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Does transparency matter? Evaluating the governance impacts of the Extractive Industries Transparency Initiative (EITI) in Azerbaijan and Liberia

Benjamin K. Sovacool [a,b,*], Nathan Andrews [c]

[a] AU-Herning, Aarhus University, Birk Centerpark 15, Herning DK-7400, Denmark
[b] Institute for Energy & the Environment, PO Box 96, 164 Chelsea Street, South Royalton, VT 05068-0444, United States
[c] Department of Political Science, 10-16 HM Tory Building, University of Alberta, Edmonton, AB, Canada T6G 2H4

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ABSTRACT

The Extractive Industries Transparency Initiative (EITI) has been sold by its advocates as a badly needed way to enhance access to information in the extractive industries sector and improve government accountability. It has also been lauded as enabling energy companies to demonstrate their responsibility and sustainability, enabling countries to attract more foreign investment, and enabling communities to engage in dialogue with national planners over energy issues. In this paper, we ask: does it work? Do countries adhering to EITI standards actually see selected governance metrics improve? To answer this question, this article first briefly summarizes the history of the EITI and details the hypothetical benefits espoused by its supporters. It then proceeds to "test" these benefits by qualitatively assessing the performance of EITI for the first two countries to achieve candidacy, Azerbaijan and Liberia. The paper finds that while the EITI affirms the salience of reliable information and data about the extractive industries, it is difficult to attribute governance improvements casually to the EITI. Moreover, the EITI reveals an inherent paradox about the virtues of transparency and also underscores that much of the damage from mining and hydrocarbon development is socially and economically unavoidable.

Introduction

Emil Salim, the President of the Extractive Industries Review, in an attempt by the World Bank to improve transparency and accountability in the mining and energy sectors, once began a conference on governance with a curious statement: "Not only have the oil, gas, and mining industries not helped the poorest people in developing countries, they have often made them worse off (Steiner, 2007)." Lending further support to this claim, political scientist Terry Lynn Karl analyzed the impact of oil production on the political economies of Venezuela, Nigeria, Mexico, Iran, Algeria, and Norway and found that in only one, Norway, did oil extraction correlate with positive development (Karl, 1997). In each of the other oil-exporting countries, bottlenecks in production, declines in other economic activity (especially in the agricultural and industrial sectors), increasing outflow of capital to other countries, double-digit hyperinflation, and sudden declines in living standards occurred.

Clearly, for some countries with relatively rich endowments of coal, minerals, oil, and gas, those very commodities can become "curses" to the government and its citizens (Sovacool, 2013; Sachs and Warner, 1995; Davis, 1995). This notion of the 'resource curse', a term popularized by Auty (1993), has several dimensions. In fact the extent of the 'curse' is said to be determined by the nature of rent seeking, the types of resources in question, and political incentives, among others (Robinson et al., 2014; Mehlum et al., 2006; Stevens and Dietsche, 2008). To help combat this curse, the Extractive Industries Transparency Initiative (EITI) offers one relatively novel approach towards promoting revenue transparency for the oil, gas, and mining sectors. Put simply:

> The EITI is a multi-stakeholder initiative involving multinational and state-owned extractive companies, host governments, home governments, business and industry associations, international financial institutions, investors and civil society groups, which have established a broad consensus on the ways and means of revenue transparency. The EITI emphasizes the prudent use of natural resources wealth and dictates that the management of

* Corresponding author. Tel.: +45 3032 4303.
E-mail addresses: BenjaminSo@hih.au.dk (B.K. Sovacool), andrews5@ualberta.ca (N. Andrews).

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such wealth should be exercised in the interests of national development (Al Faruque, 2006).

The EITI operates on the principle of having free, full, independent, and active assessments of the ways that extractive companies interact with government and impact communities and society (Extractive Industries Transparency Initiative, 2011a).

As of February 2015, 48 countries were reported to be in the process of implementing the EITI, with 32 of them being considered "EITI Compliant (Extractive Industries Transparency Initiative, 2015)." Sixteen countries were categorised as "EITI Candidates." In total, 29 countries have disclosed payments and revenues in an "EITI Report," and 60 of the largest oil, gas, and mining corporations in the world actively participated in the EITI process. The EITI has also received support from 84 global investment institutions that collectively manage about $16 trillion in energy infrastructural assets (Extractive Industries Transparency Initiative, 2012). Academic studies across the disciplines of governance (Caspary, 2012), public administration (Brinkerhoff and Brinkerhoff, 2011), law (Friedman, 2001; Eigen, 2006; Hess, 2012), resource management (Smith et al., 2012; Corrigan, 2014), energy studies (Sovacool, 2013), development studies (Acosta, 2013), business strategy (Mouan, 2010), corporate social responsibility (Frynas, 2010), and political science (Haufler, 2010) have all praised the EITI for its potential promise or results to date. But there are several prevailing challenges to be discussed below.

In this paper, we ask: When a country achieves its EITI status, which elements of its national governance actually improve? Put another way, does transparency "matter", and do countries adhering to EITI standards actually perform better on governance metrics? To provide answers, this article first briefly summarizes the history of the EITI and details the hypothetical benefits espoused by its supporters. It then proceeds to "test" these benefits by assessing the performance of the EITI for the first two countries to achieve candidacy, Azerbaijan and Liberia. The paper finds that while the EITI affirms the salience of reliable information and data about the extractive industries, it is difficult to identify a direct connection between governance improvements and the EITI. This is because in both cases, governance indicators that had improved hitherto plummeted after the countries attained the EITI Compliant status. Moreover, the EITI reveals an inherent paradox about the virtues of transparency and also underscores that much of the damage from mining and hydrocarbon development is socially and economically unavoidable. This suggests that transparency should be considered as only one of the many factors necessary to ensure the proper management of natural resources.

History, benefits, and challenges of the EITI

This section of the paper presents a brief history of the EITI, outlines five of its proclaimed benefits, and discusses a few of its most pressing challenges.

History of the EITI

The idea of the EITI was outlined in 2002 and officially born in June 2003, when a high-level meeting in the United Kingdom consisting of representatives of governments, industries, and civil society groups agreed upon a common set of "EITI Principles (Haufler, 2010)". Near the end of 2006, the EITI was registered as a formal not-for-profit organization in Norway, and a new and expanded "EITI Association" was adopted at the Doha Conference in February 2009 (Extractive Industries Transparency Initiative, 2011a). The key to the EITI is its "multi-stakeholder" approach to transparency, involving three distinct sectors—government, civil society groups, and corporations in the extractive industries (Friedman, 2001).

In its most up-to-date form, the EITI promotes six fundamental criteria. First, it demands the "regular publication" of "all material" oil, gas, and mining payments by companies to governments ("payments") and all material revenues received by governments from oil, gas, and mining companies ("revenues"). This publication must be disseminated to a wide audience in a publicly accessible, comprehensive, and comprehensible manner. Second, when such reporting or wide publication of reports is lacking, payments and revenues are to be subject to a "credible, independent audit" of reputable "international standards." Third, reporting of payments and revenues is to be reconciled by an "independent administrator" which identifies and corrects discrepancies. Fourth, no companies are to be exempt from EITI reporting, meaning it covers private companies, public state-owned companies, and hybrid government-linked companies. Fifth, the active engagement of civil society is required in the design, monitoring, and evaluation of the EITI process. Sixth, the public is to be kept informed by the timely publication of "work plans" for how the host governments will manage their revenues, implement the EITI reforms, and assess capacity constraints (Extractive Industries Transparency Initiative, 2011a). To meet the "EITI standard," countries must fulfil 21 separate requirements, shown in Fig. 1.

Proclaimed benefits of the EITI

Scholars and researchers have identified at least five purported benefits the EITI appears to exhibit, which we summarize in this subsection.

One of these is its potential to enhance access to information. The simplest benefit, also the bedrock for all of the EITI's other advantages, is the creation of reliable and timely information about oil, gas, and mining in a given country. As of 2013, the number of EITI Reports jumped from zero to almost 150 in seven years. More than thirty countries had disclosed data from 109 fiscal periods with the participation of more than 900 companies. Some countries, such as Nigeria, had disclosed information dating back to the 1990s; others, such as Azerbaijan, continually updated their data every year. All reports covered oil and gas, but some extended to mining and even forestry and agriculture, such as Liberia's 2009 Report, or the Central African Republic, which includes small-scale artisanal mining. Ghana, Mongolia, and Peru have gone beyond the minimal requirements of reporting revenue and have also published data on all financial flows to local governments (Extractive Industries Transparency Initiative, 2011b).

Another purported benefit is the achievement of governmental responsibility. Advocates argue that the EITI has benefitted governments by enabling them to follow "an internationally recognized transparency standard" that signifies a commitment to "reform" and "anti-corruption". As one independent assessment surmised, "the presence of a legal and institutional framework on transparency can be used by citizens and civil society as a valuable tool to hold their governments accountable on how revenue is spent (Al Faruque, 2006)". The publication of EITI reports, for example, has strengthened public knowledge about extractive industries and established a foundation for improvements.

Also, the EITI is expected to benefit companies by creating a "level playing field" and enabling them to better engage with community leaders and civil society groups. All too often, Transparency International founder Peter Eigen notes, "companies believe they must adopt unfair or even illegal practices because they feel threatened by competing operators vying for contracts in countries that have unstable or unreliable institutions regulating the sector (Eigen, 2006)." The EITI has a potential to stop this "race to the bottom" by making good governance and transparency the

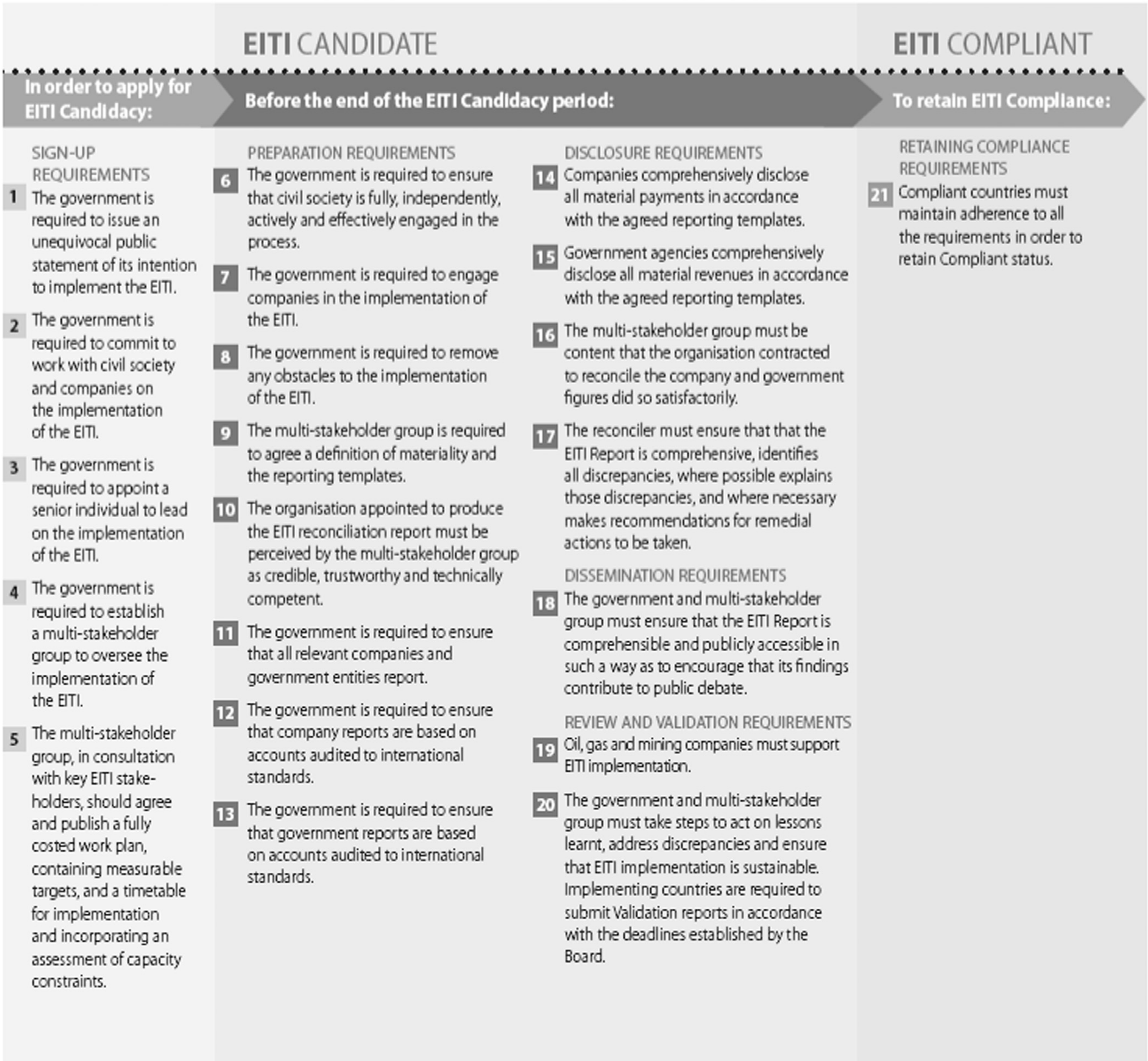

Fig. 1. Criteria for becoming EITI candidate and compliant countries, 2013.
Source: Modified from the EITI Secretariat.

norm rather than corruption, bribery, and rapaciousness. Furthermore, participation in the EITI can augment corporate reputation, enabling companies to "recruit the best young people" who are increasingly concerned about social issues, and enabling potential investors to support a company with "positive corporate characteristics (Eigen, 2006)". Hess notes that the EITI empowers shareholders to act as "surrogate regulators," and that:

> Disclosure enables stakeholders to hold the corporation accountable by comparing the corporation's stated goals to its actual performance and the performance of other corporations. It also helps to improve other corporations' performance because disclosure allows stakeholder groups, including other similarly situated corporations, to examine solutions to the same problem (Hess, 2012).

Additionally, it is anticipated that greater transparency can lessen political risk for investors, since more open business dealings create less opportunity for accusations of corruption and the consequent coups and regime changes that sometimes result (Eigen, 2006). Moreover, the improved accountability and corporate image mentioned above can culminate in an improved investment climate for a country. As one study explains, "corruption and lack of transparency … can deter foreign investment in the development of natural resources and, thus, can reduce important sources of revenue and the economic development of the host developing countries (Al Faruque, 2006)". Involvement in the EITI, by contrast, can positively affect foreign direct investment in sectors beyond oil, gas, and minerals.

The last purported benefit is the ability of the EITI to encourage community dialogue which can empower citizens to become active participants. The EITI has profited citizens and civil society groups able to receive accurate information about the extractive industries sector, whereby they have initiated a dialogue holding governments and companies more accountable, leading to less social conflict. Lack of transparency and the belief that revenues are being maliciously misappropriated or improperly managed can create social divisiveness and fuel social tensions that can lead to conflict. By contrast, Genasci and Pray have found that "with the financial relationship between states and extractive firms laid bare, citizens have the information necessary to exert pressure on government in order to allocate its recourses toward poverty alleviation and development programs (Genasci and Pray, 2008)." Karin Lissakers, former President of the Revenue Watch Institute, has similarly noted that "the EITI has been instrumental in increasing citizen participation (Goldwyn, 2008)." Thus, the EITI is seen to have built trust between host communities, governments, and companies to the point where they can all come peacefully to the table and may forgo more severe tactics such as boycotts or, in extreme cases, violence (Al Faruque, 2006).

For instance, one independent assessment of the EITI conducted by Gillies and Heuty from the Revenue Watch Institute argued that Candidate and Compliant countries were more likely to redirect resources to the poor and that transparency has had a positive impact on the creation of new civic associations. Furthermore, they noted that the EITI countries had "less leakage in public expenditures" and a "better public understanding of decision-making". They documented a greater fulfilment of "socioeconomic rights" such as the access to drinkable water or sanitation, better utilization and delivery of public services, and an increased responsiveness on behalf of state planners to public needs among the EITI countries (Gillies and Heuty, 2011).

Ostensible challenges facing the EITI

None of these purported benefits can be taken for granted, of course, as subsequent sections highlight weaknesses of implementation in both Azerbaijan and Liberia which muddy the window-dressing. One elementary but significant challenge is that the EITI focuses only on revenues from the extractive industries. This takes a "narrow" view of transparency, as it is only a small part of public sector revenues (Shaxson, 2008). Another aspect of the limited mandate is the fact that the EITI currently is unable to monitor or track illicit financial flows–that is, money that benefits a select group of elites (local or foreign) instead of the general public (Le Billon, 2011b). This suggests that although EITI's reporting requirements can result in improved transparency in the extractive sector overall, they would not necessarily influence resource revenue that is pocketed or illegitimately transferred for peoples' private benefit (Le Billon, 2011a). Another fundamental weakness of the EITI is that it is purely a voluntary approach, where governments are encouraged but not required to adhere to the principles of transparency. This means that only governments and companies committed to integrity and transparency will join (Al Faruque, 2006). Lastly, for the EITI to work, it needs strong civil society institutions. Indeed, even for transparency to work effectively, information must become firmly embedded in the everyday decision-making practices of information producers and consumers, creating a transparency "action cycle (Fung et al., 2004)". Yet in many countries, especially those most prone to corruption, nongovernmental organizations remain disorganized, weak, or even non-existent (Pegg, 2003).

In essence, the discussion that ensues will show that the situation is not as rosy as proponents of its benefits will have us believe. For instance, in the case of community dialogue and citizen participation, the EITI has already been found to be limited in its ability to advance the partnership that its multi-stakeholder groups are meant for (Aaronson, 2011). Also, thinking of the EITI as a tool for reputation building for both corporations and governments imply that there might not be the conscious effort to change their behaviour/practices so far as a generally positive reputation is achieved (David-Barrett and Okamura, 2013). More discussion of this will follow in subsequent pages.

Research methods and data collection

In theory, if its advocates are accurate, the EITI presents national planners, corporate executives, investors, and even community leaders a valuable tool they can utilize to minimize corruption in the extractive industries sector and bring a host of broader social and political benefits. However, are these claims too good to be true? They have not, to our knowledge, been quantitatively and independently evaluated. To determine systematically what, if any, impact EITI Candidacy has on governance performance, this part of the article describes how we (1) chose our governance indicators, (2) selected countries to examine and (3) collected statistical data on their performance.

Selecting governance indicators

As readers of this journal likely know, the number of indicators measuring some type of governance is both massive and continues to grow. Rather than drawing from dozens of different databases or sources, and falling prey to what has been termed "data mashup (Ravallion, 2012)," we instead sought to find a single database that was transparent, inclusive in its coverage of countries and time periods, and comprehensive in its treatment of governance. We selected the World Bank's Worldwide Governance Indicators (WGI) dataset because it satisfies all three criteria. It is transparent, available to all (for free) with detailed appendices listing methodological assumptions. It is inclusive, covering more than 200 countries and

Table 1
Six governance metrics comprising the World Governance Indicators (WGI) dataset.

Metric	Description
Voice and accountability	Reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media
Political stability and absence of violence	Reflects perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism
Government effectiveness	Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies
Regulatory quality	Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development
Rule of law	Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence
Control of corruption	Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests

territories and going back to 1996, further than other indices such as Transparency International's Corruption Perceptions Index. It is comprehensive, covering six different dimensions of governance summarized by Table 1.

To provide a bit more detail, the WGI database compiles metrics on governance drawn from dozens of separate sources provided by numerous organizations including the World Economic Forum's Global Competitiveness Report, the Gallup World Poll, and Transparency International, as well as perspectives from major multilateral financing institutions such as the World Bank and European Bank for Reconstruction and Development (Kaufmann et al., 2010). As the authors of the database argue:

> The WGI are based on the aggregation of perceptions of governance from 31 different data sources provided by 25 different organizations, and so provide a synthesis of the views of a very large and diverse group of stakeholders regarding the quality of governance across countries (Kaufmann et al., 2007).

Included in this dataset are national surveys of governance, as well as surveys conducted with households and business firms as well as expert assessments produced by research institutions and commercial enterprises such as the Economist Intelligence Unit. What results is an aggregated number of indicators which create "a useful way of organizing and summarizing the very large and disparate amount of information on governance (Kaufmann et al., 2009)." Such information is synthesized, audited, and averaged so that each country is given a percentile rank ranging from zero (lowest) to 100 (highest). The international community has somewhat quickly adopted the WGI framework, with more than a dozen international organizations using its dataset in formal evaluations, and the United States Millennium Challenge Account aid program even relies on five of the WGI in its procedures for determining country eligibility.

Selecting EITI countries and years

With our indicators chosen, we then proceeded to select the countries included in our analysis. This was perhaps surprisingly simple: only 2 countries were EITI Compliant as of 2009, giving us enough years (2010–2012) to test trends in governance: Azerbaijan and Liberia. To provide a measure of historical parity, we also collected data on their governance trends for 2006–2008, enabling us to discern performance in the three years *before* and *after* both countries achieved EITI Compliance status.

Collecting data and presenting results

To make trends easier to decipher, our final stage in the process, after collecting WGI data for both countries from 2006 to 2012, was to adjust the scores so that 2009, the year both countries achieved the EITI status, was equal to one. As Fig. 2 indicates, after joining the EITI some elements of governance improved, whereas others declined. For Azerbaijan, performance on corruption and rule of law metrics improved noticeably after 2009, voice and accountability stayed roughly the same, and government effectiveness, regulatory quality, and political stability all declined. For Liberia, performance on voice and accountability and corruption metrics slightly dipped but political stability, regulatory quality, government effectiveness, and rule of law all improved.

A tale of two cases: Azerbaijan and Liberia

What are we to make of these results? This section of the study discusses, qualitatively, what might explain such divergence of performance on WGI scores for Azerbaijan and Liberia.

Azerbaijan

The Republic of Azerbaijan became recognized as a nation-state in 1918, a Soviet republic from 1922 to 1991, an independent state in 1991 with a constitution adopted in 1995 (Cornell, 2011). It maintains a unitary constitutional (or dominant-party presidential) republic and is one of the six Turkic independent states—the other five being Kazakhstan, Kyrgyzstan, Turkey, Turkmenistan, and Uzbekistan. Azerbaijan is geographically located in the Caucasus region, surrounded by the Caspian Sea in the northwest of Asia and countries such as Armenia, Georgia, Iran, and Russia. Its wealth in oil and gas resources is a result of its location in Caspian basin, which it shares with four other countries—Iran, Kazakhstan, Russia, and Turkmenistan (Bahgat, 2004). Azerbaijan is considered to be a typical post-Soviet rentier state due to its enormous oil and gas resources, low economic diversification and a powerful autocratic presidentialism based on neo-patrimonial structures (Franke et al., 2009; Kendall-Taylor, 2012; O'lear, 2007).

Oil resources in Azerbaijan have been developed industrially since the late 1800s, and perhaps for many centuries before this period (Cornell, 2011). But the story was not always uplifting since the country's oil sector faced neglect by the Soviet energy sector for decades and was almost written off. Although the country's GDP shrank by 17% between 1985 and 1991, these figures have appreciated in recent years driven by oil and gas production. The hydrocarbon sector accounted for 47.3% of GDP in 2012, a decline

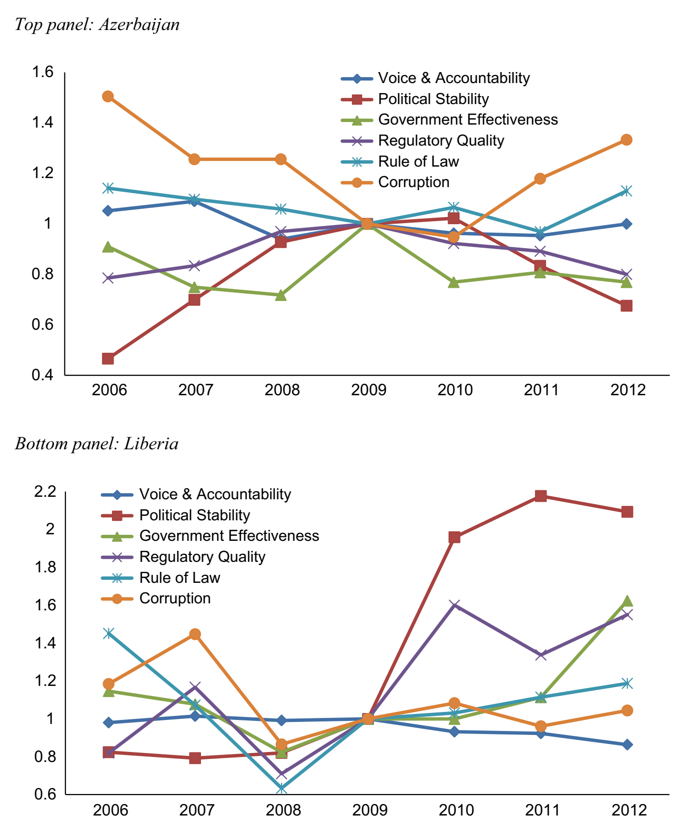

Fig. 2. Governance performance scores for Azerbaijan and Liberia, 2006–2012 *Top panel: Azerbaijan. Bottom panel: Liberia,* Note: Worldwide Governance Indicators have been adjusted so that 2009, the year both countries achieved EITI compliance, equals 1.

from the 50.2% recorded in 2011. Earnings from hydrocarbons sales account for around 90% of total export revenue. The country's crude oil reserves are estimated at 7 billion barrels and oil production amounts to more than one million bbl/day.

Azerbaijan benefits from both onshore and offshore deposits but it is believed that offshore reserves constitute the cornerstone of the country's petroleum industry, particularly due to the over fifty years of decay the onshore sector has suffered (Cornell, 2011). Major projects such as the Baku-T'bilisi-Ceyhan oil pipeline (BTC) to Turkey, the country's largest oil field Azeri-Chirag-Guneshli (ACG) and the largest natural gas field Shah Deniz (SD) contribute significantly to government revenues. Azerbaijan's real GDP has greatly increased in recent years, driven by growth in oil and gas production. The State Oil Company of Azerbaijan Republic (SOCAR) plays a major role in oil and gas production, and in managing oil and gas imports and exports. The State Oil Fund of the Republic of Azerbaijan (SOFAZ) is one of the central components of the strategy for managing these revenues, which was brought into existence through the signing of decree No. 240 on 29 December 1999 by the Azeri President. SOFAZ is meant to govern the collection of oil revenue and bonuses and SOCAR is also authorized to ensure the transfer of funds into a special oil fund account in the National Bank of Azerbaijan (Kalyuzhnova, 2006).

Azerbaijan is one of the EITI trailblazers, joining the initiative as a pilot country in 2002 along with Ghana and Nigeria. The implementation of the EITI can be divided into three phases: phase one is from 2003 to 2005, which can be regarded as the pilot period; phase two (2005–2009) begins with the country achieving complaint status; and the last phase (2009-present) reveals Azerbaijan as a full EITI member (NGO Coalition on ITEI, 2013). A little more detail on these phases might be useful here. The Cabinet of Ministers of Azerbaijan established the Committee on the EITI by its Ordinance No. 224 on 13 November 2003. A memorandum of understanding (MoU) was signed by the Committee outlining the roles of government, companies, and civil society as the members of the Multi-Stakeholder Group (MSG). Azerbaijan completed validation in February 2009. Following a review of the validation report, the EITI Board subsequently designated Azerbaijan EITI Compliant on 16 February 2009. The next validation is due on 1 July 2015. The initial MoU that established the Committee on EITI has been revised since then and the MSG agreed on the new version in September 2013. In order to continually improve transparency in its extractive industries, a coalition of Azerbaijan NGOs currently exists to bring attention to the proper implementation of the EITI in the country (The Coalition of Azerbaijan Non-Governmental Organizations, 2014).

According to its EITI reports from 2003 to 2012, the number of companies reported on has fluctuated between 21 and 31. Discrepancies in the inflows to the government were discovered to be an error in rounding and calculation, mistakes that were quickly corrected (Goldwyn, 2008). When Azerbaijan began its EITI process in 2003, audits revealed double-digit discrepancies between corporate receipts and government intakes (implying theft and misallocation), yet in 2009 the difference became "nonexistent (EITI, 2012)".

Yet, both the reported payments made by companies and government revenues have quadrupled for the same period. Before 2009, Azerbaijan was renowned as an EITI pioneer but after receiving validation in the same year, it began to lose its lead as a result of failure to maintain required levels of improvement (NGO Coalition on ITEI, 2013). In terms of the management of oil revenues, Azerbaijan is considered as a paradox mainly because the balance sheet remains mixed:

> On the one hand, the country is routinely termed one of the worst affected by corruption in the region, and perhaps in the world. Such assertions are borne out by various indices. The onshore oil sector is seriously opaque, and SOCAR's murky operations are a cause for serious concern. Yet at the same time the government has created the State Oil Fund of Azerbaijan, a vehicle for investing oil revenues that has been lauded internationally for its transparency, while Azerbaijan has also become a pilot member of the Extractive Industries Transparency Initiative, being the first country to launch its validation process (Cornell, 2011).

The dichotomy above reflects some of the prevailing challenges with EITI implementation in Azerbaijan. First the EITI MSG does not function well because of the slow and inefficient nature of decision-making and the capture of such decisions by government and company representatives. The government seems to have EITI implementation on a low priority list since the MSG meets only about four to five times per year (NGO Coalition on ITEI, 2013). Second, there is a problem with the development of the EITI work-plan as the MSG has not been able to develop a plan that meets the entire EITI requirements and is therefore unlikely to facilitate the implementation of the new EITI standard approved by the EITI Board in May 2013 (NGO Coalition on ITEI, 2013). This suggests that the 2014 work-plan that has already been submitted to the International Secretariat is not expected to achieve its purpose because civil society proposals were not incorporated (EITI Work Plan, 2014).

Additionally, the disclosure of payments through the EITI report is a challenge. The report typically excludes social payments and customs duties, both of which constitute major sources of revenues. Even the quality of the EITI reports is compromised due to limited contextual information, lack of proper cross-checking of data provided by government and companies with audited financial statements, issues of transparency with SOCAR revenues, and the inability to explain and correct discrepancies when they occur (NGO Coalition on ITEI, 2013). For Gulbrandsen and Moe (2007), the inability to properly report government's oil revenue expenditure constitutes the EITI's major weakness in Azerbaijan. Moreover, there is a communication gap between the EITI and the general public as the government has been unable to properly showcase how implementation of the initiative is benefitting the average citizen. As of 2006, the public hardly knew about the funds SOFAZ was expected to manage (Kalyuzhnova, 2006). Even civil society members of the MSG feel marginalized in an endeavour that is meant to bring them together with government and companies. Reports suggest that "civil society has not been able to popularize the EITI because of a difficult working environment. The pressure on civil society and the media, imprisonment of some activists, and the NGO legislation create considerable difficulties … (NGO Coalition on ITEI, 2013)". The growth of civil society in general is seen to have stunted, partly due to the influence of Western actors whose major interest is in the country's oil and gas resources (Gahramanova, 2009).

One of the greatest concerns is the deterioration of civil liberties in Azerbaijan. In early 2014, the President signed a series of constitutional amendments restricting the ability of civil society organizations to operate freely, particularly requiring them to provide a great deal of information or risk being fined or shut down (Organized Crime and Corruption Report Project, 2014). As reported by the NGO Coalition on the EITI, this new development undermines the Azerbaijan's status as an EITI Complaint country since one of the primary requirements of the initiative is an environment in which civil society can campaign without fear and intimidation—especially in an era where civil society and press freedom are ingredients for accountable governance and sustainable development (Themudo, 2013). All these existing challenges, among others, are crippling the country's ascension to its previous years of glory as a model for the EITI. Others have warned of the initiative (and Azerbaijan's role in it) being merely a 'zombie transparency' endeavor due to the danger of implementing countries sleep-walking through the boxes they are required to check even though they may in fact be contributing little to meaningful reform (Wallwork, 2014).

Critics have argued that due the presence of socio-political mischief throughout the implementation of the EITI, "President Aliyev's engagement with [the] EITI is better portrayed as an attempt to show up the status quo and win the regime a degree of external respectability, especially in the context of a closer relationship with the West (Benner et al., 2010)." Ironically, the home page of the Azerbaijan EITI website has a statement from President Aliyev that says "transparency will become one of the major grounds of our success. It will bring about efficient management of future oil revenues and allow every citizen of Azerbaijan to feel it in his or her daily life (EITI-Azerbaijan, 2014)". It appears unclear whether or not the country will be able to reap the combined political, economic and social benefits of transparency (Frynas, 2010). Nonetheless, a World Bank Independent Evaluation Group report rates the EITI in Azerbaijan as 'highly effective' in terms of oil revenue transparency measures (Wescott et al., 2014).

Liberia

The Republic of Liberia is a West African country surrounded by Sierra Leone, Guinea and Ivory Coast. It is the only African country to have been colonized by the United States. Thus, while it gained independence in 1847 as a unitary constitutional republic, its system of government is modeled after the American representative democracy with a president who has a six-year term and can serve up to two terms. To say the least, the civil war that ensued after 1989 did cause a great deal of havoc to a hitherto promising future on the continent (Outram, 1997). But it managed to bounce back through the signing of the 2003 peace agreement (Nilsson and Kovacs, 2005). Liberia is rich in natural resources, particularly in iron ore, diamonds, gold, timber and rubber. These sectors suffered dramatically during the civil war, possibly due to the neo-patrimonial underpinnings of the conflict (Bøås, 2001; Reno, 1995).

To improve accountability and the transparency of fiscal management in Liberia, the government launched the Governance and Economic Management Assistance Program (GEMAP) in 2005 through a partnership between the government and some international donors (Gujadhur, 2011). This helped strengthen its fiscal regime, improved its position on the Corruption Perception Index and facilitated its EITI Compliant status. But during the 14 years of war, all major mines were closed and the mineral sector's contribution to the economy was reduced to a negligible level. In 2010, Liberia made significant progress in reviving the mining sector, which prior to 1990 had contributed more than 65% of its export earnings and represented about 25% of its GDP. In 2010, the contribution of the mining sector to the GDP was 0.9%. Liberia has undeveloped mineral resources including base metals such as cobalt, lead, manganese, nickel, and tin, and other industrial minerals. The mining sector's contribution to growth has tripled since (from 3.7% in 2011 to 10.4% in 2012) due to an expansion of iron ore production. Liberia's first EITI Report in 2003 documented a missing $30 million in taxes, royalties, and land rentals, yet their most recent report noted discrepancies in receipts of less than $8000 (Friedman, 2001).

Liberia has been an EITI Compliant country since 14 October 2009 after completing its validation in July 2009, and has currently published reports on four fiscal years. Despite its checkered political history up to 2003, Liberia is the first African country to achieve that status in 2009, followed by Ghana (in 2010), Niger, Mali and Nigeria (all in 2011), and several others in subsequent years. The next validation for Liberia is due on 1 July 2015. The number of companies reported on has increased from 30 in 2009 to 65 in 2013. Both 2010 and 2011 fiscal years recorded 71 companies. Company payments and government revenues reported over the four years have tripled, which point to an improvement in resource revenue management.

A governing board called the Multi-Stakeholders Steering Group (MSG) leads the Liberia Extractive Industries Transparency Initiative (LEITI). The LEITI Act of 2009 established the structure, mandate and functions of the EITI at the national level (Republic of Liberia, 2014). The members of the MSG include government (represented by the Minister of Finance; the Minister of Lands, Mines, and Energy, the Minister of Internal Affairs, and other agencies), civil society (represented by Publish What You Pay, the Liberia National Bar Association, and the National Council of Chiefs and Traditional leaders), and the private sector (represented by Arcelor Mittal Liberia, Amlib, Liberia Timbers Association, and the Miners and Brokers Association). The Minister of Finance, who is also known as the LEITI Champion, heads this Group, co-chaired by the Minister of Lands, Mines and Energy. The LEITI also has a distinct Secretariat that is established, staffed and supported by the Group. Members of the MSG serve for a renewable term of three years. The sectors within the scope of this Group includes the mining sector, oil and natural gas sector, agriculture and forestry sectors, and others as may be determined with the consent of Government.

According to the LEITI Act of 2009, the MSG is required to report to the President of Liberia, the Parliament and the general public, and it shall be subject to audit by the General Auditing Commission. The general objective of the LEITI is to "assist in ensuring that all benefits due [to] the Government and people of Liberia on account of the exploitation and/or extraction of the country's minerals and other resources are (1) verifiably paid or provided; (2) duly accounted for; and (3) prudently utilized for the benefits of all Liberians and on the basis of equity and sustainability (Republic of Liberia, 2014)". In terms of ensuring company compliance, the LEITI secretariat has been embarking on a 'naming and shaming' campaign for defaulters. For companies that failed to submit their report templates for the fifth Reconciliation Report that covers the July 1, 2011 to June 30, 2012 fiscal year, a statement was released in January 2014 listing their names and respective sectors (LEITI, 2014).

Contracts, concessions and agreements are available on the LEITI website but the secretariat recently engaged in what they call a Post-Award Process Audit, which discovered that 62 out of the 68 concessions ratified by Liberia's parliament had not complied with existing laws and regulations (LEITI, 2014). Being the first audit of its kind since the establishment of the LEITI, action is yet to be taken by the Government but at least it is a laudable step. Cognizant of the role corruption, mismanagement, and distrust played in fueling the civil war between 1989 and 2003, the LEITI has worked intensely towards being inclusive (Rich and Nagbalee Warner, 2012). An example is the inclusion of non-traditional extractive sectors such as rubber and forestry. Also, specific outreach efforts were made to intensify public knowledge of and debates around its first EITI report in 2009, something that was hitherto rare in Liberia. Thus, the LEITI is seen to have created a safe, open, and non-combatant environment where issues of payments and revenue management can be discussed—demonstrating the power of the EITI process to promote and create a platform for dialogue (Rich and Nagbalee Warner, 2012).

However, Rich and Warner further argue that Liberia's experience is a reminder of the fact that the EITI is only a start, as it remains a single component of the resource-management/governance supply chain. This example represents an ongoing struggle against systemic corruption and for reconciliation. The existing challenges include the signing of dubious contracts, ongoing graft in concessions, overconcentration of particular companies in the forestry sector, and complaints by communities regarding the collusion by firms and local politicians to siphon mine proceeds. In light of the existing challenges with the LEITI, it has been opined that "the EITI is therefore a necessary, but not sufficient, condition for peace, stability, and improved resource governance—as is evident in Liberia, where, despite successful implementation of the EITI, no one is yet better fed, or in school, or receiving medicines because of the EITI (Rich and Nagbalee Warner, 2012)". The enhanced institutional capacity expected to ensure larger and longer-term gains from its natural resources is yet to fully become visible (Davies and Dessy, 2012).

Another major challenge is that the LEITI seems to have lost momentum after the country attained compliance status. A mixture of several internal wranglings can be blamed for this. The first head of the LEITI Secretariat left office in 2010, and there were internal disputes between the MSG and the Publish What You Pay civil society coalition that led to their representatives not attending the MSG meetings for over a year. Additionally, although President Johnson Sirleaf mentioned the LEITI in her parliamentary addresses between 2007 and 2011, this reference stopped from 2012 onwards (O'Sullivan, 2013). In general, the LEITI is weakly integrated into government day-to-day activities. This means that, like in other EITI countries, "implementation can stall if the people who play these roles move on, or if there is a breakdown in the will to consensus (O'Sullivan, 2013)". The exemplary public outreach program that saw many ordinary Liberians involved in the LEITI report discussions has faded. A survey in 2011 by the LEITI and a local media NGO found that only 42% of respondents know of LEITI's existence, with most of them having only vague knowledge of how it works. This is a change from the period where town hall meetings around the country would attract over 300 people in each case.

It is expected that civil society groups will play a role in educating people and keeping them active, but their place in the LEITI after compliance in 2009 has become questionable. Validators in 2009 found that "the ability of civil society to engage in the initiative depends on the capacity, funding and technical ability of civil society groups … the ability of civil society to influence the LEITI process is contingent on an ability to advocate or facilitate feedback on behalf of those rural communities most highly impacted by extractive industry operations, but for whom sufficient channels of communication or wider influence are often deficient or absent (Rao, 2013)." Beyond what might be called 'participation fatigue' and the NGOs' own internal politics, there remain system issues that hinder their equal representation on the table (O'Sullivan, 2013). Transparency is known to be limited in countries with lower incomes, weaker democratic institutions, and higher dependency on hydrocarbon sales (such as Azerbaijan) (de Renzio and Masud, 2011). With regard to the EITI, budget transparency is a requisite for the proper engagement and participation of a country's civil society and citizenry in such debates (Carter, 2013). Issues of financial accountability and corruption are a key part of Liberia's governance problems, where corruption is simply "a manifestation of patronage politics (O'Sullivan, 2013)". This is a hurdle to cross in order to become a proper EITI example for others to emulate.

Conclusions

What are we to make of such complex situations described above? This part of the paper offers five tentative conclusions. First, the EITI affirms the import and power of information. The old adage that "sunlight is the best disinfectant" comes to mind, and the EITI removes the metaphorical curtain from the window so that the sunlight can enter. The EITI suggests that, left to their own devices, corporations and corrupt governments need not always race to the bottom to lower standards and perpetuate the resource curse. Instead, the EITI sees 18 governments fully compliant, 19 more considering their candidacy, 60 large energy firms, and more than 900 smaller enterprises participating in a completely voluntary scheme that has the potential to put them at a competitive disadvantage, all in the name of accountability and good governance. Their participation supports the contention that positive norms and codes of conduct can proliferate quickly within an industry—although it is nevertheless expected that extractive companies would find this new transparency requirement challenging (Hughes and Pendred, 2014).

Our second conclusion, however, is that it is difficult to attribute governance improvements to the EITI. Put another way, causality cannot be definitively determined, especially since complex, global forces (such as the recent financial crisis, or the rise of good governance practices at the World Bank (World Bank, 2011)) may be at play affecting the indicators behind governance or sustainable development. With regard to our two cases, both countries seemed to be doing better prior to achieving compliant status perhaps because their international reputation was at stake. For Azerbaijan, many years of autocratic rule and poor performance on the Corruption Perception Index meant that it needed to showcase itself as a country making conscious steps towards transparency in its extractives sector. For Liberia, fourteen years of civil war and the quest of President Sirleaf to prove to the world that it could recover from years of dictatorship, human rights abuses, corruption, and possibly a low rating on the Human Development Index in 2007 led to the frantic adoption the EITI. It is actually interesting that Liberia, although it had just recovered from years of civil strife at the time Azerbaijan had been chosen to pilot the EITI in 2003, still managed to become a complaint country in the same year with Azerbaijan—albeit some months apart. Nonetheless, in both cases several governance elements (as noted above) have plummeted since 2009. Perhaps, achieving compliant status is seen as a one-way ticket, even though scheduled validation is expected to occur from time to time.

Third, our study points the way for future, fruitful research. We have used, of course, only six indicators from the World Bank to assess the performance of two EITI pioneers, Azerbaijan and Liberia. Future work could involve more indicators or tools of assessment (including qualitative ones) as well as a broader sample of EITI-Compliant and non-compliant countries. Researchers could also investigate, qualitatively, the strength of civil society or the extent of political manipulation as it relates to pre- and post-EITI reforms. Moreover, they could attempt to better delineate the causal links between the EITI and good governance. Are most of these links and causal factors driven by endogenous concerns, occurring within or below a country, or exogenous, broad global forces? These questions remain unanswered.

Fourth, though such research would undoubtedly improve the rigor of the analysis presented here, we still hold that the EITI brings to the forefront a paradox. While EITI implementation does actually improve accountability due to its MSG processes thereby reducing corruption, many corrupt governments join in order to increase their international reputation and bolster their access to increased foreign aid (David-Barrett and Okamura, 2013). And there is evidence to show even though it can be a viable forum for dialogue and debate, multi stakeholder arrangements cannot be expected to effectively perform a role in fighting corruption (Søreide and Truex, 2013). Moreover, transparency alone is not sufficient to reduce corruption, although it is expected to improve accountability. But in addition to transparency, "the implementation process also builds institutional capacity for holding governments to account, opens up channels for civil society to influence government, and helps the diffusion of anti-corruption norms (David-Barrett and Okamura, 2013)". The argument one can make is that once this implementation process becomes flawed or exclusionary, the whole enterprise can face disrepute—particularly its quest to reduce corruption through improved transparency. Besides the MSG members having different visions of what the EITI should accomplish, the lack of full participation of civil society has been seen as one of the main setbacks of the EITI's 'partnership' agenda (Aaronson, 2011). One of the weaknesses is that these multi-stakeholder arrangements are expected to work in countries where civil society is not firmly established. The EITI, as in the case of both Azerbaijan and Liberia, is not necessarily able to change the inertia of the status quo or business as usual that governments would rather prefer to maintain. Particularly in the case of Azerbaijan, it remains unclear how the MSG arrangement can be considered a "partnership" in light of the President's recent changes to the constitution that basically stifle the active participation of civil society in the country. And this is a country that was regarded as an "EITI pioneer" a few years ago.

Fifth, and lastly, the EITI also demonstrates the inescapable social and economic damage from extractive industries, which transparency is not sufficient to fully mitigate. This serves as a harsh reminder that energy systems, particularly fossil fuels and mines, have malicious environmental (and social) costs (NRC (National Research Council), 2009). The EITI tries to ensure that the revenues from their extraction become more accountable, but it does not ensure that they become more socially and environmentally sustainable. Although the establishment of the EITI resulted from the quest to provide some practical steps in how resource-rich countries could overcome the elements of the resource curse (Caspary, 2012), its overemphasis on revenues has resulted in a limited output in terms of affecting other governance and socio-environmental factors. To specifically answer the initial question posed in the title of this paper, it is easy to say that transparency matters. It is probably timely that the 2014 EITI Progress Report is titled "Making Transparency Matter (EITI, 2014)." However, we recognize that transparency is only one of the many things resource-rich countries should be mindful of in order to ensure equitable production and distribution of rents. This suggests that the EITI on its own is no panacea for good governance and sustainable development in countries endowed with natural resources (Hilson and Maconachie, 2010).

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