsewhere, fitted their needs very well. It allowed a shift from their own failures to a new topic, which conveniently stresses the importance of internal factors and thus places the primary responsibility on the state (Gillies, 2010; see also Hilson / Maconachie, 2009b, p. 2). The observation by Hilson and Machonachie that donors have “tended to shy away” from implicating Western parties with the detrimental impact of the resource curse fits this argumentation very well (2009b, pp. 473–474).

## **5 Transparency in Practice – The Extractive Industries Transparency Initiative**

The idea of transparency as a valuable instrument in the fight against corruption has not remained confined to theoretical considerations. On the contrary, the promotion of transparency has become an increasingly popular policy instrument and been widely endorsed for practical implementation. Initiated by advocacy promotion through international NGOs (Gillies, 2010; Shaxson, 2007b, pp. 212–220) this topic ranks high on the agenda of the international (donor) community, which has resulted in a diversity of initiatives and policy processes around the world. Lindstedt and Naurin (2010) note that transparency is upheld as “one of the most important medicines against corruption” (p. 302). This principle has been endorsed by EITI, which is “increasingly advertised by its conceivers as a panacea for this impoverishment” (Hilson / Maconachie, 2009a, p. 53).

The reasons for the choice of EITI as an object of study are twofold. First, it is currently one of the most prominent and widely supported initiatives aimed at reducing the resource curse through increased transparency. It enjoys broad international endorsement by a wide variety of actors, including NGOs, donors, IFIs, as well as scholars. Second, it coincides extremely well with the preceding discussion, as its logic is based on the fundamental assumption that increased transparency can reduce corruption, avert the resource curse and instead produce broad based development. Thus, the critical conclusion of the theoretical discussion likewise questions the concept and accordingly the effectiveness of the initiative. In consequence, the question arises, whether the design and practical experience of the initiative so far can withstand thorough theoretical scrutiny.

The next section will therefore critically examine the concept and implementation of EITI. In this regard, the paper analyzes how EITI deals with the most important challenges identified in the theoretical discussion. Due to its relatively recent establishment, it is not yet possible to consider the long term success of the initiative. Nevertheless, its relatively wide scope offers valuable insights into the prospects and challenges related to the practical application of transparency. Therefore, this chapter analyzes the general approach and considers the initiative as a whole, with the sum of experiences it offers and will not be limited to the application in a single country. Where appropriate, it will draw on illustrative examples from specific cases for exemplification.

Despite the relatively young nature of the initiative, ample literature on EITI has already been published – of increasingly critical character despite the widespread support in international policy circles. There are a number

of aspects to EITI which could be and frequently are discussed. These are for example the voluntary nature or multi-stakeholder approach which are interesting and important aspects of the initiative and have their advantages and disadvantages for the objectives of the initiative. The aim of this chapter, though, is not to reproduce the existing literature or analyze all aspects in detail. Instead, the analysis follows the theoretical discussion, concentrating on the elements directly relevant to the application of transparency as a policy instrument. The rationale is that if the basic concept and logic of intervention are flawed, the discussion on the specific arrangements is of secondary importance. Therefore, the focus is placed on the extent to which EITI is able to achieve its own direct and overall objectives, and to evaluate its approach and hitherto experience based on the theoretical findings.

After providing general background information on the initiative, therefore, the initiative is scrutinized with regard to the implementation of transparency, as well as its contribution to and dealing with the issue of accountability. This serves to evaluate the initiative against its own objectives. Lastly, the degrees to which EITI recognizes and reacts on the preconditions or additional factors required for the achievement of the overall goal – the reduction of corruption – are assessed with a particular focus on the role of civil society.

## 5.1 Objectives, Approach & Design

EITI is a voluntary multi-stakeholder initiative which aims to avert the resource curse from resource-rich countries. It was initiated in 2002 by Tony Blair, after attention had been drawn to the topic by two influential NGO reports<sup>21</sup>. The initiative was launched during the first EITI plenary conference in 2003, but it became fully operational only with the establishment of board and secretariat in 2006. One year later, the first countries were accepted as candidates, although some countries<sup>22</sup> already committed to its principles and started implementing EITI previously. Nonetheless, this leaves a relatively short timeframe for implementation so far and consequently limits the ability to draw conclusions from the present outcomes (EITie).

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<sup>21</sup> *The Price of Oil*, a Human Rights Watch report on Nigeria and most importantly the Global Witness report *Crude Awakening* on Angola both published in 1999 (see Gillies, 2010 and Shaxson, 2007b for a detailed outline of the history of origins of EITI).

<sup>22</sup> These are Azerbaijan (2003), Ghana (2003), Nigeria (2003), Gabon (2004), Mongolia (2005), Liberia (2006) and Peru (2006) (EITic).

EITI's objectives are numerous and multi-layered, without a clear reference to the respective relevance and strategic value. Its stated aim is "to strengthen governance by improving transparency and accountability in the extractives sector" which in turn is expected to curb the resource curse (EITI, 2012a). In the attempt to uncover the arrangement of EITI objectives from the outside, transparency clearly seems to be the key concept of the initiative, which is based on transparency of resource revenues. Transparency is both the primary and direct aim as well as the central instrument to achieve its broader goals. Improving accountability is also stated as an objective, but the self-description of the initiative gives the impression that it is less central. Besides, accountability is rather indirectly addressed in its framework.

In addition, reducing corruption is generally acknowledged as one, if not the principal, aim of EITI. The initiative itself, however rather implicitly alludes to this objective. In its profile, EITI describes the situation in countries struck by the resource curse to be characterized by poverty, conflict and corruption, which it aims to address (EITI, 2012a; EITI Secretariat, 2005). Almost all secondary literature analyzing the initiative, however, explicitly states the fight against corruption as the main goal of the initiative (see e.g. Aaronson, 2011; Eigen, 2007; Firger, 2010, p. 1064; Goldwyn, 2008; O'Higgins, 2006; Søreide / Truex, 2011, p. 2). The discrepancy can be explained by the rather sensitive nature of this topic in many of the target countries. This relatively obvious reason is brought forward by Soreide, who points out the particular difficulties for voluntary multi-stakeholder initiatives such as EITI, which risk alienating significant stakeholders if they openly refer to such delicate issues (2011, p. 2).

In order to achieve its aims, EITI promotes revenue transparency in the oil, gas and mining sectors of resource-rich states. The idea is that both the governments, as well as the extracting companies, independently publish the payment details which they effected and received, respectively. These are reviewed by external auditors in the so-called reconciliation process. Subsequently, this information is supposed to enable the population to "hold its government accountable by whatever processes are in place for that specific country" as Transparency International chairman and one of the initiators of EITI, Peter Eigen, states (2007, p. 344).

Participation in the state-focused initiative is voluntary: governments cannot be forced to join or adhere to its principles. After fulfilling five entrance criteria, countries can consequently become candidate countries, until a validation process (two years later) confirms the adherence with all the requirements outlined in the EITI rules and compliant status is formally granted (EITIa). The differentiation among participants in candidate and

compliant countries was introduced in 2007 when the initially relatively lax procedures were tightened based on the proposal of the International Advisory group appointed by EITI. The changes included the possibility to suspend a country from its compliant status if it does not meet the requirements (Aaronson, 2011, p. 53; EITI International Advisory Group, 2006; Gillies, 2010, p. 121).

The following table of implementing countries gives an idea of the target group and scope of the initiative.

<b>Compliant Countries</b>	<b>Candidate Countries</b>
Azerbaijan	Afghanistan
Central African Republic	Albania
Ghana	Burkina Faso
Kyrgyz Republic	Cameroon
Liberia	Chad
Mali	Côte d'Ivoire
Mauritania	Democratic Republic of Congo
Mongolia	Gabon
Niger	Guatemala
Nigeria	Guinea
Norway	Indonesia
Peru	Iraq
Timor-Leste	Kazakhstan
Yemen (Suspended)	Madagascar (Suspended)
	Mozambique
	Republic of the Congo
	Sierra Leone
	Tanzania
	Togo
	Trinidad and Tobago

*Table 1 (Source: [www.eiti.org](http://www.eiti.org))*

It is directly apparent that most countries are located in Sub-Saharan Africa. Furthermore, one can note that more than half of these countries belong to the group of Least Developed Countries as defined by the United Nations (compare UN, 2009). Moreover, only slightly more than once third

can be judged an institutionalized or full democracy and almost one third must be classified as autocratic regimes<sup>23</sup>.

EITI is designed as an inclusive coalition of all stakeholders and actors interested in the initiative. In addition to implementing countries, further 17 – predominantly resource importing industrialized – countries, as well as more than 60 corporations and other organizations have officially pledged their support to the initiative. The associate donors are the principal financiers of the initiative together with the private sector. When it became clear that some countries needed financial assistance with the implementation, two trust funds were established at the World Bank (EITic; Feldt / Müller, 2011, p. 9).

The EITI structure comprises the global as well as individual country levels. On the global level, the EITI board, together with its executive organ, the international EITI secretariat, works as an umbrella organization steering the initiative. The board acts as the management body and includes representatives of all stakeholders – next to implementing countries, extractive companies and CSOs, investors and supporting countries are represented as well<sup>24</sup>.

The highest decision-making body is the members' meeting at the global EITI conference which takes place every two years and elects a new EITI board. Each participating country has its own national chapter working on the implementation of the criteria, comprising representatives of the government, private extraction companies as well as civil society (EITId). On the global level, EITI develops the standard which implementing countries adhere to. Moreover, it provides and oversees the approach, which according to EITI is "robust and flexible", as "implementation itself [...] is the responsibility of individual countries" (EITI International Advisory Group, 2006).

The EITI approach can be attributed to the governance perspective on the resource curse due to its view that increased transparency could reduce corruption and, consequently, curb the resource curse. It is "based on the assumption that transparency over payments made by extractive firms to host governments were critical to avert the resource curse" (Carbonnier / Brugger / Krause, 2011, p. 251). EITI's logic of intervention is not specified in

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<sup>23</sup> According to the Polity IV index (see Marshall / Cole, 2011).

<sup>24</sup> The composition is as follows: five implementing countries, three supporting countries, five CSOs, five companies and one representative of the investors (Feldt / Müller, 2011, p. 9).

detail in any of its official documents available on its website<sup>25</sup>. The initiative only provides information about the direct objectives it pursues (such as transparency of extractive revenues) and the overarching goals it adheres to at societal level (to improve living standards and reduce corruption). Evidently, these two sets of objectives refer to two completely different levels of intervention and require an entirely different quality of change. The implicit assumption of EITI seems to be that the fulfillment of the direct objectives will at a later stage lead to the attainment of the broader goals, though there is no specification how this link is supposed to be established and the change produced. It remains to be seen whether this is only an omission in the documentation, or a more fundamental weakness in the logic of intervention, also reflected in the practical design and application.

## 5.2 Assessing its Effectiveness

On the basis of the aims EITI formulated for itself, the remainder of this chapter assesses EITI's approach and performance, guided by the preceding theoretical discussion. Before entering a broader discussion on the general performance of EITI with regard to its overarching objectives and handling of external factors in the next section, the most palpable and proclaimed goals are examined first. For this purpose, the performance with regard to the primary and most immediate goal to 'establish transparency of revenue flows within the extractive sector' is analyzed, as well as to the more indirect aim to increase accountability.

### 5.2.1 Transparency in EITI

The primary aim of EITI, as illustrated before, is to make revenues flows from extractive industries transparent, which is then supposed to enable the population to hold its government accountable for the use of these resources. Before discussing the issue of accountability in the next section, this part analyzes the implementation of transparency by the initiative. According to the theoretical argumentation presented in Chapter 4, effective transparency presupposes disclosure of the right type and form of information, as well as sufficient publicity and reach within society. This section therefore analyzes how EITI translates and applies the abstract concept of

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<sup>25</sup> Moreover, due to the significant contribution of the United Kingdom in the EITI launching process, it seems likely that the Official Development Institute had produced background information on the underlying logic of EITI. However, there are no relevant resources on the link between transparency and the resource curse available on the homepage (ODI).

transparency in practice. Following the theoretical discussion in Chapter 4.2.2 (illustrated by Figure 2, p. 25), the choice of EITI concerning the different aspects determining the relevance of the provided information as well as the publicity attained are explored in this section.

The previous analysis has pointed out the relevance of the specific area selected to be made transparent. In particular, it presented in more detail the problems related to a single focus on resource revenues. The emphasis on revenues among the elements in the value chain is also among the most frequently voiced criticism concerning EITI to be found in the literature<sup>26</sup>. Authors emphasize instead that it is more significant to supervise how resource revenues are *used*. They stress that effective scrutiny of public expenditure is critical to avert the resource curse and ensure poverty-oriented usage of revenues (Carbonnier / Brugger / Krause, 2011, p. 259; Shaxson, 2007b, p. 218). According to Carbonnier and colleagues (2011, pp. 258–259), in the cases of Nigeria and Azerbaijan – two key producers of point source resources in their respective regions, which have long been regarded as the “flagships” of EITI (Shaxson, 2009, p. 2) – the lack of transparency over government expenditure has been central to hamper the ability of CSOs to hold their government to account. Others, however, argue that transparency should cover the entire value chain as corrupt activities start already early in the process. They state that at the stage of revenues it is too late for transparency to have substantial effects (Kolstad / Wiig, 2009, p. 528). Further authors claim that in particular contract details should be made available in order to allow for true scrutiny of conditions and benefits of extractive activities (Ölcer, 2009, pp. 19–36)<sup>27</sup>.

Regarding the sufficiency of information, the standards specified by EITI do not provide high requirements. The rather general formulation of the respective rules leaves the implementing countries considerable leeway to individually choose the specific parameter. This concerns the data it obliges to be published, but also which payments are to be included. Criticism concentrates on two aspects – the materiality threshold and the aggregation of data. These will be elaborated upon in more detail below.

EITI’s rules specify that all “material” payments of extractive companies have to be disclosed. However, to enable adaptation to the individual circumstances of a country, the definition of a *threshold of materiality* is op-

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<sup>26</sup> See also Gillies (2010).

<sup>27</sup> The World Bank has taken up this criticism and developed EITI ++, which is an independent process based on the idea of EITI but with a broader focus addressing the entire value chain of natural resource extraction (World Bank, 2008). It is beyond the scope of this paper, though, to discuss this initiative in detail.

tional and left to the national multi-stakeholder group (MSG) (Bartlett / Andreasen, 2011). The threshold of materiality refers to a discretionary marginal value below which payments are supposedly not relevant and do not have to be published. In practice, the MSG could thus for example define all payments above one million USD as material. Alternatively, they can determine materiality based on a company's size or production rate or as payments of a certain percentage of the total national income of resource revenues (Darby, 2008, p. 30; Ölcer, 2009, p. 18).

While it is only pragmatic to exclude minimal amounts in order to avoid excessive costs, the EITI practice has led to strong divergence in the way materiality has been defined. Besides, very often the definition has not been made transparent. This is problematic because some resource revenues the government receives and some companies operating within the country are 'officially' excluded from the reports (Ölcer, 2009, p. 18). The latest change of rules in 2011 has addressed this problem and introduced a clause, which in case such a threshold of materiality is adopted, requires the MSG to clarify the specific threshold and rationale behind it. Furthermore, the rules give further guidance by specifying that "a revenue stream is material if its omission or misstatement could materially affect the final EITI Report" (Bartlett / Andreasen, 2011, p. 21) although this statement itself is quite vague (Saunders, 2011).

Just as important, the *degree of aggregation* of the published data is a key feature influencing the quality of information and, consequently, transparency. EITI leaves it up to the individual country to decide upon, a rule which is strongly contested within and outside the initiative. The question of aggregation relates to the extent to which payments of individual companies are identified separately and classified according to type (signature bonus, royalty, tax, etc.) in the reports. Ultimately, this could mean the disclosure of just one aggregated figure covering the entire amount of received revenues. Whereas the reconciliation process requires the provision of fully disaggregated statements by the companies to the independent auditors, the fact that this is not the case in the reports severely limits the ability of the population to scrutinize its government (Darby, 2008, p. 32; Gillies, 2010, p. 120; Ölcer, 2009, pp. 18–36; Revenue Watch Institute, 2008, pp. 19–20).

The data on revenue flows is made available to the public in national reports which have to be published at regular intervals (EITI, 2011a). Hence, the implementation strongly relies on the quality and usefulness of those reports. However, this is hampered by the above-mentioned problems. In 2008 the unspecific requirements had the effect that ten out of the 24 signature countries to the EITI had produced reports, out of which only three included disaggregate figures (Ölcer, 2009, p. 18). Up to 2011, more than

one third of reporting countries are still using only aggregate data instead of providing more detailed information (EITI Secretariat, 2011, p. 9). As a result, civil society representatives<sup>28</sup> stated in interview that “the Reports compiled so far are held to be of little significance [...] since they only contain aggregated and incomplete data” (Feldt / Müller, 2011, p. 34). Feldt and Müller even claim that “the Reports seldom reflect true revenue from natural resources in the countries” (2011, p. 34).

Even though there have been a number of calls on EITI to make the publication of disaggregated figures mandatory, this amendment has not been included in the latest revision of rules. Ölcer furthermore stresses that the fixation on cash payments constitutes a major flaw, arguing that most payments are on accruals basis<sup>29</sup>, which adds to the vulnerability of the figures by making them more liable to manipulation, calculation errors and, as a consequence, to corruption. According to him, this severely limits the informative value and reliability of the reports (Ölcer, 2009, pp. 17–18).

The complex and abstract data used by EITI limits its utility in yet another way. Section 4.2.3 emphasized the importance of incentives to actually take advantage of the disclosed information for the effectiveness of this instrument. The study by Reinikka and Svenson in conjunction with a contribution by Olken, which have already been introduced above, indicates that these are insufficiently provided by EITI. The original findings from Reinikka and Svenson (2005), that access to information on grants had positive and statistically significant effect on corruption, *prima facie* confirm the EITI approach. However, as already put forward, Olken (2007) qualified these findings concluding that the effect depends on the incentive of individuals to act – if corruption harms someone personally, he or she is more likely to act upon it. This indicates that the type of information targeted by EITI – highly aggregate macroeconomic data – can be expected to produce a collective action problem. In the situation of resource-rich countries, with often endemic and collusive corruption and where private actors are willing participants and beneficiaries, “transparency by itself may do little to uncover illicit acts” (Kolstad / Wiig, 2009, p. 525).

The previous discussion shows that the sufficiency of information provided by EITI is highly restricted. This limits the envisaged transparency, and

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<sup>28</sup> Interviews were conducted in the Central African Region with CS representatives from the EITI signers Dem. Republic of Congo, Gabon, Cameroon, Republic of Congo and Chad.

<sup>29</sup> Companies generally prepare their financial statements using accruals accounting, which refers to liabilities and non-cash based assets while governments traditionally maintain their financial records on a cash basis (Ölcer, 2009, pp. 17–18).

thus its usefulness for monitoring purposes. As a consequence, it is questionable whether the present reports can serve for detection of corrupt activities; the most important effect transparency is supposed to achieve. This is also the judgment of O’Higgins, who claims that EITI, along with other initiatives to combat corruption in the extractive sector, “fails to deal adequately with the issue of detection” (2006, p. 248).

The challenge with regard to disclosing data conducive to detection is further reinforced by the origin of information published in the EITI framework. Drawing again on Lindstedt and Naurin’s differentiation between agent-controlled and non-agent controlled transparency, the initiative stipulates the first type. The government, which first has to voluntarily embrace the initiative, is consequently also responsible for releasing the data, and thus able to control what kind of information is published. Shaxson states that “under EITI, corrupt governments can choose whether or not to publish data: some have, some haven’t, and some have just pretended to” (2007b, p. 218). Certainly, the operating companies are required to independently publish payments they made to the government. Yet, in case of corrupt transactions between the government and an extractive company, one can assume that it is in the interests of both actors to conceal incriminating evidence. Hence they could easily agree on the reported amount (Fox, 2007, p. 666; Standing, 2007, pp. 18–19).

The basic principle of EITI to reconcile revenue streams reported by the government and extractive companies only asks if both of these statements agree with each other. The reconciliation process, however, does not address whether the information as such is correct or all-encompassing<sup>30</sup>. In the case of false information, EITI can even contribute to hiding corruption as it gives the appearance of clean processes and could thus be used for whitewashing (Standing, 2007, pp. 18–19). This possibility is confirmed by experience from Nigeria, where Carbonnier and colleagues judged that “the actual purpose of the [Nigerian EITI process] may rather have been to restore trust in the system than to improve governance and revenue management” (2011, p. 258). If corrupt cases relate only to the misappropriation of funds for personal enrichment by government employees or politicians without return service and hence occurred solely on the government side, the independent publication of data by companies could have the desired effect. Still, it is questionable if extractive companies would be willing to offend their host government. Furthermore, the misappropriation could easily be transferred to the budget allocation process which is not targeted by EITI.

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<sup>30</sup> Interestingly, almost none of the literature on EITI points this out, one notable exception being Ölcer, an OECD Research Associate (2009, p. 17).

Next to the relevance of information, the level of publicity is highly relevant in the application of transparency according to the theoretical discussion. Although the significance for EITI has also been highlighted by policy advisors (see for example Feldt / Müller, 2011, p. 34; Ölcer, 2009, p. 28), its record on this issue is at best ambiguous. Feldt and Müller (2011) observe in their case study on the central African region that in practice the reports are barely used outside the small EITI community. In these countries “the public at large [...] continues to be unaware of EITI. So far, information has remained restricted to a small group of the population” (p. 33). Similarly, Reite and colleagues (2011) observe that even though most national chapters carry out dissemination activities they generally lack “the strategy, skills or funding for more effective outreach to social actors to empower them to apply EITI data for increased accountability” (p. 26).

The latest 2011 changes in EITI regulations paid attention to this issue and included stronger dissemination requirements, stating that “EITI is ultimately implemented to full requirements when the EITI Report is made public, and it is widely disseminated and openly discussed by a broad range of stakeholders. The EITI Criteria require that the Report is publicly available in a way that is publicly accessible, comprehensive and comprehensible” (Bartlett / Andreasen, 2011, p. 27). It remains to be seen how this is translated into practical implementation, but the binding inclusion in the EITI requirements is already an important step. Yet, broad dissemination and public discussion in society also require an “environment that can accommodate this information and enable an open dialogue” for which the freedom of the media as well as a basic level of education is indispensable (Ölcer, 2009, p. 28). These conditions, however, remain outside the control of EITI and are neither addressed in practice nor referred to in theoretical considerations (for elaboration see Section 5.3 on reliance on external factors).

In conclusion, the type of transparency implemented and promoted through the framework of EITI is problematic. This concerns both the aspect of relevance of information as well as publicity and is therefore likely to reduce EITI effectiveness. Regarding the different types of corruption presented in chapter three, the decision to focus on revenues restricts EITI to impact primarily accumulative corruption. As has been argued before, power-preserving activities are closer related to public expenditure and rent-seeking is influenced by institutions governing the private sector. EITI, hence, does not address either of these. Moreover, even accumulative corruption can only be reflected to a limited extent in transparent revenue streams. This potential is further reduced by the low sufficiency and origin of information provided by EITI.

Within the limits of the goals the initiative set itself, though, the participating countries achieved a basic level of transparency of revenue flows. According to Reite and colleagues, they “implement [...] their foreseen activities quite successfully” (2011, p. 26). Thus, regarding this direct objective, EITI can claim that they are at least partially fulfilled. The next section continues by scrutinizing its ability to achieve its more indirect goal of accountability.

### 5.2.2 Accountability in EITI

Following *detection*, the next step towards cutting back on corruption is a *credible threat* and *practical imposition of sanctions*, as argued before. Most importantly, this requires effective accountability enforced by institutions such as the rule of law and sanctions such as deposition from official posts. The importance of accountability is recognized and highlighted in EITI documentation, stating the improvement and strengthening of accountability as one explicit aim of the initiative (EITib; EITI, 2011a). Nevertheless, the attainment of this accountability is not addressed accordingly. The following analysis considers the reliance on and contribution of EITI to national institutions of accountability as well as complementary tools provided by the initiative.

It has been established that accountability is an essential – if not the most essential – precondition for the transparency instrument to be effective, but cannot be created by transparency alone. EITI recognizes limits to its approach, by only pursuing an *improvement* of accountability. Co-founder Eigen states that EITI is focused only on transparency of payments, which is subsequently supposed to allow civil society to use the information to scrutinize and hold the government accountable by *national institutions outside the EITI framework*. He thus explicitly disconnects this task from the scope of duties of EITI (2007, p. 344).

In formulating this expectation, it appears that EITI is not adapted to the needs of its target countries. Reliance on national institutions of accountability may be appropriate in terms of realistic goals tailored to the instruments at hand. However, it neglects the risk that the existent system does not provide a sufficient degree of accountability. Such a situation severely limits the effectiveness of the initiative. This is particularly relevant, as the EITI target countries are generally characterized by poor governance standards (Aaronson, 2011, p. 51), which according to the governance perspective EITI adheres to, is the root cause of the resource curse. The majority of EITI signatories have a history of semi-democratic rule or dictatorships (Hilson / Maconachie, 2009b, p. 474). Thus, free and fair elections and the universal principle of rule of law cannot be taken for granted. EITI claims

to improve accountability, but, as has been pointed out, for increased transparency to produce this result, effective institutions of accountability need to be in place already. To impact and strengthen these national processes of accountability directly is outside EITI's spheres of influence.

Despite limited influence of EITI on national processes, improving accountability is one explicit aim of EITI. Therefore, it is interesting to assess the potential the initiative offers in providing supplementary efforts. Firstly, the organization establishes a certain kind of accountability within the EITI framework. Secondly, it can contribute to a form of global accountability facilitated by the global EITI network. The potential and achievement of this kind of supplementary accountability established by EITI are analyzed in the following.

The EITI procedures require countries to formally apply for membership which is only granted and retained after validation processes. This creates opportunities to impose pressure upon non-compliant states. The voluntary nature of the initiative, however, impedes any hard accountability vis-à-vis deviators. Thus, if resource extracting countries simply chose not to participate, there is little the organization on its own can do to make the leaders change their minds. However, the voluntary nature only applies to the decision of a country's leadership to partake, as Eigen emphasized (2007, p. 337). After this step, the participating countries are bound to comply with the rules and principles and ensure that all companies operating within their borders disclose their payments if they want to remain active members (*ibid.*). The companies, in that case, are bound by the decision of their host country.

EITI member countries can be penalized for non-compliance since the changes to the rules introduced in 2007. In the ultimate case this can mean (temporary) suspension from the process if they produce unsatisfactory results. This happened for example with Yemen in June 2011, only two month after it was officially recognized as compliant (EITI, 2011b). This possibility is a considerable improvement and can prevent free-riding of openly non-compliant states. Nonetheless, apart from reputational concerns it has little direct impact in terms of negative consequences for the country in question. Only where such a suspension provokes further reactions from donors, international finance, companies and/or a strong civil society, could it gain new significance. Therefore, Aaronson judges that also the tightened compliance standards are insufficient to create a corruption-counterweight (2011, p. 53).

Still, the EITI framework offers some support for accountability by providing "a partial basis for accountability" of resource revenue management (Kolstad / Wiig, 2009, p. 528). Revenue flows are subjected to closer scru-

tiny than would otherwise be the case. Moreover, the strategic choice of a multi-stakeholder framework with the important feature of CSO representation, in combination with external and independent scrutiny of accounts, create a kind of feedback loop as Aaronson explains (2011, p. 51). While this feedback loop falls short of actually generating accountability, in this limited area it provides for *answerability*, and thus an important first step towards accountability. In combination with the right complementary factors – such as strong media or CSOs to induce detection and publicity along with an independent and effective judiciary or democratic elections to evoke punishment – this could indeed translate into practical accountability.

The feedback loop created by EITI is not restricted to the national level alone but contains the potential to embrace the global level. Thus, both governments as well as MNCs might have to justify their actions in front of an informed global public or the international community due to greater publicity through EITI. Jackson calls this type of answerability *reputational accountability* (2010, pp. 93–94). There is, however, no hard accountability the international community could draw upon, but it can only attempt to use certain carrots and sticks to achieve compliance. Civil society can endeavor to penalize companies by promulgating negative publicity which can translate into hard financial losses. With regard to MNCs, experience has shown that they can be highly responsive to reputation challenges (Curbach, 2003, p. 122; Jackson, 2010, pp. 9–95). However, as Hale cautions “economic pressure can be exerted for social ends only when significant numbers of consumers and investors are willing to invoke it” (2008, p. 80).

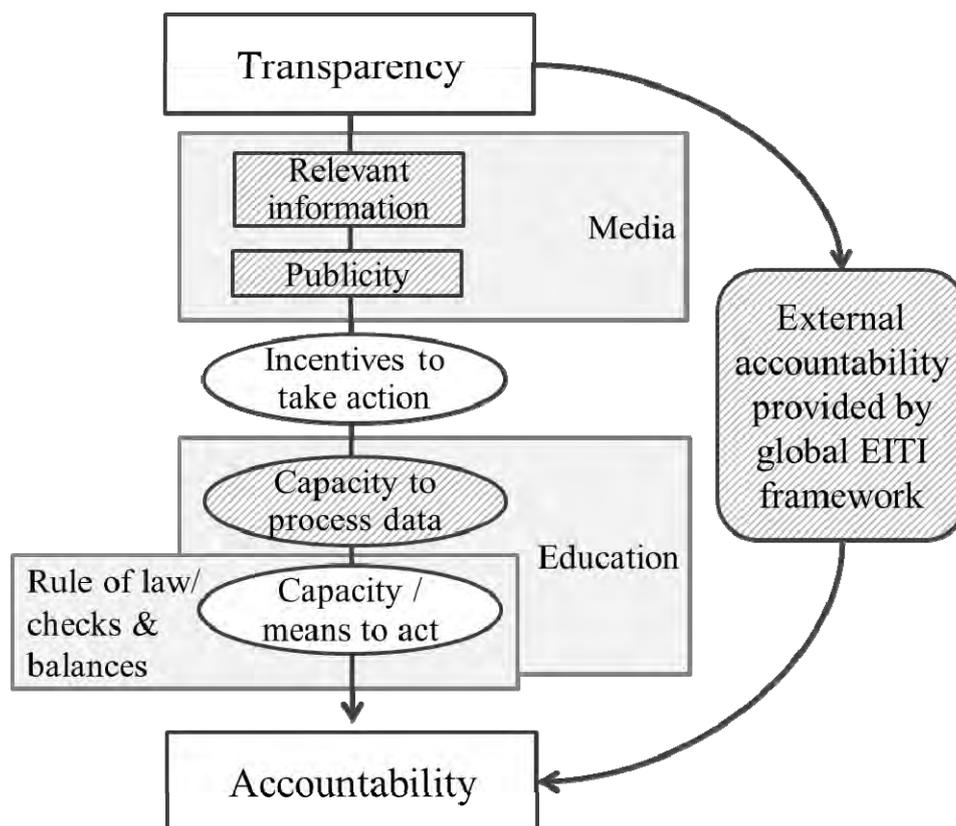
Indirectly, this can also make an impact on the government in cases where such market power is yielded against corporations significant for the national economy. Moreover, states are also vulnerable to civil society campaigns. These, however, need to trigger further actions by relevant actors (Hale, 2008, p. 77). Apart from political pressure, the international donors could thus resort to cutting back on or withholding ODA transfers. In the ultimate case, the international community could impose bans on extractive goods, as it happened with ‘blood diamonds’ and timber used to finance devastating civil wars in Sierra Leone and Liberia. Such a decision, however, bears huge political consequences and will not be utilized easily (Schieritz, 2009).

The prospect of this global framework has manifested itself with regard to oppression of civil society involved in national EITI processes. According to civil society representatives of the Central African Region, there have been fewer arrests and a reduction of openly repressive acts. In the Repub-

lic of Congo, activists have been released due to international pressure. Moreover, Gabon has been suspended from the EITI process after imprisonment and harassment of CSO members because of their involvement in the initiative (Feldt / Müller, 2011, pp. 24–32).

EITI, though, does not leverage the potential of its framework. Apparently, the EITI secretariat is reluctant to interfere with the implementation on the level of individual countries, even if they breach stated principles of the initiative. Thus, the lack of civic participation in the Republic of Congo and Gabon has only received attention after CSOs and donor states exercised joint pressure (Aaronson, 2011, p. 56). This ignorance is quite alarming, as it calls into question the relevance of specific elements within the rules. The changes to the regulatory framework presented beforehand, similarly, are less relevant, if the initiative does not supervise their compliance attentively and, if necessary reacts with adequate consequences.

The following graphic is adjusted from Figure 3 in order to highlight EITI's contribution to increased accountability.



*Figure 5 (own compilation)*

The original causal relationship from transparency to accountability remains the same, but is complemented by external accountability provided by the global EITI framework. The hatched areas indicate which aspects EITI affects. However, as outlined before, this impact is limited and pro-

vides the required factors only partially. Similarly, the external accountability EITI provides is rather weak. The non-shaded areas demonstrate that there are important aspects EITI disregards completely, in particular concerning activities of third actors.

Overall, it becomes apparent that despite its inclusion as an objective of the initiative, EITI's contribution to strengthen accountability does not do the importance of this institution justice. The key significance of accountability in providing the link between transparency in the resource sector and improved living standards and development is not reflected in the design or results of the initiative. In practice, Reite et. al. note that "EITI places emphasis on transparency, however the political, legal and institutional linkages into accountability are unclear or do not appear to exist. [...] There is limited change in accountability of Government before the public as most of the information produced by EITI is not very relevant to this issue" (2011, p. 26). Weinthal and Luong further assert that the reliance on external actors "to build transparency, accountability, and public oversight" is highly limited (2006, p. 41). International pressure is insufficient if the surrounding political environment is not conducive to ensure the empowerment of societal actors. Therefore, the involvement of civil society within EITI is analyzed in the next section with regard to its envisaged role and actual influence.

### **5.3 Reliance on External Factors – The Role of Civil Society**

The theoretical discussion highlighted a number of factors which are not directly related to transparency but nonetheless significant for the impact of this policy instrument. Important factors which have been identified to impact the outcome of transparency processes, such as the media coverage, level of education and institutions of accountability are not addressed by EITI. Instead, civil society has been attributed an important role by the initiative, which might be able to take over some functions (Weinthal / Jones Luong, 2006). Therefore, this section scrutinizes the approach and practical experience of EITI concerning civil society involvement and, consequently, its contribution to the effectiveness of the initiative in curbing corruption.

It has already been pointed out (in Section 4.2.3) that the state of the media with regard to independence, power, integrity and capacity is highly relevant. It can significantly contribute to achieve the adequate publicity to ensure dissemination and discussion within the entire society. Partly this can be compensated by very active CSO engagement to conduct outreach campaigns and organize debates. Yet, financial, personnel and capacity as well as logistic constraints strongly hamper this possibility. Illiteracy and, gen-

erally, low levels of education provide further challenges to reaching and involving the broader public and generating publicity. This effect applies to CSO campaigns and transmission over mass media alike.

The integral role which CSOs are supposed to play in decision-making and implementation both at the international as well as national level is one core principle of the EITI process (Carbonnier / Brugger / Krause, 2011, p. 255). The fifth EITI criterion for implementation requires that “Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate” (EITI, 2012b). Basically, it is supposed to play the role of a watchdog and mouthpiece to the public.

In general, such civil society engagement is an important and respectable element. This is in particular if the underlying principle is the belief that the natural resources of a country belong to its population, which should therefore have a say in their usage. In order to be able to live up to expectations, however, local civil society must first of all be able to process and act on the information. Besides, they must have the possibility to access independent media and, eventually, the judiciary to pursue its goals (Carbonnier / Brugger / Krause, 2011, p. 255). Therefore, in practice the ability of civil society to fulfill the intended role of a watchdog is highly constrained – particularly in the political context of most resource-rich states. CSO often face a lack of capacities and financial resources and have to cope with unequal power relations and the danger of cooption.

While the idea is that all actors meet at eye level within the EITI framework, Aaronson observes that civil society remains the weaker partner vis-à-vis governments and MNCs (2011, pp. 57–58). CSOs usually are disadvantaged by disparities of structural conditions in terms of finances, capacities and power. The framework of EITI to some extent further exacerbates this situation. Thus, the practical composition of the national MSGs does not provide for equal shares to all stakeholders; civil society is in some countries highly underrepresented<sup>31</sup>.

Moreover, it is not always the case that CSOs are allowed to choose their representatives themselves. While Chad and the Democratic Republic of Congo (DRC) are positive examples where CSOs are allowed to elect their representatives independently, in other countries such as Mongolia and Gabon they are entirely – and in other countries such as Cameroon partly –

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<sup>31</sup> The specific composition is left for each country to decide upon individually. The EITI rules explicitly state that they only need to “ensure that stakeholders are adequately represented (this does not mean that they need to be equally represented)” (Bartlett / Andreasen, 2011, p. 16).

appointed by the government (Aaronson, 2011, p. 58; Feldt / Müller, 2011, p. 31). The unequal power relations can easily produce the marginalization of civil society. Lack of financial resources and overlaps of personnel further hamper the task and increase the risk of co-optation or oppression. Carbonnier, Brugger and Krause (2011, p. 252) as well as Feldt and Müller (2011, p. 32) observed the presence of co-optation or attempts to exert such pressure to stifle criticism in their EITI case studies. Feldt and Müller, furthermore, note recurrent and open repression of civil society representatives, especially in Gabon, DRC and Republic of Congo. The international framework of EITI, however, has helped to reduce such instances (*ibid*).

The prevalence of corruption, apparently, is not facilitated by missing information, but rendered possible by the inability to change the situation. In many of the most corrupt countries, it is no secret that large amounts of public funds are misappropriated by government officials. Therefore, Hilsen and Maconachie (2009a) argue that it is doubtful whether the detailed provision of information on resource revenues – even if such corrupt transactions are reflected – could make a difference without a change in the general system. Such changes would require the empowerment of civil society and the possibilities to call the responsible person to account. This is also the conclusion which Carbonnier and colleagues draw from their case studies of Nigeria and Azerbaijan. They state that "increasing revenue transparency and giving a say to CSOs is not enough. There was no shortage of information about what was going wrong. Yet civil society had no means to hold the government accountable" (2011, p. 254).

The weakness of civil society does not only derive from unfavorable external conditions, but is in many target countries enhanced by internal factors. A large number of target countries have little or no tradition of an independent organized civil society (Shaxson, 2007b, p. 218). Moreover, CSOs are not necessarily meeting high standards for transparency and accountability themselves. They often suffer from competition for scarce funds, which increases the problem of fragmentation along ethnic, regional, and religious lines. Kolstad emphasizes that "though civil society is to be represented in the multi-stakeholder group, civil society is neither one thing nor necessarily representative of the population" (2007, p. 21). Personnel recruited from political parties provide further challenges by blurring the distinction between the political and societal sphere (Carbonnier / Brugger / Krause, 2011, p. 252; Tänzler, 2010, p. 334).

Carbonnier, Brugger and Krause (2011), therefore, see a fundamental contradiction in the design of EITI. According to them, the centrality of CSOs in balancing the power and constraining the government sharply conflicts with their actual capacities and relative strength. If CSOs were unable to

effectively scrutinize their government before, the availability of EITI data does not induce any change in power relations. The Civicus survey on civil society in Sub-Saharan Africa found that civil society's impact is most fragile at the level of holding the state and private sector to account, which is precisely the designated role for CSOs in EITI (Carbonnier / Brugger / Krause, 2011, p. 257; Heinrich / Fioramonti, 2008).

The weakness of CSO became manifest in the cause of EITI implementation. The initiative addressed this shortcoming to some extent through the Multi-Donor-Trust-Funds within the World Bank. These are meant to support EITI implementation, and are partly assigned to promote capacity building of CSOs. Between 2008 and 2010, this amounted to 17 percent of the total budget (Sierra et al., 2009, p. 12). However, the funds are granted directly to the government, which is then given the discretion over their allocation. Thus, the fund's use in strengthening weak civil society in sensitive environments is limited. Furthermore, Carbonnier and colleagues warn that "capacity building may not suffice to address the general weakness and fragmentation of civil society in resource-rich, but weak states" (2011, p. 43).

The status of civil society has been strengthened in the latest revision of rules. Now they include the obligation to assess and if necessary address capacity constraints in the work plan, which becomes a basis for later validation, among other aspects (Bartlett / Andreasen, 2011, p. 45). However, the examples from different CSO experiences noted above suggest that substantial improvements are needed. So far, the strong reliance on civil society to constrain the power of the ruling elite and to counter the weaknesses of the voluntary nature conflicts with their actual capacities. To be sure if the changes suffice and produce a significant improvement, however, a study based on comprehensive data from all the participating countries would be required.

#### **5.4 Tentative Conclusion on EITI Effectiveness**

The limited pool of experience so far cannot provide empirical evidence of long term effects and failure or success of the initiative, but can only indicate achievements and shortcomings. What the existing studies on EITI implementation do reveal, however, is a wide variance regarding the success of implementation. Apart from the various issues related to the effectiveness of transparency mentioned above (Section 5.2.1), this applies for example to auditing standards, the quality and timeliness of reports and the work plan as well as the composition and selection of the MSG (Darby, 2008, pp. 36–77; Feldt / Müller, 2011, pp. 23–31).

The flexibility emphasized by the initiative, which is effectuated by implementation on individual country level, is not entirely positive. Certainly, there is a need to adapt the initiative to national circumstances. Above, the importance of the surrounding institutional and political environment has been demonstrated and emphasized. However, the flexibility within the EITI standards is not suited to address those factors. Instead, the imprecise standards are problematic because they contain the risk that a country or company which is not genuinely committed, abuses the considerable leeway offered by EITI. Thus, it could enjoy the benefits in terms of reputation and trust while protecting its own commercial and political interests. This danger of EITI becoming “a façade behind which business and corruption go on as usual” has (among others) been pointed out by a high ranking World Bank official (Gillies, 2010, pp. 120–121; Shaxson, 2007b, p. 218).

Significantly, the success of implementation appears to be determined by the will and commitment of the leadership of implementing countries (Gillies, 2010, p. 120). To a large extent this is a consequence of the combination of the voluntary approach, national ownership of implementation and relatively imprecise standards. On many aspects regarding the specific realization of disclosure, there is no clearly defined EITI policy, and it is left to national decision makers to choose an approach (Darby, 2008, p. 37; Gillies, 2010, p. 120). In practice, EITI has proven to be most effective where it has been part of a broader set of reforms (Aaronson, 2011, p. 55). Leadership commitment is all the more relevant if a supporting institutional framework is not in place, limiting the ability of the population to exert pressure and hold the government to account. Aaronson confirms this argument by judging that “EITI does not obligate an implementing government to be open, accountable, and engaged with its citizenry on extractive revenues” (2011, p. 56). Thus, it is effective only in those countries disposed to inform their citizens and to allow them to “use the information to challenge their government” (2011, p. 56)<sup>32</sup>.

As a consequence, wide discrepancies between EITI implementing countries are discernible. On the one hand, there are countries such as Nigeria

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<sup>32</sup> The will of the political leadership might become less relevant in a consolidated democracy with effective division of powers. This appears to be the system which comes closest to fulfill the political and institutional requirements as other actors have the leverage and possibility to pressure for the desired action. However, the majority of EITI signatories “are countries with long histories of corruption, civil violence, and/or dictatorships” (Hilson / Maconachie, 2009b, p. 474). Conversely, committed leadership is an important factor, but on its own only to a limited extent able to compensate for an unfavorable context, as in that case leaders most likely face severe capacity constraints.

where implementation is most successful and which often go even beyond the basic framework of EITI. On the other hand, there are those countries which are struggling with achieving compliant status and present only negligible progress in implementation, such as Equatorial Guinea whose candidate status has even been suspended. The disparity in implementation has been officially recognized by the initiative with the distinction between the basic EITI and so called EITI plus, but the division is not very clear (Darby, 2008, pp. 36–37). The World Bank-led EITI plus plus (EITI ++), targeting transparency along the entire value chain, further complicates the situation and could undermine the expressed attempt of EITI to establish a global standard in the resource sector (EITI, 2012a; Goldwyn, 2008, p. 145).

It seems that the limited standards and unspecific requirements of EITI might be conducive to attract broader support but essentially limit its effectiveness. If success of EITI is so highly dependent on the commitment of leadership, one could ask what exactly EITI's contribution is (see also Jones, 2008, p. 35). Presumably, a truly committed country might execute similar reforms even if not member of the initiative. According to Shaxson, this has also been the case in the former EITI showcase Nigeria, where EITI did not drive reforms but jumped on the bandwagon of already ongoing reforms and was merely able to shape some of their outcomes and processes (2009, pp. 2–29). On the other hand, EITI offers the advantage of an existing institutional structure, global support and the involvement of multinationals, which, due to the international publicity, cannot easily refrain, even if they wanted. As it is, EITI functions like a tool, where the outcome depends on the individual application and use by governments and CSOs, as well as on the surrounding environment.

The analysis of EITI experience confirms the most significant shortcoming of transparency as a policy instrument derived from the theoretical discussion. The logic of the initiative presupposes a number of complementary factors which are highly significant for the success of the approach, but which are not at all or only to a limited extent addressed within this framework. The disregard of the surrounding environment can be considered a major flaw in the logic and design of EITI. It entails a number of implicit assumptions on interrelations between different factors that are questionable and simply not proven.

Similar conclusions were reached by an evaluation of the initiative commissioned by EITI itself in 2011 (Reite et al., 2011). Its authors combined quantitative methods examining all EITI compliant and candidate countries (and a corresponding control group) with three in depth case studies to as-

sess the broad societal impact as stated among EITI goals<sup>33</sup>. The most important conclusion they draw is that the causal chain included in the articles of association – leading from transparency to reduced corruption and the transformation of the economy as well as poverty reduction – is based on assumptions which are neither theoretically verified nor confirmed by empirical evidence. They observe a disconnect between the rather narrow tasks and immediate goals with the broader objective of societal change EITI aspires to. According to them, the initiative lacks a ‘theory of change’ which fills the gap and explains how the intervention could produce the desired effects. The empirical evidence, accordingly, provides

few indications that EITI programmes are so far having [an] impact on societal dimensions such as governance, corruption, poverty reduction. While the EITI programmes are implementing their [projected] activities quite successfully, there are few indications so far that this is creating real spill-over effects onto larger societal arenas (Reite et al., 2011, p. 26).

The fact that this critical conclusion comes from an evaluation which has been internally arranged for, adds even more weight to its findings. Assuming, they had full support and access to relevant information. Similarly, other authors conclude from case studies that achievements of EITI implementation so far remain far below expectations (Carbonnier / Brugger / Krause, 2011, p. 252). Even if transparency is successfully increased, this seems to have little impact on the intended governance dimension (Shaxson, 2009). To some extent these findings can be explained by the short lifetime of the initiative; yet the previous discussion suggests that this may not be the only reason. Instead, the impact of a strategy like EITI as well as its economic and political feasibility depend on the “prerequisites and institutional and political framework” (Mildner / Lauster, 2010, p. 106).

In particular, the relevant factors seem to be related to good governance and thus, the aims of EITI. Paradoxically, the features of good governance which EITI aims to achieve are at the same time prerequisites for its functioning. The inconsistent expectations regarding the relationship between transparency and accountability illustrated in Figure 4 (p. 37), thus, are also reflected in the EITI approach. In her analysis of EITI, Aaronson confirms the inherent flaw in the logic which already appeared in the theoretical discussion. She states that “the situation poses somewhat of a circular argument in that it implies that good governance will beget good governance” (2011, p. 57) (see also Jones, 2008, pp. 34–35). Hilson and Maconachie’s blunt statement reinforces this observation: “past experience suggests that

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<sup>33</sup> They used reviews of EITI material, external documents and data, field visits and surveys for this purpose.

[...] contrary to the views of its proponents, good governance, transparency, and improved government–citizen relations are keys to implementing a successful EITI, and not the opposite” (2009a, p. 68).

The following table summarizes the main flaws in the EITI logic of implementation discussed above.

<b>Flaws inherent in the logic of implementation of EITI</b>	<b>Consequences</b>
<b>Ineffectiveness &amp; danger of white-washing</b>	
Unspecific rules / limited standards Selected types of transparency Reconciliation process	Considerable discretion in implementation → reliance on leadership commitment Limited ability to detect corruption Only compares statements, but does not scrutinize content
<b>Disregard of reality in most target countries</b>	
Reliance on external factors In particular: - Accountability - CSO	These are not addressed in EITI, which bears the risk that they are not present Despite key significance of accountability for transparency to have effect, not addressed accordingly Role attributed to CSO conflicts with actual capacities
<b>Lack of theory of change</b>	
Implicit assumptions unfounded Circular argumentation	Failure to address relevant issues → ineffectiveness Objectives (good governance / accountability) also precondition for instrument

*Table 2 (own compilation)*

In conclusion, one can say that EITI might be a useful instrument, but only in specific contexts or rather as part of a mix of instruments. Contrary to its claims, it is not able to substantially contribute to the creation of such favorable context. Both the political and institutional environment as well as the commitment of the leadership of participating countries seem to be primary determinants of its success. Therefore, EITI should revise its approach and aims by formulating a grounded theoretical background on how to achieve its broader objectives and adapt its approach accordingly, or reduce the claims to more realistic goals.

Proponents of EITI contend that the initiative can trigger positive side effects beyond the limited scope of action it addresses. Apart from the immediate objectives and benefits of the initiative, the process of dialogue, transparency and participation initiated by EITI generates learning-processes according to this viewpoint. These can in turn lead to spill-overs into other policy areas and can consequently contribute to broader improvements in the governance of participating countries. The EITI Source Book thus states that “benefits for implementing countries are mainly realized as part of, or as an entry point to, broader efforts to improve governance” (EITI Secretariat, 2005, p. 5).

Indeed, Feldt and Müller ascertain that EITI has in many countries promoted critical public discussion, at least with regard to negative impacts of resource exploitation (2011, p. 32). Experience from other cases shows that processes such as EITI can be socially consequential beyond the limited scope of the initiative due to government-citizen relationships which are constructed in this context (Gillies, 2010, p. 120). Furthermore, Shaxson (2007b) argues that a change in the international political climate instigated by the initiative can set positive developments into motion making foreign investors and African leaders aware of the benefits of increased transparency for themselves (p. 220). EITI could thus contribute to norm diffusion with transparency becoming an accepted principle in national politics. Moreover, capacity building of CSO could sustainably strengthen the situation of civil society in participating countries.

So far, however, experience of EITI implementation does not give any indications of such developments. Thus, with regard to civil society engagement, CSO are well accepted within the EITI framework, but there is no sign that broader processes of public discussion and participation are instigated (Feldt / Müller, 2011, p. 33). This is in accord with the assessment by Reite et. al. that there are “few indications so far that this is creating real spill-over effects onto larger societal arenas” (2011, p. 26). Thus, reconsidering the previous argument, it appears that so far EITI benefits from (and often depends on) broader processes of reform rather than the other way around.

## 6 Conclusion

The in depth analysis of the relation between transparency and corruption, which is considered as a root-cause of the resource curse, has demonstrated that it is far from straightforward. The application of transparency bears considerable potential, which however can only be realized in conjunction with a number of external conditions and complementary factors. The fact that these preconditions are basically those effects transparency is supposed to help achieve is particularly problematic. It severely hampers the effectiveness of the instrument and questions the rationale of this approach.

This paper elaborated a concept of the functioning of transparency as a policy instrument and its potential effects in the fight against corruption and the resource curse. Consequently, this has been applied to analyze the practical implementation of this instrument in form of EITI. The conclusion retraces the line of argument of the present work and presents the main findings concisely in order to emphasize its overall argumentation. It states that the present focus on transparency needs to be revised and qualified, as its effectiveness remains limited in most of the contexts it is employed in.

The analysis originates from the abundant literature on the resource curse. More particularly, it emanates from the political-institutional strand of this literature, which has attracted much attention and support recently. The literature review underlined the importance of political-institutional aspects also with regard to explanations focusing on economic factors or conflict dynamics. Mismanagement and more specifically, corruption are widely regarded as a root cause in this context. This phenomenon is particularly relevant in the extractive sector, due to the specific characteristics with regard to power relations, business practices and input requirements, as well as financial transactions. The process of resource extraction is protracted and complex, with a high number of interactions between the business partners from political institutions and private industry as well as a variety of payments which need to be made. Moreover, business transactions in this context are often characterized by high secrecy. Therefore, corruption can flourish easily as the setting provides preconditions and opportunities highly conducive to corruption. The substantial resource rents generated in this sector, furthermore, engender incentives for two main categories of corrupt actions: power preserving activities and reallocating efforts from productive to unproductive activities.

The consequences of such corruption severely impact the political economy. Apart from direct economic losses, these actions produce three main effects. Firstly, they weaken public accountability by reducing government reliance on taxation and in that way destroy an important link of society-

government relations. Secondly, they produce inefficiencies and distortions in the economy, which have immediate and long term consequences for the economy and society alike. Investments are diverted from policies that are most efficient and beneficial for the entire population because of adverse selection favoring policy areas and companies most susceptible to corruption. Additionally, as a third effect uncertainties increase and trust fades. In the economic realm, this situation may deter private investments and thus further hamper economic growth (though arguably this applies to the natural resource sector to a lesser extent).

The notion of good governance, which became widely accepted in international policy circles, prompted the idea of transparency as an effective recipe against a variety of maladies. Based on the governance perspective on the resource curse, transparency has attracted widespread attention and support as a policy instrument to reduce corruption and curb the resource curse more generally. The previous theoretical analysis, however, comes to a critical conclusion regarding this widely assumed, but under-researched relation.

The primary effect of transparency is to enable detection of corrupt behavior which in turn facilitates prosecution and consequently, serves as a deterrent for future potential mismanagement. Thus, it can significantly impact and alter the incentives for corruption. This effect, however, is highly dependent on how transparency is implemented, taken advantage of and acted upon. Detection without effective sanctioning mechanisms remains without effect, in which case deterrence does not arise either. Even detection is not an automatic consequence of mere transparency; it presupposes someone handling, scrutinizing and comprehending the disclosed information. In order to assess the effectiveness of transparency, the paper elaborated on the relevance of specific types of transparency, its effect on and relation to accountability as well as further limits and challenges related to its application.

The specific application of the abstract concept of transparency determines its effect as a policy instrument. In particular, different factors influencing the relevance of disclosed information as well as the publicity attained are of importance. The former is related to the sufficiency of information, as the provided data must be comprehensive and of adequate quality for stakeholders to actually take advantage of and use the information. The reliability and thus usefulness of such data depends furthermore on the origin of information. Besides, in the context of natural resource governance, it becomes relevant which stage of the value chain is selected. While theoretical and applied studies often focus on transparency of resource revenues, this area can only impact (to some extent) accumulative corruption,

but is inadequate to curb power preserving activities or rent-seeking. Alternatively, scholars stress the importance of transparent budget allocation and contract details. Others argue that the entire value chain needs to be covered. However, so far no comprehensive, comparative evaluation exists on this topic.

For effective transparency, the published information must not only fulfill the requirements of relevance, but furthermore it must attain sufficient publicity. This implies that the disclosed information actually reaches the population. For this purpose, the situation of mass media with regard to independence, capacity and integrity is very important. Similarly, a minimum level of education enables people to comprehend and react on such information. Thus, the reliance on external factors due to the indirect nature of transparency severely limits its effectiveness depending on the context it is employed in.

Transparency bears the potential to counter the indirect effects produced by corruption. Least evident with regard to the distortions and inefficiencies produced by corrupt transactions, transparency is generally able to restore trust and reduce uncertainties. Most important, though, is its effect on public accountability, which is also the key rationale for its use. The idea that increased transparency allows the population to scrutinize the actions and decision of the government is supported by the principal-agent theory. According to that argument, information asymmetries are the main obstacle for the principal to assess and punish self-serving behavior of the agent. Increased transparency, in that perspective, can adjust the information imbalances and thereby, restore accountability. At the same time, this remedy reveals a major drawback. It can restore existent accountability which has been hampered by insufficient information. Yet, it does not have the power to actually generate accountability, in cases where it is not provided for by the necessary institutions.

Transparency can primarily enhance one aspect of accountability, which is answerability. This aspect refers to the voluntary or demanded provision of information, enabling consequent requests for explanations. The second aspect of accountability – enforcement – also entailed in this concept, however, is barely affected by increased transparency. Institutions of accountability, which ensure sanctions for detected misbehavior, are therefore needed to complement transparency and ensure its effectiveness. The global net of business relations in the extractive sector can compensate to some extent by creating external accountability. The global structures provide a (very limited) leeway for actions by the international community or the global public to reprove norm deviant actors. Thus, they can publicly

criticize and punish corrupt business practices. This requires of course that these practices are detected first, to which transparency can contribute.

It becomes clear that contextual factors are highly relevant for the positive impact of transparency as a policy instrument. The most prominent contribution of transparency is to reinforce and facilitate other processes. On its own, transparency constitutes only a passive opportunity which needs to be taken advantage of to fulfill its purpose. Hence, this instrument relies on third actors, to use the information revealed to them. Therefore, not only the specific application but moreover, the surrounding environment are critical. These third actors must not only possess the incentives and capacities to use the information, but furthermore require framework conditions which enable such action. For effective application of transparency, therefore, a comprehensive strategy is needed which takes account of all these external factors and preconditions.

The application of transparency is not only discussed in theory, but has already become widely appreciated in international policy circles and is applied in practice. The most prominent initiative, EITI, aims to avert the resource curse through increased transparency and accountability in the natural resource sector by making revenue flows transparent. The problems related to a transparency-based approach identified in the theoretical discussion, can be detected in this initiative as well. As a consequence of its failure to openly acknowledge and address these challenges, it is only to a limited extent able cope with them and to attain its direct and overarching goals.

The primary objective of EITI to make revenue flows between governments and extractive corporations transparent is achieved within the self-imposed rules of the initiative. This success, however, is restricted by the rather limited and low standards concerning the specific implementation in practice. The often limited relevance of published information due to the focus on revenues, flexible definitions of materiality and use of aggregated data as well as the origin of information lying with the possible transgressors, restrict the quality of the provided information. The usefulness of the reports is further hampered by limitations to attaining publicity.

With regard to accountability, the picture is (even) less positive. While increased accountability is directly mentioned as an objective of the initiative, its attainment is not addressed accordingly. Essentially, it is presupposed to arise from the promotion of transparency. To some extent the framework of EITI contributes to creating accountability as well. Thus, based on regular evaluations, countries can be criticized and ultimately suspended from the process. Moreover, civil society is included as an im-

portant stakeholder in the process which could enhance public voice and accountability.

The effectiveness of the EITI evaluations and role of civil society to produce accountability are inherently limited, though. The voluntary nature of EITI and lack of more substantial sanctioning mechanisms hamper the power of internal sanctions. Civil society on the other hand, is structurally disadvantaged by lacking financial, technical and personnel capacities and therefore finds itself at the weak end of the tripartite power relations. This weakness is not adequately addressed within the EITI framework. Essentially, the involvement of CSO in EITI can provide some degree of answerability, but no effective accountability which could proof a serious counterweight to corruption. Furthermore, most resource-rich states are developing countries with non-democratic or semi-democratic systems. The particular policy environments in these states have often produced weak civil society which frequently has no or limited tradition in political engagement. As a consequence, the ability of civil society to fulfill its envisaged role in this context is highly limited.

The international structure of EITI reflecting the global business and power relations of the extractive sector can to some degree facilitate external leverage. Drawing public attention on a global level to mismanagement in this sector can trigger reputational accountability with regard to MNCs and governments alike. This, however, requires strong and concerted international pressure, which needs to translate into hard financial consequences in order to provoke changes in conducting business by the private industry.

The problematic flexibility and limited standards, moreover, restrict the effectiveness of the initiative as well as the creation of a global standard. Moreover, they facilitate the abuse of the initiative for whitewashing and make the success highly dependent on leadership commitment. The often proclaimed potential of EITI to stimulate learning processes and generate positive spill-overs promoting good governance on a broader level, cannot be confirmed by experience either. Nevertheless, in this regard long term developments need to be awaited for a final conclusion.

The analysis shows that the logic and design of EITI is based on unproven assumptions. It can neither theoretically nor practically provide the link between the instrument and direct aim to enhance transparency and the ambitious goal to curb corruption and avert the resource curse. This is confirmed by the available practical experience. While the narrow aims of EITI are roughly fulfilled, there are no indications that these achievements translate into the broader political and economic changes envisaged by the initiative. This is predominantly because the various factors relevant for its effectiveness are not taken account off.

Based on the thorough analysis on the relation between transparency and accountability, this paper arrives at the conclusion that it is more complex than widely assumed. Effective accountability has the potential to significantly curb corruption by increasing the risk of punishment (directly through personal indictment or indirectly through elections) and thus has a mitigating effect on all the negative consequences of corruption. The contribution and effectiveness of transparency to this aim, though, is highly limited. Transparency is indeed an important and useful element in the fight against corruption. However, its indirect approach makes it highly reliant on external factors and hence requires its use as part of a broader strategy in concert with other policies. This is unless the appropriate context providing the necessary preconditions is already given. In conclusion, the discussion reveals that the institutions of accountability and good governance which transparency is supposed to promote, are at the same time critical to ensure the positive effects of transparency. As an approach whose effectiveness relies on its results as preconditions, it is therefore highly unlikely to be successful and needs a critical revision.

The assessment of the theoretical background combined with the evaluation of the implementation in practice, demonstrates that it is advisable to regard the strong reliance on transparency with caution. The direct link between transparency and corruption is uncertain as well as under-researched. The analysis conducted in this thesis highlights the complexity of the issue and reveals numerous contextual factors which are required to complement this instrument. Hence, before more efforts and resources are attributed to promote this approach, further research is needed to enable the design of an effective and comprehensive strategy triggering the potential of transparency. It needs to establish what specific institutional arrangements are necessary to what extent, in order to ensure the effectiveness of this instrument and/or determine complementary strategies which can provide those. EITI in particular, should revise its approach, externalize implicit assumptions and address them actively. Without a credible and reasonable theory of change, the initiative relies on fragile foundations and is therefore unlikely to be successful in achieving its proclaimed aims.

The specific circumstances accompanying the rise of transparency to counter the resource curse, combined with the lack of a strong theoretical support, suggest that the focus is motivated by normative and short-term pragmatic considerations instead of its practical value. This makes it all the more important to thoroughly reassess this approach and policies and initiatives which uncritically endorsed this concept.



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