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# Does the EITI work?

An assessment of the Extractive Industries Transparency Initiatives' successes and failures – Illustrated through a local assessment of Ghana

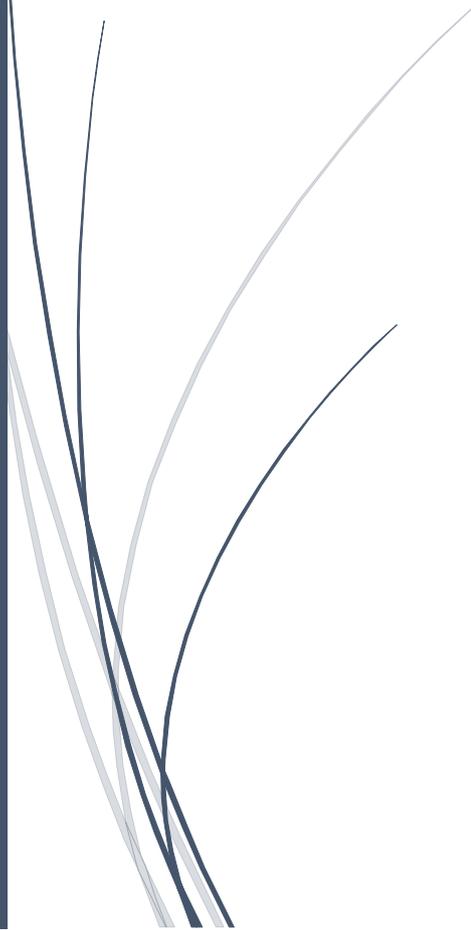
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## **Abstract**

Transnational disclosure standards in the natural resource sector became the defining features of global governance and sensible economic development. Disclosure and transparency is today used to combat universal issues like the resource curse, to realise the potential wealth often related to extractive resources. Local attempts have been made to promote this approach. However, this study will by way of a critical analysis explore the effectiveness of such standards through the multi-stakeholder initiatives' global mechanisms in the case of the Extractive Industries Transparency Initiative (EITI). The EITI is an international non-governmental organisation, which promotes transparency in resource revenue management in extractive industries and claims this create an engine for sustainable economic growth that contributes to sustainable development and poverty reduction. It's a well-regarded initiative receiving endorsement from the European Union, African Union, G8 and G20, and the United Nations. However little is known about the effectiveness of the initiative to turn institutional success into operational and local results. This thesis will provide a broad analysis on the EITI and try to determine 'if the EITI works'.

This study will do a critical analysis of the EITI and with the intention of illustrating the local effectiveness in its complaint states, do a detailed evaluation of Ghana. I will analyse the performance of the EITI's ability to effectively reach decisions that require collective solutions and how they function when applied to the relevant field. This article will use models of transparency's impact in resource rich countries to evaluate the EITI's output, together with global legitimacy and efficiency measures to determine if the EITI works. First the thesis will provide background for the EITI, Ghana and the resource curse, before exploring theoretical approaches used by the EITI. Moreover, following this I will describe how these will be applied in the analysis of the EITI. In addition, this part will be concerned with establishing the limitations of the assignment. While the I will then conduct a critical analysis based on the aforementioned framework. The findings will then be illustrated and compared to the local case study of Ghana. Finally, as success and failure is discussed I will make a parent evaluation or the research question.

The EITI has exhibited success as a multi-stakeholder initiative in the global sphere, through its ability to attract relevant actors and being a norm setter for both the extractive industry sector and multi-stakeholder initiatives, as a whole. In contrast, this study also showed the success of the EITI is put to question by its; limited mandate, lack of enforcement

mechanisms and a voluntary nature, reliance on foreign direct investment, ambiguity in intentions and an inability to engage civil society as a cornerstone for accountability. As the EITI fails to meet expectations in the preceding areas, the effectiveness and legitimacy of operations is subject of uncertainty. Something that translates to the local level, and is illustrated in Ghana as well. However, the EITI is a relatively young organisation and drawing any absolute conclusions is both insufficient and inadequate when describing if the EITI works.

Key Words: EITI, Transparency, Resource Revenue Management, Extractive Industries, Deliberative Democracy, Soft Law, Output and Input Legitimacy, Ghana and FDI

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- Sondre Myroldhaug

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## Abbreviations

BP	British Petroleum
CSO	Civil Society Organisation
CSPOG	Civil Society Platform on Oil and Gas
CPA	Corporate Political Activity
CSR	Corporate Social Responsibility
DGF	Development Grant Facility
EITI	Extractive Industries Transparency Initiative
FDI	Foreign Direct Investment
GIIF	Ghana Infrastructure Investment Fund
GPF	Ghana Petroleum Fund
GDP	Gross Domestic Product
IMF	International Monetary Fund
MMA	Mining and Mineral ACT
MDF	Mining Development Fund
MDTF	Multi-Donor Trust Fund
MSI	Multi-Stakeholder Initiative
NPP	New Patriotic Party
NGO	Non-Governmental Organisation
PHF	Petroleum Holding Fund
PRMA	Petroleum Revenue Management Act
PIAC	Public Interest and Accountability Committee
PWYP	Publish What You Pay
SDA	Stability and Development Agreement
UKDFID	UK Department for International Development

# **1. Introduction**

International regime building through state-led efforts is diminishing, and the defining feature of global governance is turning to ‘Governance by disclosure’ (Sovacool *et al.*, 2016). To a larger degree, private actors such as non-governmental organisations and corporations are increasingly involved in defining and exercising transnational rules. For instance, the world is moving away from a ‘Westphalian world-order’ and enter into a global environment where nation states are no longer able to define the rules of the game (Scherer and Palazzo, 2008). In the absence of a player with the ability uphold forcible mechanisms, we move towards a political system filled with uncertainty. The ‘post-Westphalian order’ demands a rethinking and reestablishment of a social system in the global sphere. As past mechanisms are no longer able to provide the accountability necessary for a governing structure (Scherer, Palazzo and Matten, 2014).

To fill this gap of governance, actors of the international sphere, governments, multinational corporations and civil society, come together to provide a means for accountability derived from ability to influence contending actors. As their interest for getting involved is determined by different preludes, economic, social and political, their ability to hold each other accountable is establish through their interdependence. Hence, in an effort for establishing legitimacy of actions in the global sphere, they engage cooperation as a means to establish accountability and protect against prosecution and scrutiny (Scherer, Palazzo and Matten, 2014).

Diverse instances of such private or hybrid arrangements, can be found addressing issue areas as complex as labour rights, accounting, environmental protection and communication (Cashore, Auld and Newson, 2004). The emergence of such hybrid arrangements stems from the development from predetermined domains of society, to a more blurred and interconnected world order. Our preposition that the state apparatus should occupy the political sphere, businesses and corporations should be diverted to the economic sphere and the civic sphere represent the processes of civic will-formation, is challenged as actors from the different domains start effecting and involving themselves in policy formation in opposing domains (Scherer, Palazzo and Matten, 2014). Additionally, as state governed system is exhibiting incapability to address the global public goods problem and incapacity to regulate the global financial market. A long side a growing criticism of international business behaviour, and a

growing request for corporations to take responsibility for issues of public concern. We see the emergence of public-private partnership as a cooperative solution to addressing the aforementioned issues. Still there is concerns with the legitimacy and intentions of businesses as actors in global governance (Palazzo and Scherer, 2006). Do they pursue the global good or are they just in it for themselves? Even though this a legitimate concern, and something that should be considered, a fairer question may be ‘In the absence of a global governor, are these hybrid solutions through deliberation able to forward the common good and an effective way of regulating the global market?’.

One of these hybrid solutions is the multi-stakeholder initiative(MSI) of Extractive Industries Transparency Initiative (EITI), comprised of states, international corporations and non-governmental organisations. The EITI is aimed at promoting transparency in the oil, gas and mining sector for civil society empowerment and local development. Further, The EITI emphasises a reasonable use of these natural resources and dictates that the correct management of such wealth should be exercised in the interests of national development (Florini and Saleem, 2011; Sovacool *et al.*, 2016). This initiative builds on the indicated existence of a “resource curse” which indicates that countries with an abundance of minerals of hydrocarbons can exhibit comparatively high levels of poverty and inequality, deteriorating environmental quality, institutional corruption, and an increased frequency of conflict and war (Frynas, 2010; Sovacool *et al.*, 2016; Rustad, Le Billon and Lujala, 2017). In order to combat this the EITIs focuses on transparency, in line with the logic of scholars like Kolstad and Wiig (2009), which proved certain correlation between a lack of transparency and high levels of corruption. Building on this, the EITI puts an emphasis on the notion that “the lack of transparency... is one of the primary reasons for the subsequent poor growth records in these countries[resource rich countries]”(Williams, 2011). This further establishes its claim; transparency and openness is characteristics that help the effective and efficient management of public resources (Geginat, 2012). With these intentions, the EITI operates on the principles that through transparency and openness with an open, active, and independent assessment of, not only of extractive industries companies, but also with government, they can impact local communities through improved economic returns from extractive industry revenue. Through this the EITI aim to empower citizens to monitor the quality of government services and the use of public resources (Geginat, 2012). As emphasises by Rustad et. al. (Rustad, Le Billon and Lujala, 2017), the EITI claim that this will lead to long term local and national development and a better distribution of the revenue from natural resources.

Even though, as Rustad et. al. (2017) describes it, the EITI is generally considered as a success story when considering the large number of resource dependent countries that has committed, and the vast support it has received from non-governmental organisations, donors, and extractive industry companies, there is still questions about the effectiveness of the EITI (Andrews, 2016). After more than a decade of implementation, many involved groups are still questioning the effectiveness of the initiative and to ‘what extent the EITI is working’. And raises the question ‘does the EITI make a difference?’. Is the transparency, as advocated by the EITI, contributing to improving governance and development in compliant states? Has the EITI changed the norms and codes of conduct in the compliant states? Although the question of the EITI’s success seems easy and straight forward, it has shown to be very intricate and complicated. For the purpose of give a comprehensive evaluation of the EITI’s performance an identification of goals, causal mechanisms, outcomes and EITI’s purposed impacts, are required.

For while other studies have focused on the emergence of institutionalisation and accountability as the new transnational standards of governance, together with the blurring of the predetermined roles of society (Scherer, Palazzo and Matten, 2014). This study will focus on the effectiveness of the EITI. The thesis will explore and examine the effectiveness of transnational disclosure standards used by the Extractive Industries Transparency Initiative (EITI). Through the lens deliberative democracy, and the limitations of Haufler’s model of transparency impacts in resource rich countries, I will analyse the overlaying question of ‘Does the EITI work?’.

For the purpose of evaluating the effectiveness of EITI, an examination is needed of; where the EITI is coming from, what it wants to achieve and how this is going to be achieved? Additionally, to examine whether if the EITI works or not, I need to both evaluate the EITI’s logical framework and how this is translated in to actions. As the EITI, as previously states, bases its operation on ‘transparency for accountability’ and claims that; through transparency resource-rich countries should, through civil society’s ability to hold governments and corporations accountable, experience better resource management and increased revenues in favour of economic development (Rustad, Le Billon and Lujala, 2017). The impact of transparency in resource-rich countries draws on models like Haufler’s model of transparency. Haufler’s model of transparency’s impact in resource-rich countries claims that transparency can make a difference in seven areas of interest; a) better management of resource, b) equal distribution of revenue, c) diminish corruption, d) economic development, e) mitigating

conflict, f) civil society empowerment, g) company and government accountability (Haufler, 2010). The EITI draws from this in their claim of impact, with the exception of mitigating conflict, and cement their position through their 12 principles of regulations (EITI, 2016b)(Appendix 1). When combining the two, we are left with four reasonable ways in which the EITI should impact local conditions in compliant states (Figure 1); a) better management of resources revenues, b) mitigating corruption, c) improving local development and, d) civil society empowerment, and corporate and government accountability. Hence the relative success of the EITI, should evaluate how the EITI through open deliberation in the initiative, translate active decision-making into improvement in the four aforementioned ‘areas impact’ in its compliant member states.

It’s also important to note, that point seven in the principles of regulations, which reads as followed ‘We recognise the enhanced environment for domestic and foreign direct investment that financial transparency may bring’, is out of character with the rest. As it that its focusing on foreign involvement in resource management and may examine some of the underlying reasons for ‘why the EITI came to be’. Something that will be discussed later. Additionally, as the wording in EITI’s principles of regulation is very vague in nature, a definitive line for success is hard to draw, but significant improvement is to be expected if the EITI’s involvement is to be claimed a success. As emphasised by Gillies and Heuty (2011); attribution is one of the most challenging aspects to measure. Since transparency reforms and policy often brings along other sets of reform, which in themselves may have an impact on possible variables that can

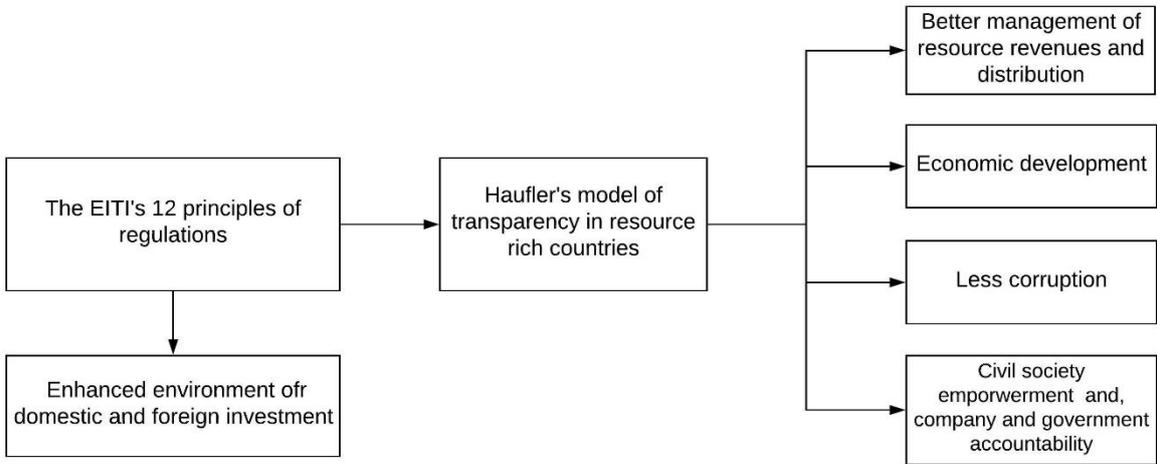


Figure 1: EITI's claimed contribution of transparency in compliant states using Haufler’s model of transparency’s impact in resource-rich countries (Source: Author)

explain the success of the initiative. Still, as this is what the initiative claims to do, it's only fair to evaluate them on such claims.

To summaries, to evaluate if the EITI works, this study will focus on three areas. Firstly, how did the EITI came to be? Emphasising on what basis its formed and why the forming countries felt the need for such an initiative. Secondly, what the EITI hopes to achieve? In this the focus will be on how they translate and argue for causal relations within the field of transparency. Additionally, point seven from the principles of regulations, promoting an environment for foreign direct investment (FDI) and if this could be seen as one of the main underlying reasons for the EITI itself. Thirdly, how they claim to achieve this? As the EITI works on the assumption of 'transparency for accountability and the causal relations this provide for local development and sustainability, I will examine how they claim their work will achieve tangible results.

With the intention of evaluating the claimed effects of the EITI we will examine the local effects on one of the compliant states to illustrate the EITI's the ability take its discourse into action. As we are investigating the local effects of the EITI, a comprehensive study of one of the compliant states will give us an indication of if the EITI is contributing to better management of national resources for local development. While other scholars have focus on institutional success of the EITI (Rustad, Le Billon and Lujala, 2017), this study will additionally examine the initiative's contribution to operational change and development on the local level. As previous studies have emphasised, scoring relatively high on political stability and civil society indexes has contributed better local development (Karl, 1997). In this case, as described by Pius Siakwah (Siakwah, 2017), 'Ghana being relatively democratic, with vibrant institutions and civil society organisations, competitive elections and alternation of power among political parties, offers and interesting case'. I will following this notion, the use of the relatively politically stable country of Ghana, which is scoring above average these parameters, would provide good background and conditions that should allow the EITI to flourish (Kaufmann, Kraay and Mastruzzi, 2010). Together with its high reliance on extractive industry revenue (Andrews, 2016; Hailu and Kipgen, 2017), the Ganesan case should provide a good baseline for evaluation if the EITI works on the local level.

Previous studies on the Ganesan case has mainly focused on the instructional awareness and operational accountability (Danso, 2017; Lujala, Brunnschweiler and Edjekumhene, 2018), while this analysis will take a more broader approach and evaluate the effects the EITI on the institutional, operational and developmental level. The EITI's success in Ghana will be

evacuated what the EITI is actually able to do for its compliant states and its ability to change local conditions in favour of its claims.

## **2. Literature review**

Focusing on the role of MSIs like the EITI's ability to function as a governing and regulating body within the global sphere, this paper's research area is situated in between international governance, political CSR, development theories and research on resource management and accountability.

Scholars like Virginia Haufler, Alexandra Gillies and Antoine Heuty combines the concept of transparency and impacts on local resource revenue management. Haufler (2010) concentrates on transparency's effects local denominators in countries effected by the resource curse and establishes a "model for transparency's impact in resource management in resource-rich countries" to provide a better understanding for a solution to the resource curse.

Andreas Georg Scherer, Guido Palazzo, Dirk Matten and Andrew Cane addresses the changing global order, and through Jürgen Habermas's theory on deliberative democracy, explaining the dynamic in which corporation, governments and civil society form a global governing body. Moreover, in addressing the effectiveness of such multi-stakeholder initiatives, Benjamin K. Sovacool, Götz Walter, Thijs Van De Graaf and Nathan Andrews (2016), explores the role of the Extractive Industries Transparency Initiative (EITI) in solving the resource curse. Ann Florini and Saleena Saleem (2011) provides a templet for how the EITI uses disclosure values to promote global transparency in the oil, gas and mining sectors. The current literature on the EITI, as presented by Siri Aas Rustad, Päivi Lujala and Phillip Le Billon (2017), are manly focusing on institutional or operational assessments, while the development goals of the EITI remains a field highly unexplored. Thus, opening up the possibility for a more thorough examination of the EITI as a whole.

This paper can add to the discussion about multi-stakeholder initiatives', like the EITI, ability to function as an international governing body. Connecting it with an analysis on both the intuitional and operational level regarding the EITI's legitimacy and capacity to effectively use transparency as a tool for improving governance through accountability of governments in resource rich countries. Further illustrating the influence and capabilities of the EITI on a local level, through a critical evaluation of the impacts EITI has one of its compliant states. Thus, the link between ethical regulation development and regulation effectiveness is made through analysing if the EITI works.

### **3. How the EITI works**

#### **3.1. How did the EITI come to be?**

In the late 1990s and the early 2000s, a growing consensus within the field sciences and the expanding library of academic literature around the resource curse, advocated the huge potential benefits of mining, gas and oil were not being realised and this was associated with increasing poverty, conflict and corruption. Authors argued that the problem went well beyond the infamous economic concept ‘The Dutch Disease’, and stated the complexity of the problem. The effects of the resource curse were noted as concerning environmental, social and political arenas, and each author outlined solutions for addressing the curse, additionally noting that no single reaction would have the capacity to deal with all of these challenges. However, one thing where clear, that transparency and dialogue had to be part of the base for the solution (EITI, 2018b).

As a reaction to academic awareness, and a growing pressure from civil society organisations to investigate the flow of funds from resource revenue followed, a shift in accountability was starting. Non-governmental organisations (NGOs) stepped up their pressure, using corporate social responsibility (CSR) rhetoric and looking for enforcement mechanisms for companies to disclose their payments to developing countries. This comprised into the civil society slogan “Publish what you pay” (PWYP) in December 1999. As a response to this campaign, BP(British Petroleum) in February of 2001 disclosed payments to the Angolan government, in a commitment to publish more (EITI, 2018b). This sparked a strong reaction form Angolan government, and the Chief Executive of BP, at that time, in his 2010 memorial quoted the response “[I]t was with great surprise, and some disbelief, that we found out through the press that your company has been disclosing information about oil-related activities in Angola” (EITI, 2018b). He further when on to conclude that the unilateral approach, that just one company and one country was under the pressure of “publish what you pay” wasn’t enough. Furthermore, oil companies argued for reporting by government and not companies, because this would reduce the conflict with host government, and put their contract at risk. As a response, if they were going to be required to disclose payments, they wanted a global effort in order to level the playing field where all companies are required to disclose (EITI, 2018b).

With the amounting pressure from the PWUP, and the companies' requirement for a more universal solutions, UK Prime Minister, Tony Blair, outlined the idea of the EITI in a speech in September 2002 (EITI, 2018b). Even though international pressure from other countries meant that Blair never actually delivered his remarks as intended. The UK department for International Development (DFID) assembled a meeting of extractive industry companies, civil society and government representatives, where agreement on some kind of reporting standard were jointly developed and would later constitute the EITI's 12 principles of regulations (Appendix 1). Through the 'statement of support' over 40 institutional investors signed. Later the initiative would get further support from the International Monetary Fund (IMF) and the World Bank in 2004 (EITI, 2018b).

### 3.2. Mechanisms of the EITI

In March 2005, through an evaluation of the four pilot countries of the EITI, the different approaches to the principles boiled down to six EITI Criteria. Which sought to comprise the new "rules of the game". Additionally, the International Advisory Group was established, comprising of governments, companies, and civil society organisations, with the role of continuously reevaluating the EITI and making sure it moved forward (EITI, 2018b). From this it became clear that the EITI was not voluntary CSR standards for companies, but a disclosure standard implemented by governments. Additionally, this evaluation made it clear that civil society had to be active for the processes of ensuring accountability to be successful (EITI, 2018b).

Even so, it quickly became apparent that these requirements still had apparent issues, such as no clarification on the maximum amount of time the respective countries had to meet the requirements for becoming a compliant state, and how regularly and timely the reporting should be. In the 4<sup>th</sup> and 5<sup>th</sup> Global Conferences, in respectively 2009 and 2011, the EITI board issued new versions the EITI rules (EITI, 2018b). Replacing the EITI validations guide of previous, to provide further clarification and guidance. The previously assumed 'indicators', would now become 'requirements' and were addressed more as steps, to ensure an implementation process with higher quality and consistency. The new rules of requirements, crucially included the need for timely and regular data disclosure. Notably, the new rules were expanded to 21 requirements.

The new model was quickly criticised, both for its complexity and inaccessibility, but also for making “little impact at the societal level... largely due to [EITI’s] lack of links with larger public sector reform processes and institutions” (EITI, 2018b). Additionally, it was noted that the narrow focus of the EITI was not systematically delivering on the Principles established in 2003. Drawing on this it was widely recognised that the EITI was in need of a more encouraging platform for wider improvement of natural resource management (EITI, 2018b). As the model comprising of 21 requirements was too complicated to ensure accessibility, an effort was made to make the EITI more understandable and the set of requirements were comprised into the EITI Standard 2016 (Appendix 2). Thus, the EITI requirements were condensed into seven more concise points of requirement. Additionally, an eighth requirement was introduced, as a validation system which aimed to better recognise efforts to exceed the EITI Requirements. Additionally, clarify fairer consequences for EITI countries that are not achieving compliance with the EITI requirements (EITI, 2018b).

**3.3. The structure of the EITI**

By April 2018, the number of implementing countries – with either candidate or compliant status – had grown to 49, from just 15 a little over a decade earlier. Comprised of 20 compliant states and 29 countries with candidate status. It’s important to note that the countries of Central African Republic and Honduras are currently suspended due to political instability and missing

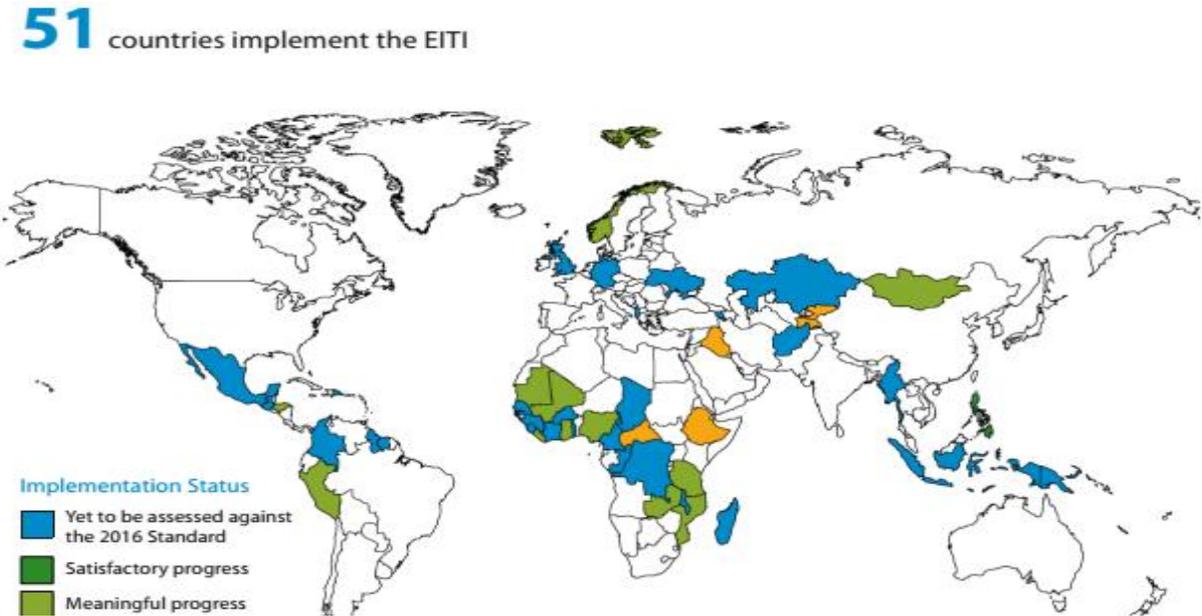


Figure 2: EITI implementing countries source: (NEA, 2017)

deadlines. The EITI adopting countries are spread from the low-income and aid-dependent African countries, to middle-income countries across all four major continents. Additionally, including some high-income countries like the United-Kingdom and Norway (Rustad, Le Billon and Lujala, 2017). The process of reaching compliant status proved to be a major challenge up until 2009, but the process then improved rapidly over the next half a decade, which resulted in an upsurge in compliant states, though the growing rate seemed to have slow down since 2011 (Rustad, Le Billon and Lujala, 2017). It has to be duly noted, that even though the EITI is comprised of many of the high producing resource states, none of the petro-states in the Middle East and North Africa regions have adopted the EITI, with one exception, Iraq (suspended status) (NEA, 2017). Not to mention the U.S. decision to leave in 2017, together with Azerbaijan leaving in 2016, and countries like Equatorial Guinea and Yemen being 'delisted' (Edwards, 2017).

In the case of company and organisational involvement, the EITI follow two set of rules. While companies located in countries implementing the EITI, are automatic obligated to follow the EITI requirements (EITI, 2016b). Companies outside of the an EITI can, alongside organisations, get involved in the initiative by issuing a statement of policy and at the international level get involved trough participating in EITI conferences and promoting the principles of the EITI in their work (World Bank, 2018). Moreover, it's important put attention to the fact that U.S. companies like Chevron and Exxon Mobil still retains their seat on the EITI international board, even after the U.S. itself pulled out (Edwards, 2017). Indicating an interest stay involved, even if the US is pulling out as an implementing country.

The Economic structure of the EITI has a more complex constellation. As pointed out earlier, point 7 in the EITI principles advocates for an enhanced environment domestic and foreign direct investment. This comes more into play as the EITI is funded by the Multi-Donor Trust Fund (MDTF) administered by the World Bank(World Bank, 2018). Where Australia, Belgium, Canada, France, Germany, the Netherlands, Norway, and the United Kingdom are all currently contributing to the fund. These donations, when including international organisations like the European Commission and the World bank, amounting to about 70 % of the total budget. The private sector contributes with the rest, when excluding the mere 1,5 % contribution from other sources (EITI, 2016a) These funds are being distributed to the implementing countries, in order to help them meet the EITI requirements and mitigating additional administrative cost that may accompany the implementation process. Additionally, extractive industry transparency is now being mainstreamed into the World Bank's country programs

(World Bank, 2018). Moreover, some individual donors are also providing individual funds for EITI implementing countries on a more country-by-country basis. Let alone specific civil society groups working with the EITI in host countries, are partially supported by the World Bank's Development Grant Facility (DGF) as part of the country contribution (Scanteam, 2015).

The Board is the EITI's general governing body, and consist of 21 members. They are representing implementing countries, civil society organisations, industry and institutional investors. The board decides on priorities for the organisation and evaluate the countries performance in reaching the requirements of the Standards (EITI, 2018c).

#### 4. Country overview – Ghana

Ghana is located in West Africa, on coast of the Gulf of Guinea. Bordering Burkina Faso in the North, Cote d'Ivoire in the west and Togo in the east. It covers an area of 238,533 sq. km. In the south east of the country Ghana possesses the world's largest artificial manmade reservoir, Lake Volta (8,482 sq. km), which was established by the Akosombo Dam in the year of 1965 (CIA, 2018). Constituted by the merger of the British colony of the Togoland trust territory and the Gold Coast, Ghana was the first sub-Saharan country in colonial Africa to gain its independence (1957)(CIA, 2018). In the beginning the political situation was very unstable in Ghana, as it endured a series of coups, before Lt. Jerry Rawlings took power in 1981, banning all political parties. However, after the approval of a new constitution in 1992, multiparty politics was reinstated. Rawlings won the first

presidential elections in 1992 and the upcoming elections in 1996. As a result of constitutional limitation, prohibiting people running for a third term, in 2000 opposing party member John Kufour from the New Patriotic Party (NPP) succeeded him and won the two impending elections. Following this, the elections in 2008 elections was won by John Atta Mills from the National Democratic Congress, but he passed away in July 2012 and was constitutionally succeeded by vice president John Dramani Mahama. Which went on to win the elections in December of 2012. However, in 2016 the Ganesan presidency changed party for the third time since the introduction of the democracy as current president Nana Addo Danko Akufo-Addo of the NPP took over (CIA, 2018). The political situation in Ghana is considered as democratically stable for the last two and a half decades, which has been represented by free elections, freedom of press, strong public dialogue, comparatively low levels of corruption (relative to the region) and peaceful political environment in general (ACEP, 2015). On the local level administration is divided between the formal government administration which consist of district assemblies

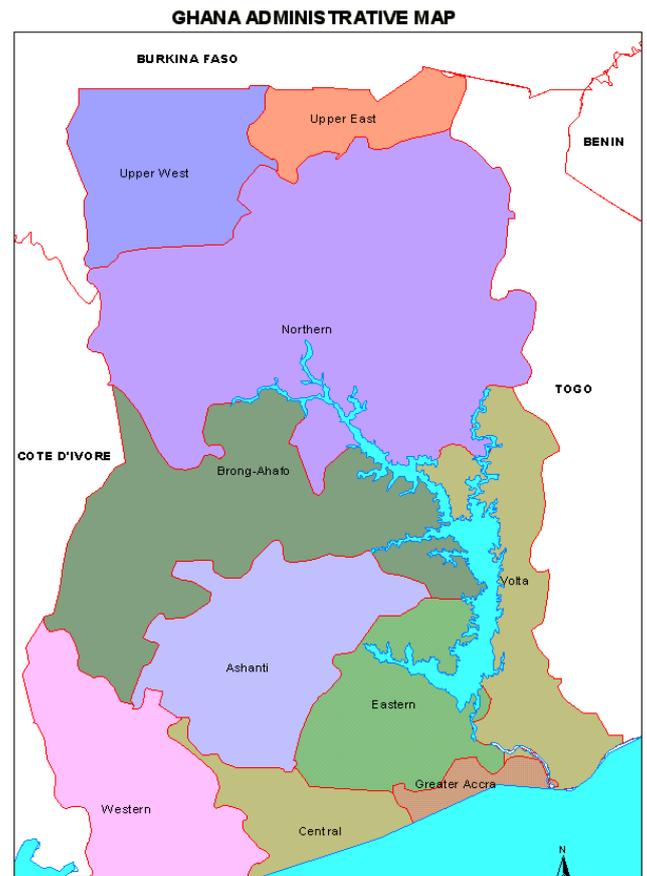


Figure 3: Administrative map of Ghana

Source: <https://cdn.ghanaweb.com/imagelib/pics/59387424.gif>  
Retrieved May 21st, 2018

whose mandate is to oversee administration of towns and zones. As well as the informal governing structures who consists of more traditional authorities like chieftains, controlling stool lands, which constitutes about 80 % of the total land in Ghana. In total there are 95 paramount chiefs in Ghana and most of the land they control is of rural areas where most of the mining activities take place (Danso, 2017).

**4.1. Economic structure**

Ghana is a country with a long history of mining, that in the last eight has entered a potentially transformative period in the country’s history with the discovery and development of a significant petroleum sector and assets. During the last decade Ghana has experienced high economic growth (NRGI, 2015; Siakwah, 2017), peaking in 2011 at astonishing 14,4 %. Something that’s exceeding even countries like Nigeria (7,7 %) and China (8,2 %) (Siakwah, 2017), something that’s outstanding both globally and regionally. Ghana’s economic growth undoubtedly related to production changes in extractive resources and price volatility (Siakwah, 2017). This is apparent, as the upsurge in 2008 is related to the rise of prices on cocoa and gold and the consecutive decline in 2009. While Ghana had experienced a respectable growth average of 5 % from 2000-2009, at the onset of establishing the Jubilee field in 2011 and the introduction of petroleum assets, Ghana experienced an high uptick in growth over the next three years (Siakwah, 2017). These growth rates has attracted high amounts of foreign direct investments, amounting to 3,3 billion in 2013 (ACEP, 2015), where half of these investments has gone to the extractive industries.

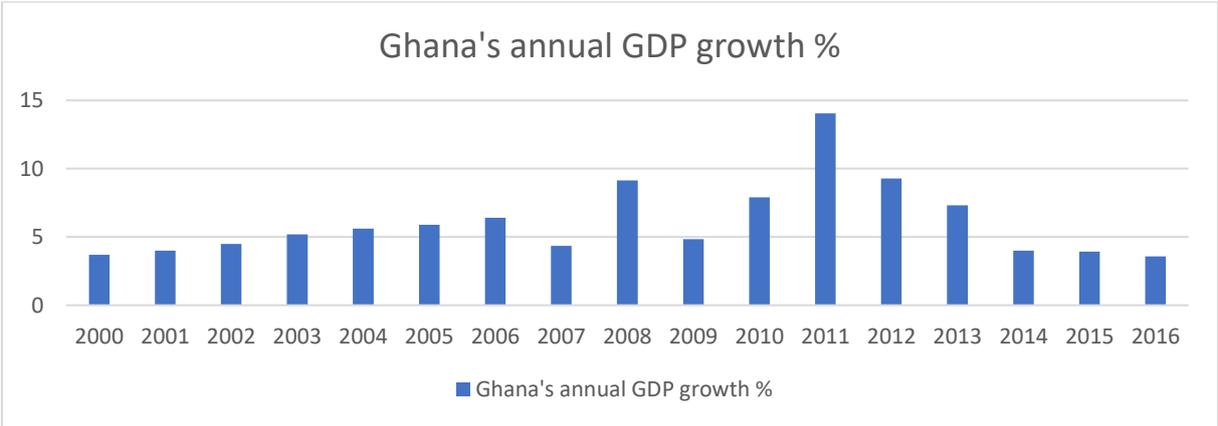


Figure 4: GDP growth rate, Ghana 2000-2016, Trend in GDP rate source: World Bank GDP growth (annual %): Ghana Accessed May 21 2018:

<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2016&locations=GH&start=2000&view=chart>

Even so, despite warnings that the high growth rates would not inevitably translate into improved living standards for all, Ghanaians generally were optimistic, that the new-found oil could have led to improvement on living conditions (Siakwah, 2017). As Ghana extractive industry is experiencing high uptick in investment and production levels, their position in the Ghanaian economy is also growing. As shown in Table 1, sector specific contribution to GDP and shows that through huge investment in the oil sectors, agriculture is losing its position as the most important sector and becomes less important of an export good. Still, agriculture contributes a lot to Ghana's development since it is the main source of employment. The decline in agriculture's contribution to Ghana's GDP can point to an increase in inequality in Ghana. As the oil related growth mostly accrues to governments and a few people who works in the extractive sector, while most of the populace still depend on agriculture for their livelihood (Siakwah, 2017).

Sectors contribution to GDP (%), 2001–2015.

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Agric	39.3	38.8	40.2	41.5	45.1	39.3	37.1	36.7	31.8	29.8	25.3	22.7	21.3	23.7	21.0
Industry	28.1	27.9	27.8	27.1	21.4	27.8	27.7	27.7	19.0	19.1	25.6	27.3	28.1	22.8	23.5
Service	32.5	33.2	33.0	31.4	33.5	32.9	35.1	35.7	49.2	51.1	49.1	50.0	50.6	53.5	55.5

Table 1: Sectors contribution to GDP (%), 2001-2015 Source: GSS (2009-2015). Ghana's Economic Performance 2015. GSS, Accra, Ghana

#### 4.2. Revenue structure of the extractive sector

Ghana's revenue management from the extractive sector is separated between the oil and the mining sector. While revenue from the mining sector is split between the Consolidation fund and the Mining Development Fund (MDF), oil revenue goes into the Petroleum Holding Fund (PHF). The Consolidation Fund receives 80 % of the mining royalties, together with other revenue such as taxes and fees, and are mainly used in covering governmental expenditure. While the MDF will be used for development in mining sector provinces and is distributed further to local entities. From the PHF 70 % will be used for annual budget funding, the rest goes into the Heritage Fund and the Stabilization Fund (Oxfam America, 2016).



## **5. Theoretical framework**

In this segment we will examine the premise of how the EITI is constructed and on what theoretical background its activities are embedded. For the purpose of answering this, we have to establish the connection between extractive industries and development, as well as transparency's correlation with governmental effectiveness. In addition, we need to explain how the EITI has gone about applying these theories into its organisational model and how the EITI, after the best of their ability, tries to organise a cooperative solution to achieve the most effective and impactful solution.

The EITI's ideological concept has evolved around two predetermined concepts; the resource curse and transparency for development. While the resource curse explores the interrelationship between the countries' access to natural resources and local development. Transparency, on the other hand, theorises the correlation between transparency and management of resources, corruption, conflict and citizens' empowerment. Additionally, as the EITI is constructed within the sphere of global governance, its legitimacy and accountability derives from its ability to operate under the rules of the game. Its capacity is represented in its ability to be a norm setter and affect other actors.

### **5.1. The Resource Curse**

The resource curse theory became apparent in the mid 1990's, making the theory fairly new. At the core of the theory, is the argument that 'countries that are rich in high-value natural resources do not utilize the additional revenue from those resources as means to improve and thrive, but rather the presence of the new found resources and revenue harmed the countries from where they are extracted (Kebusek, 2010). Further emphasised by scholars like R. Steiner (2007); "Not only have the oil, gas, and mining industries not helped the poorest people in developing countries, they have often made them worse off". It is important to note that the theory does not refer to the presence of untapped extractive resources, but the economies that derive from the vast majority of revenues from these resources (Kebusek, 2010). These countries are generally measured by their dependency on how much the mineral and oil industries export dominate the export market in the country. According to political scholar Terry Lynn Karl (1997), usually amounts to 60 to 95 percent of total exports. Furthermore, it is

also measured by the ratio between oil and gas exports to gross domestic product (GDP) (Keblusek, 2010).

In book of *Escaping the Resource Curse* (Humphreys, Sachs and Stiglitz, 2007) M. Humphreys, J. D. Sachs and J. Stiglitz claims that countries plentiful with natural resources, first and foremost oil and gas, is for the most part performing worse than countries with fewer natural resources, most evident in terms of good governance and economic development. Why this paradox is so noteworthy is because the abundance of natural resources should open opportunities for economic growth. Nonetheless, this is usually not the case due to barrier in local governance and political decision-making. More importantly, some resource-rich countries have performed better than others. Even countries with comparable starting points has shown different evolutions. An example of this is Indonesia and Nigeria, which in the 1970s, had proportionate per capita incomes, but by the early 2000s, the income per capita of Indonesia was almost quadruple the one of Nigeria (Ross, Lujala and Rustad, 2012). This is further evident when examining the United Nations' Human Development Index, who shows that countries like Norway, Argentina, Qatar, Kuwait and Mexico, all major oil producing countries, rank high. While countries like Equatorial Guinea, Gabon, The republic of Congo, Yemen, Nigeria and Angola, rank at the very end of the same scale. This raises the question of why some countries can turn the natural resources into wealth, while others are not?

With the purpose of answer this question I have to examine the characteristics of the resource-rich countries and why resource wealth is different from others. In addition, I will outline some protentional causes for the resource curse. T. L. Karl (1997) argues that countries dependent on minerals have some shared characteristics that are unique to them. She deducts these characteristics down into five features: firstly, economic dependence on a single resource; Secondly, reliance on a highly-capital intensive industrial sector; thirdly, reliance on an exhaustible primary commodity; fourthly, dependency on a recourse that generate revenue through rent; fifthly, dependency on minerals rents accrued directly to the state, in turn basing their economic power and political authority on their dual capacity to inquire rent from the global market actors and their ability to distribute the revenues internally. Adding to this Humphreys et al. (2007) makes the distinction that most resource-rich countries lack the willingness to invest in education and, a diversified and skilled workforce. Well in line with their general inability to invest in long-term solutions.

As previously mentioned, another important aspect with the resource curse, is how resource wealth is different from other types of wealth. Two specific aspect are most prevalent,

one the one hand there is no production involved in natural resources, only extraction (Humphreys, Sachs and Stiglitz, 2007). Which for the most part occur independently of other economic processes. For example, the process of extraction can be performed by a small amount of labour force in a small region of the country. Hence, the industry is not generating employment only revenue. On the other hand, most natural resources are non-renewable, and if perceived from an economic standpoint, makes it an asset and not a source of income. In turn these characteristics, results in a 'rent seeking behaviour'(Humphreys, Sachs and Stiglitz, 2007). Where private and political actors have an incentives to use political mechanisms to capture the rent value.

Moreover, to emphasis the causation of the resource curse Lujala and Rustad (2012) argues for five main potential reasons: a) a simple detachment from the populace, which leads to a less accountable government that can finance the budget through the natural resource revenue rather than public taxation; b) resource revenues often generates corruption, patronage, and rent-seeking, often only promoting the interest of the small elite; c) economic and political underperformance in resource-rich countries, makes them vulnerable to conflict; d) geographical limitations to the natural resources; e) high-value resources have potential to substantial revenues, but are scares. These reasons are interdependent and together may contribute to mismanagement of the natural resources.

Building on this I will further illustrate some ways in which academics demonstrate the negative impacts of the resource curse and how it has manifested itself within the nation. In this I will describe how the Dutch disease, price volatility, weak institutions and governance and horizontal inequality all lead to the manifestation of the resource curse, and how this may precede to further destabilization and conflict.

#### 5.1.1. Dutch disease

The concept of the Dutch disease was so named in 1977 as description of the correlation between the North Sea gas production and the Dutch economy (Karl, 1997). The concept derives from an observation that the Dutch currency at the time, the guilder, which in turn was supported by the export of natural gas, inflated very quickly compared to other currencies. As a consequence this resulted in high exposure of Dutch industries to foreign competition, which in turn led to loss of employment and de-industrialization (Karl, 1997; Keblusek, 2010). The theory refers to a situation when a large part of a country's economy is centred on resource

export, namely oil and gas. As a result, the currency value is rising due to international demand for set recourse. As a consequence other export commodities, such as agriculture- and manufacturing goods, experience higher competition on the global market, which in turns lowers demand (Karl, 1997). In other words, as the country experience a sudden rise in the value of natural resource export, an inflation in the real exchange rate is generated, in turn making exporting non-natural recourse goods more difficult.

Additionally, the presence of the Dutch disease contributes to investment or even distorted growth in non-tradeable recourses, such as transport and services, while the increased international competitions discouraging industrialization and agriculture. In combination, the increase in foreign exchange that is earned from the natural resources may be used to purchase international trade goods, just furthering the negative effect on domestic goods production (Karl, 1997). This spiral of negative effects on national development and industrialisation also effected by domestic pricing, as a shift of materials and domestic labour towards the natural resource industry results in increased prices of such resources on the domestic market, production in other sectors will experience increased costs (Humphreys, Sachs and Stiglitz, 2007). As Humphreys et al. (2007) importantly states; “In the Dutch case it was manufacturing that was hit hardest, but in developing countries it’s usually agriculture that experience the disease”. However, the Dutch disease does not by itself explain the discrepancies of poor development in resource-rich countries. By not taking into account the underlying political and institutional processes that trigger economic laws and market forces we are not able to establish the necessary readjustments needed to reverse the trend (Karl, 1997).

#### 5.1.2. Volatility

Every commodity on the global market is exhibiting volatile tendencies, but oil is arguably one of the worlds’ most volatile good. Why the volatile nature of extractive goods is so important, stems from the difficulties it accrues for enforcing fiscal disciplines in budgets, and how it effects income distribution and efforts for reducing poverty (Keblusek, 2010). What makes volatility of income so important is the consequences and difficulties that comes along with it. As volatility in income stems from: a) the variation of price rate over the time of extraction; b) the fluctuation in timing of payments; c) inconsistency in value of the natural resources extracted (Humphreys, Sachs and Stiglitz, 2007). The consequence is that high volatility income creates difficulties for long-term planning due to the uncertainty in future

finances, as a consequence of the inconsistent value of the good. This is further affirmed by countries over spending in good years and making deep cuts in bad years. As a matter of fact, facilitated even further by the tendencies for countries to borrow money in good years, which in consequence leads to then having to rearrange the expenditures, normally cutting, in bad year in order to repay such loans. It's important to note that this phenomenon affects oil and non-oil national alike, but resource rich countries tends to be a lot more vulnerable to this dynamic (Humphreys, Sachs and Stiglitz, 2007).

### 5.1.3. Weak institutions and governance

As the Dutch disease and volatility tends to focus on more economic activities, it's important to not forget the presence of more social and political sides of the issue. As T. L. Karl (1997) claims, the commodities are not creative and distractive forces in themselves. Economic activities, are embedded in the sphere of social institution's beliefs, customs, attitudes and derives the economic significance of the resources from the social and political relations as result of their usage (Karl, 1997). Furthermore, when a country or society is primarily dependent on a specific export commodity, this commodity shapes not only the social class-system and regime types, but also the state institutions, the framework for decision-making and influences the decisions of policy makers. In fact Karl (1997) goes on to claim that;

“[...] commodity-led growth induces changes in prevailing notions of property rights, the relative power of interest groups and organizations, and the role and character of the state vis-à-vis the market. These institutional changes subsequently define the revenue basis of the state, especially its tax structure. How these states collect and distribute taxes, in turn, creates incentives that pervasively influence the organization of political and economic life and shapes government preferences with respect to public policies. In this manner, long-term efficiency in the allocation of resources either helped or hindered, and the diverse development trajectories of nations are initiated, modified or sustained”.

The characteristic of resource value embedded in decision-making processes, together with the rent-seeking nature of the extractive industries has given space to a political system, even in democracies, that is based on patronage. Which in turn might contribute to support of particular groups society, while leaving other sections of the population with little to no gain from the revenues from natural resource extraction (Keblusek, 2010). As revenues is used for

personal political gain, instead of long-term economic investments, this even further this idea. However, it's essential to note that this “development trap”, does not happen in every resource-rich country. Especially in those with strong institutions, an active civil society, a significant middle class, rule of law, an independent judiciary system and free press. By way of contrast, in developing countries, who for the most part gained independence around the same time, extractive industry revenue was not taking advantage of establishing good governance and strong institution, but instead lead to patronage politics (Collier, 2007; Keblusek, 2010). This stems from the argument that state bureaucrats tend to pursue the status quo or avoid any adjustments that could alter the existing operational procedures (Karl, 1997). This especially the case in mining states, as argued by Karl (1997) the rigid framework of decision-making ‘contains strong incentives for maintaining the existing mineral-based development model as well as disincentives for changing it’. To summaries, stable and strong institutional framework has shown to be a significant factor in utilising resource revenue for economic wealth and a catalyser for further political development, while the opposite is the case for countries who experience the resource curse.

#### 5.1.4. Horizontal inequality

As previously mentioned the problem of patronage is very prevalent in resource-rich states with weak institutions or general governance. Consequentially this furthered the inequality in resource-rich countries. These horizontal inequalities is defined by Stewart (2010) as “inequalities among groups of people that share a common identity. Such inequalities have economic, social, political and cultural status dimensions, each of which contains a number of elements -some which may matter to people in some societies, but not in others”. Here Stewart describes four reasons of horizontal inequality; The economic reason builds on access to ownership, inequalities in income and employment opportunities, as well as general conditions of the economy; While social inequalities stem from the access to education, healthcare and housing services; Cultural status inequalities are created through disparities and differences in recognition of once group of religion, language, norms, customs or practices; Whereas, political inequalities derive from disparities in political opportunities and power distribution among groups. Referring to control over the cabinet, local and regional governments, the police, army and presidency. Additionally, inequalities in people’s opportunities to participate in politics and freedom of speech.

These inequalities is even further alleviated with the centralised control of natural resource control, as a consequence of the patronage nature of governments (Ross, Lujala and Rustad, 2012). Even further emphasised by Ross et al. (2012) which draws the conclusion that decentralisation tends to prevent horizontal inequalities, as well as gained momentum in peace building processes in order to settle regional grievances. The enclave nature of extractive industry operations, puts a high demand on the local governments ability to; a) strengthen the connection between the resource sector to other economic activities, and b) capture the income from the resource sector (Ross, Lujala and Rustad, 2012). As a consequence, if the local government have little authority in the extractive facilities, because of the enclave nature. Taxing will prove difficult and a growing resource sector may not contribute to local growth and have little effect on local living standards. On the contrary, if the resource sector have a strong connection to local government, and the government exerts an ability to tax revenues, then the wealth derived from such resources can result in local development and further increase local revenues, as shown in Norway (Ross, Lujala and Rustad, 2012).

Additionally, governments may employ other means for reducing the gap between the actual and expected incomes in resource-rich countries. These actions include; incentivising employment of local workers, working on diminishing migration of workers to extractive regions, mediating between local communities and the resource industry sector through non-governmental organisations, investing in local and regional development, and promoting distribution of revenues directly to the population (Ross, Lujala and Rustad, 2012). Furthermore, a decentralised system may create a more stable economic environment over time. If accompanied by expenditure responsibilities (publicly announced revenue flows, completely transparent and regular audits) this should diminish the opportunities for corruption. In an effort to ensure that the revenues are not mismanaged by holding the local governments accountable.

#### 5.1.5. Rise of conflict

As an indirect consequence of this horizontal inequalities comes an increased conflict, according to Lujala and Rustad (2012), the presence of high-value resources have shown to be associated with armed conflicts, leading to increased mortality rates and to have a negative effect on ongoing peace processes. Described by Lujala and Rustad (2012) through three main causes; ‘resource capture, resource-related grievances, and adverse effects on the economy and institutions’. The first course derives from an economic standpoint where belligerent movements are motivated or financed by access to natural resource revenue. The second cause

is associated by the increase of risk of conflict by grievances in the local population. Such grievances may arise from unmet expectations, or an inequality in distribution of revenues, employment or other benefits, maybe even by negative side effects of resource exploitation. Third and finally, a cause for conflict may occur when sectors undermine economic performance of institutions.

In order to address the outbreak of conflict, Ross et al (2012) suggest focusing on the issue of horizontal inequalities, real or perceived. They suggest focussing on decentralisation of resource revenues, to minimize existing inequality and give the local society an easier access to revenue streams.

As we can see the resource curse shown many prevailing issues experienced in the resource countries, but as previously mentioned, the curse is not present in every country with an abundance of natural resources. Hence, the resources may bring with it some challenges, but as some have prevailed a solution could be obtainable.

## 5.2. Transparency for development and a catalyst for change

As I have mentioned above, in the last two decades, scholars, academics and policy actors have studied the challenges with the resource curse in resource-rich countries. Many of these have come to the conclusion that transparency as the main recommendation for policy for change (Gillies and Heuty, 2011), and for the purpose of this thesis transparency will be defined as ‘the public disclosure of information in accessible formats.’ (Gillies and Heuty, 2011). The main proponent for transparency as a means to counteract the resource curse is based on the argument that; if extractive industry companies disclose publicly their payments to government, then in turn, the citizens will be able to hold the companies and the government accountable (Gillies and Heuty, 2011). Moreover, this solution is now promoted as the global trend for redressing weak governments in resource-rich countries (Haufler, 2010). This appeal that transparency in the resource sector will improve the management of the natural resources, mitigate conflict and reduce corruption, sequentially this will further extend over to other sectors. Consequently, this will empower citizens to demand better economic management, more equitable and sustainable development (Haufler, 2010). If done correctly this will decentralise revenues and result in less grievances. This also raises the question of how did transparency become the recommended solution and why would it work?

The concept of transparency as the new go-to procedural solution in global political affairs, draws from how management of resources plays a central role in many networks. The general belief is that corporate transparency will lead to accountability (Haufler, 2010) The disclosure of public activities will empower the civil society and NGOs to hold the government and companies operating in the country accountable for their actions and the way business is conducted. The promotion of revenue transparency draws from a trail of ideas taken from other sectors, such as the using financial reporting in order to enhance market performance (Haufler, 2010). Additionally, the contrasting experiences from the resource curse also entice us to examine the differences in set cases. The contrast between the resource management of Norway and Nigeria, portrays how the success and failures fuel the idea. While Norway, who's characterised for having high accountability and freedom of information in its governing institutions experience high levels of local development and empowerment. Nigeria on the other hand, is identified for having low transparency and disclosure of resource revenues, in turn low accountability, how a high grade of poverty and low local development (Haufler, 2010).

This leaves us with the question of how transparency became the leading model. Haufler's model for the effects of transparency builds on Dobbins et al. (Dobbins *et al.*, 2007) model of policy diffusion. In this Dobbins et al. (2007) in *The beginner's guide to Nation-Building*, confines the model within four categories: a) competition, b) coercion, c) constructivism and d) learning (Haufler, 2010). Policy diffusion or the 'formal study of how ideas move from one jurisdiction to another' (Boushey, 2010) in political science studies is typically referring to the effect one state's policy adoption has on the general probability for another state to adopt the given policy (Fay and Wenger, 2016) Further explained, as mentioned above, a combination of incremental policy learning, competition, coercion, and/or socialization between or among governments. The more classical approach assumes that 'elected officials adopt policies after the process of identifying the problem, exploring possible solutions from peer jurisdictions, and selecting among the presented solutions' (Boushey, 2010). In this we can understand the choice of picking transparency as a solution, is based on an evaluation of the possible solutions at hand. Haufler further draws from this and suggest that the way in which transparency is applied to resource management should be understood as a consequence of; a) how it complements the broader global norms, b) the entrepreneurship of involved actors, and c) the junction between the different agendas and transnational networks (Haufler, 2010). In this Haufler, works of the existing global normative environment, which includes ideas about corporate social responsibility, market efficiency and democracy.

Moreover these ideas is supporting and facilitating the adoption of policies of transparency by corporations as a means of achieving public benefits (Haufler, 2010). In the end, the policy ideas are adapted from other actors, promoting through social networks, organisations or initiatives, like the EITI, where knowledge is diffused. In such conferences or meetings NGOs governments, international organisations and corporations share information, experiences and expertise in the form of reports, analyses and press releases, and through this become familiar with policy ideas, resulting in diffusion of policy. The formation of such policy through deliberating will be discussed further in the next chapter.

It's important to note that even though transparency policy is usually welcomed by companies and host governments, and the trend for transparency in the resource sector is heading towards a more universal adoption. There are still companies in the sector that remains somewhat opaque, and express a concern of competition over access to new sources of oil, gas and minerals. As transparency tends to lead to more cost-efficient involvement for new and foreign companies. Meanwhile, national host governments who are considered inefficient and corrupt, shows a reluctance to open their most valuable source of revenue to public scrutiny (Haufler, 2010). Local power actors want to keep the status quo and maintain their position, something a lot easier if accountability is low. This raises the question of why would these countries want to join the EITI? Gillies and Heuty (2011) claim that countries choose to participate in the EITI are the once that value the reputational gains that accompanies membership, maybe even relying on foreign aid from the EITI's main donors.

#### 5.2.1. Haufler's model for 'the impact of transparency in resource-rich countries'

So, what is transparency bringing? Those who advocates for transparency in the extractive sector argues that governments and companies should disclose information about development and exploration contracts; the content and terms of the contracts; publish payments between the companies and host governments; earlier consent to communities affected; and government budgets and distribution of resource rents (Haufler, 2010). As a result, Haufler (2010) claims that transparency in management of natural resources will lead to achieving two goals. The first goal promotes better management of income derived from high-value resources. As, transparency should lead to less corruption, more economic development, equal distribution of revenues and less conflict. The second goal refers to norms and procedures.

These processes include the empowerment and mobilization of the civil society in order to keep companies and governments accountable. Indeed, it's important to emphasise that the goals of transparency in the extractive sector goes way beyond better resource management and aims to impact and improve governance in a general way (Haufler, 2010). This is further asserted by Gillies and Heuty (2011) as transparency as, a policy making tool is 'believed to reduce corruption, mitigate resource driven conflict, facilitate development and poverty reduction and improve state-society relations'.

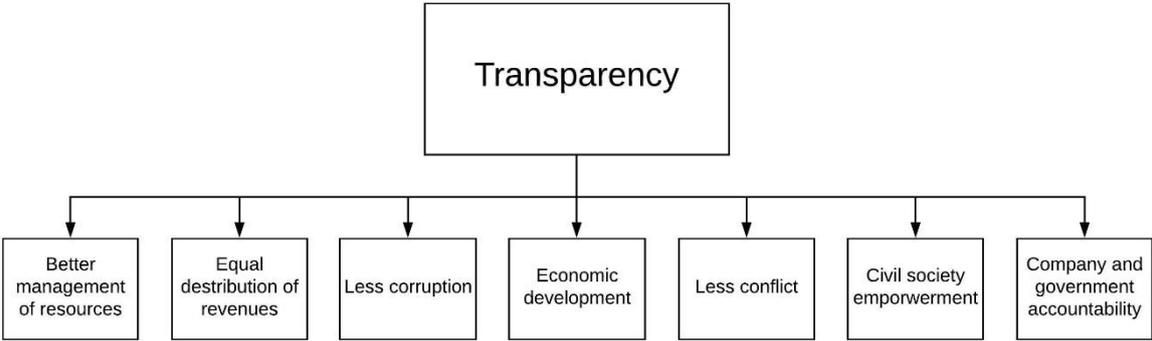


Figure 6: Haufler's model for 'the impact of transparency's in resource-rich countries' (Haufler, 2010)

As previously mentioned transparency has become the global norm for combating the resource curse and improve resource management, adding to this Haufler (2010) states that 'the focus on corporate disclosure fit well with the global normative environment'. She further emphasises this as a process where both "activists and policymakers pursuing different campaigns converged on transparency,... , as the solution". In this we can understand the process as a collective diffusion of ideas into a solution. Even so, this still don't explain; why countries should suddenly adopt this idea if they are so widely known, and how foreign NGO's, corporations and governments could impose such ideas to global norms? Let alone, what gives them the legitimacy to do so? As Haufler (2010) describes it 'the initiative [transparency initiative] requires action by governments, business, and civil society groups and promotes multi-stakeholder consultation among them'. As Haufler (2010) states it, there needs to be a solution where the whole society is involved, but why should corporations get involved in

matter that should be the responsibility of the nation states, and what gives them the legitimacy to do so? Why would these multi-stakeholder initiatives work?

### 5.3. Deliberative democracy

For the purpose of understanding why a multi-stakeholder initiative would work, or why they can have an impact in international governance, we have to examine how this came to be and why it's within the interest of corporations, nation-states and the civil society to engage in such initiatives. Additionally, we need to answer; Is the changes of globalization forcing us to reconsider corporations as sole economic actors? Why would corporations now engage in tasks previously assumed to be nation states responsibility, and should we trust them to do so? If so, does this make their involvement legitimate or is this just a window-dressing in pursuit of other interests? To answer these questions, we will examine how globalization has changed the domain, within which corporations operate, and if this is a result of corporations feeling a sense of responsibility for their actions? Moreover, by answering this we will establish the conditions for how to evaluate and examine MSIs output effectiveness and legitimacy. In addition, this will create the framework how we view the role of the MSI in the global sphere.

If we want to understand why MSI now are being formed, and why corporations are now engaging in international governance activity, we need to examine the global transition over the half a century. How this came to be and why nations, corporations and NGOs now feel the need to engage in multi-stakeholder initiatives?

Throughout the last decades markets has expanded globally and with this came the emergence to transnational corporations. For while corporations expanded internationally, as nation states opened for foreign investment and involvement, the political regulations of business activities did not expand at the same pace (Kobrin, 2008; Mena and Palazzo, 2012). This process of globalization, defined by Scherer and Palazzo (Scherer and Palazzo, 2011) as:

“a process of intensification of cross-border social interactions due to declining costs of connecting distant locations through communication and the transfer of capital, goods, and people”,

and led to an increase transnational interdependence of economic and social actors. Which has further lead to an upsurge of both opportunities and risks, and the growing market has led to intensified competition (Scherer and Palazzo, 2011). Emergence of globalization was further

accelerated by liberal political diction making. Nation states were reducing barriers for ‘trade, FDI, capital, and services’(Scherer and Palazzo, 2011), privatizing and deregulating the global market. Through technological advancement and social-political development, the world was made a lot ‘smaller’ and previously assumed barriers were broken down (Scherer and Palazzo, 2008). Furthermore, globalization was shaking up the so called ‘Westphalian world order’, a scholars were speaking of a shift towards a ‘post-Westphalian’ order (Kobrin, 2001) or a ‘post-national constellation’ (Habermas, 2001). The concept of Westphalian world order is used to describe the foundation of modern state principles. Furthermore, it ‘rests mainly on the steering capacity of the state authority of sovereign countries with both a monopoly on the use of force on their territory and more or less homogeneous national culture that lead to stabilization of social roles and expectations within coherent communities’ (Scherer and Palazzo, 2011). Where the common identity is embedded within a common history or culture, or a sense of community or solidarity.

In the post-national or post-Westphalian constellation these conditions have been changed (Habermas, 2001), and as emphasised by Korbin (Kobrin, 2009) the main characteristics of the transition to the new post-Westphalian order, was the loss of the regulatory power of state institutions. This was due to ‘the fragmentation of authority, the increasing ambiguity of border and jurisdictions; and the blurring of the lines between the public and the private sphere’. This was further addressed by Habermas (Habermas, 2001) through two aspects in particular: (1) the weakening of democratic control and rule of law; and (2) the growing heterogeneity of national culture and pluralism of values and lifestyles. Further challenging the democratic political order.

Furthermore, the lack of democratic control and rule of law stems from many social economic interactions expanding beyond the reach of territorially bound national jurisdiction and enforcement to offshore locations (Scherer and Palazzo, 2011). Some corporations are also expanding into oppressive or even failed states, where there is no or ineffective rule of law, no democratic institutions, and no competent government and adequate regulations (Fukuyama, 2004). Moreover, as Barber (Barber, 2000) describes it: ‘we have managed to globalize markets in goods, labour, currencies and information, without globalizing civic and democratic institutions that have historically comprised the free market’s indispensable context’. Which in turn creates a regulatory gap within the international sphere. It is important to note, and as emphasised by Scherer and Palazzo (Scherer and Palazzo, 2011), that nation-states have not become powerless or have lost all their influence on corporations. Rather, one can argue that

after a significant portion of global production has been shifted to locations with ineffective democratic control and no rule of law, corporations are moving out of reach for the nation-states. This governance gap builds on the principle of non-intervention in nation-states sovereignty, their lack of enforcement mechanisms, and the influence of national egoisms on international institutions (Scherer and Smid, 2000). This raises the question of ‘how can the local community together improve this lack of governance, and can they close the gap?’ and ‘Who should be involved?’.

As we mentioned above, globalisation of commercial production is describing a transition of governance, and as mentioned creates a regulatory and governance gap. A description of why it came to be, but with no clear solution. With the intention of answering this question we must consider ‘who is accountable and responsible for actions and control in the global society’ and ‘how can a solution be found? To answer this, we need to firstly contemplate what a solution should look like and what is creating the baseline. The decrease in power of democratic political authority is led by social changes such as the appearance of new identities, the spread of individualism, and the displacement and migration of people of different origins (Cohan and Kennedy, 2000). As a result, the homogeneity of national cultures is in many countries being replaced by new culturally diverse communities. Carrying with them a pluralism of heterogeneous values and lifestyles. This transition has been analysed and is described through many names; reflexive modernization, the postmodern condition, secularization or pluralization (Scherer and Palazzo, 2011). The key consequence of this development, is that values, attitudes, social practices that once were taken for granted is now losing their certainty. On the local level this means that core principles are now being re-evaluated.

In the same way, on the global level this means that the foundation in which global order was previously built, is now experiencing a transition to a more pluralist value system. Hence, finding a common foundation for a common set of beliefs is made more challenging. Consequently, the corporate global environment is getting more complex and consists of pluralism of values, and growing heterogeneity of social expectations (Palazzo and Scherer, 2006). The complexity of the global order described above is reflected in the intricacy of the solution. As pluralism continues to envelop the global community, a solution based on a common set of values and ideas seems almost impossible. With the intention of creating a stable and long-lasting system of governance with the authority to uphold and regulate, a solution based

on heterogeneous values and ideas seems most likely to flourish. Nevertheless, the question of who should be part of the solution still persist.

With the intention of evaluating what actors should be part of creating the framework for which global governance and regulations are built, we need to consider the role and influence they have on the international sphere. In modern society the social order is based on the differentiation of society into three domains: the political sphere, civil society, and the economic sphere (Habermas, 1998). These three domains were defined by Scherer, Palazzo and Matten (Scherer, Palazzo and Matten, 2014) as; firstly in the political sphere it's the principle task of the state apparatus to define and execute binding rules for all member in society so that the common good is served. In this, the state is the provider of public goods, responsible for controlling the market and redistributes societal achievements so that social justice is maintained. The legitimacy of states is present when citizens accept their right to rule over them, but legitimacy is also a political process of bringing order to social relations. Secondly, civil society is perceived as the the embodiment of the processes of civic will-formation, from which the state apparatus derives the legitimacy for its regulatory decisions. The civil society manifests in the public discourses of the numerous actors, ideally representing their interests, fears, values and visions. Thirdly, the economic sphere, however, is represented by individual citizens and businesses pursuing their own private interests without any direct concern for the common good. Seen that they operate within the rules of the game, defined by the state (which is perceived as the only political player in modern nation-states), they can make choices on free and open markets after their preferences and personal interest (Scherer, Palazzo and Matten, 2014). This nation builds on the premise that the restrictions and sanctions of the state, is constructed in a way where the private actors' ability to pursue their own private interest is preserved in a manner where the consequences serves both them and the common good. Consequently, the concept of politics has been attached to governments and the state apparatus, which in turn is considered the primary institution that directly take care of the public interest (Elster, 1998).

As described by this model, nation-states are considered the only political institution that directly focuses on the well-being of society, while corporations are perceived as economic actors only, following their own interest (Scherer, Palazzo and Matten, 2014). Following this, businesses might attempt to influence the political decision making, through lobbying or political strategies, or might establish a corporate philanthropy as part of their business strategy, in order to further their personal interest. Although, these actions do not change them into

political actors, who operate in the name of the public interest. Instead, it is presumed that their interaction with the public sphere is only a means of fostering economic benefits (Hillman, Keim and Schuler, 2004). Described by Hillman et. al. (2004) as activities 'to shape government policy in ways favourable to the firm'. As a result, the corporate engagement with public decisions and policy is considered integral for the corporate bottom line (Scherer, Palazzo and Matten, 2014).

Contrary to the strict division of labour described in the modern society, the international society has over the last decades experience that the neat separation between the political and the economic sphere has become blurred (Scherer, Palazzo and Matten, 2014). Moreover, the previously rigorous definitions of responsibility are being challenged by the lack of accountability in the global market. In the process of globalisation, the national context of governance is eroding (Kobrin, 2001; Scherer and Palazzo, 2008; Scherer, Palazzo and Matten, 2014). As was previously stated, nation states have demonstrates an inability to regulate, when many of the new social and economic interactions have expanded beyond their reach. Moreover, this is epically apparent since states fail to regulating the global financial market, dealing with transnational social and environmental problems, providing public goods, administering citizenship rights (Matten and Crane, 2005), and through this no longer serve the public interest. Which become especially evident in failed states, where the public institutions lack the necessary resources or enforcement mechanisms, or even do not have the willingness to address the issues (Scherer, Palazzo and Matten, 2014). Consequently, this has created the regulatory gap previously mentioned. The post-national constellation has led to new challenges for businesses operating in a global environment with increased opportunities, but at the same time more risk. As companies operate in complex environments with heterogeneous legal and social demands, it is not clear which activities can be considered legitimate and which are unacceptable (Scherer and Palazzo, 2011). This uncertainty of responsibility and accountability is further emphasised as NGOs, who were once focused on pressing governments, at the same time, have begun to target business firms to make them more responsive to social and environmental issues. As, businesses come under scrutiny for involvement in environmental damage or as complicit in human or labour rights abuse cases. Public issues that once were regulated by the state apparatus and marked as national obligations, now falls under the responsibility of corporate managers (Scherer and Palazzo, 2011).

As a response, civil society groups and private actors has shown to often step in and fill the governance void and take responsibility for issues of public concern. In an effort to minimise

the likelihood of new or further crises. In the case of civil society this is done in order to spare the public of further mischief. While the private businesses may do so to prevent future allegation of misconduct or safeguard the company against further shift in accountability (Scherer and Palazzo, 2007). In an effort to self-regulate, businesses try to maintain peace and stability (Scherer, Palazzo and Matten, 2014). During the last decades business firms started to engage in activities that have been traditionally been regarded as actual government activities (Matten and Crane, 2005). Some will argue that these activities are going beyond what is expected, and even infringing on undermining the local government (Henderson, 2001). When operating in countries with fail states, MNCs engage in public health, education, social security, and protection of human rights (Matten and Crane, 2005). In some cases, even combating more global issues such as HIV/AIDS. The aforementioned behaviour of the multinational corporations can in many cases be considered as going beyond what is considered the widespread definition of CSR as compliant with the social expectations (Whetten, Rands and Godfrey, 2002). These corporations often operate as social entrepreneurs, with the intention of directly serving the public interest through their resources (money, assets, expertise, etc) and their creativity (Scherer, Palazzo and Matten, 2014). Castello and Galang (2014) describes this transition of legitimate strategy as:

“traditionally corporations either tried to manipulate the perception of their key stakeholders in their own favour (discussed as pragmatic legitimacy) or adapted their behaviour to the prevailing institutionalized standards and practices (discussed as cognitive legitimacy), they now increasingly use a strategy of deliberation (discussed as moral legitimacy) in order to find societal acceptance for either their proper existence or their practices. This participation in public deliberation has been proposed as a key characteristic of political CSR”

Even so, by operating in the political sphere, businesses don't necessarily become legitimate political actors. As they have no direct responsibility towards the public, and since they may stop contributing when they no longer see the need to maintain such engagements. So how can corporations establish legitimacy become more permanently in global sphere?

#### 5.3.1. Soft law as enforcement mechanisms in the global sphere

In the hope over answering this, we first need to examine how regulation and sanctions are upheld in the international sphere. In an attempt to fill regulatory gaps, MSI primarily issue

'soft law' standards, 'which are non-binding and voluntary private rules, generally not enforced through governmental mechanisms' (Mena and Palazzo, 2012). With the rise of MSIs as regulatory actors, we have also experienced an increased importance of soft law in global governance. While MSIs partly builds on the soft law approach, and consequently establishes rules in the form of standards. As opposed to more traditional hard law mechanisms used by country states nationally, namely laws written in constitutions and codes. It's still important to note that we not arguing that national regulations are disappearing (Mena and Palazzo, 2012). On the contrary, they are expanding, but as previously mentioned not translating to the international sphere. Even so, they portray limiting influence on social and environmental externalities produced in the global sphere. Soft law is characterised by Mena and Palazzo (Mena and Palazzo, 2012) by

“the fact that it does not create legally binding obligations, but rather “derives its normative force through recognition of social expectations” (Ruggie, 11 2007: 14). It relies on voluntary compliance, rather than on sanctions that can be authoritatively and legally applied, as is the case in traditional governance (Gilbert & Rasche, 2008). While a firm's decision to engage in a soft law initiative is voluntary, once it commits to a specific standard, it is expected to comply (Waddock, 2008). If it does not comply, the company is not granted any type of certification or approval, and is often publicly exposed as a non-compliant actor”

So, in this sense, a standard is either enforced or the actor drops out. This also the basis for most of the criticism behind soft law. The regulations have been portrayed as a green- or blue-washing tool, because its seen as the 'low hanging fruit', i.e. the easiest or more cost-efficient way of implementing new behaviour. Hence, the effectiveness of the MSI “depends on the capacities of the association to control and sanction non-compliance” (Mena and Palazzo, 2012). So, the MSIs developed monitoring procedures to control for standard compliance. These four types are of monitoring; self-monitoring, first-party monitoring, second-party monitoring and third-party monitoring, are used dependent on cost efficiency and requirement for objectivity (Mena and Palazzo, 2012). It's important to add that too much monitoring and overcontrol, may lead to monitoring fatigue. Furthermore, enforcement is understood as the ability of the MSI to endure that rules and regulations established, are followed or applied into codes of conduct or practice. If the enforcement mechanisms don't work or an inability to sanction isn't present, then the MSI loses its legitimacy. The effectiveness of the MSI is connected to the actor's willingness to self-regulate, and may be seen as a cost-benefit analysis.

If the benefits of participation don't outweigh the risk or cost of not participating or non-compliance, then the actor may refrain from joining. Hence the question whether MSI are just window dressing still persist.

### 5.3.2. Scherer and Palazzo's concept of 'Deliberative democracy' by Habermas

So why does these private-public, private-private or multi-stakeholder initiatives work? How are they able to balance power and legitimacy? Contrary to national decision-making, where power is derives from to the person or parties aggregated votes or representation through periodical elections (Scherer and Palazzo, 2011), these initiatives maintain their legitimacy through the process of decision-making (Habermas, 1996). This is a response to the question; as corporations assume a political role, the questions of legitimacy arises, as they are neither elected nor democratically controlled by the public (Scherer and Palazzo, 2011). As stated above, through globalisation the strict separation between the political and economic domains no longer apply. Rather than perusing the liberal approach to democracy, I suggest that we rely on an alternative model of democratic politics, that is “able to both integrate the argumentative mode of legitimacy generation, and who embeds corporate political activities in processes of democratic will-formation and control, thus overcome the private-public divide” (Scherer and Palazzo, 2007). A form of democracy, that builds on the aforementioned business behaviour described by Castello and Galang (Castelló and Galang, 2012), founded on legitimacy established by will-formation through impartial and rational deliberation. This form of democracy is described by Scherer and Palazzo as deliberative democracy, and builds on Habermas concept from *Between Facts and Norms: Contribution to a Discourse Theory of Law and Democracy* established in 1996. Additionally, the deliberative concept of CSR can be seen as enhancing credibility and legitimacy for businesses actions, as a response to becoming subjected ‘to the scrutiny of open public debate, review, and determination’(Fung, 2003). Moreover, as it has shown to be difficult to ‘conceptualize global regulatory engagements of corporations within a liberal concept of democracy’(Scherer and Palazzo, 2011), a deliberative democracy theory conceptualising a democratic society within the frame of political CSR may prove helpful.

Building on this, the deliberative model of democracy is acknowledging the contribution of both state and non-state actors to global governance. Further, the model's contributes to both the traditional institutionalised processes and the processes of public

deliberation that appear outside the traditional realm of institutionalised politics (Habermas, 1998). In the deliberative model of democracy a key assumption is the idea that politics does not only reside exclusively in the official governmental institutions, but begins already at the level of deliberating civil society associations (Habermas, 1996). Deliberative democracy sees the whole process of deliberation or the fair and reasonable discussion among citizens as producing political decisions. Furthermore, the regulatory actions of governments should be associated with the process of public will-formation (Habermas, 1996). With regards to establishing democratic legitimacy, deliberative democracy builds on the strengthened link between the decisions in political apparatus and the process of public will-formation. As this public will-formation ideally is driven by 'non-governmental organisations, civil movements, and other civil society actors who map, filter, amplify, bundle, and transmit private problems, values, and needs of the citizens (Habermas, 1996). Concerning multi-stakeholder initiatives, and in global governance, as there is no representative political power, the legitimacy of the organisation derives from its ability to conduct an open deliberation, where the better argument should secure the public or common good. In turn, only with the inclusion of the right stakeholder to secure that all reasonable and relevant solutions are considered, can the initiative produce good political decisions. In contrast to liberal democracy, deliberative democracy doesn't see political decisions as the aggregate of citizens' preferences, but rather claims that 'citizens should arrive at political decisions through reason, a collection of competing arguments and different viewpoints (Eagan, 2018). Put in other words, rather than focusing on personal-interest, preferences should be shaped by deliberation in advanced decision making. By focusing on the individual and collective decision making of every actor, deliberative democracy shifts the focus from only the outcome of the decision, to also the quality of the process.

Deliberative democracy is not advocating that every political decision can be or must be exposed to public deliberation. Nor does it advocate consensual solutions for all kinds of political disputes or the participation of each single citizen. Rather as long as the process of deliberation is a product of fair and reasonable discussions and debate among citizens, they are able to maintain the legitimacy in decision-making (Eagean, 2018). However, inclusion of more relevant actors furthers the deliberative process. This derives from the MSIs input and output legitimacy. The input legitimacy of MSIs as regulatory institutions is concerns with the design of political processes, i.e. how rules are developed, and builds on the idea that ‘political choices should be derived, indirectly or directly, from the authentic preferences of the citizens (every global actor) and, that, for that reason, [regulators] must be held accountable to the [actors involved]’ (Mena and Palazzo, 2012). On the contrary, output legitimacy described the capacity to solves problems requiring collective solutions (Mena and Palazzo, 2012). In this we can understand output legitimacy as referring to the effectiveness of the regulations. While representing the relevant actors, output legitimacy focuses on the outcome of the regulations, i. e. how the rules are applied. Although, it’s important to note, that in principle, private regulatory initiatives, or MSI, are confronted with identical legitimacy demands as governmental regulations (Mena and Palazzo, 2012) Hence the legitimacy and effectiveness of MSI need to be evaluated on its ability to enforce standards, and on its input and output legitimacy.

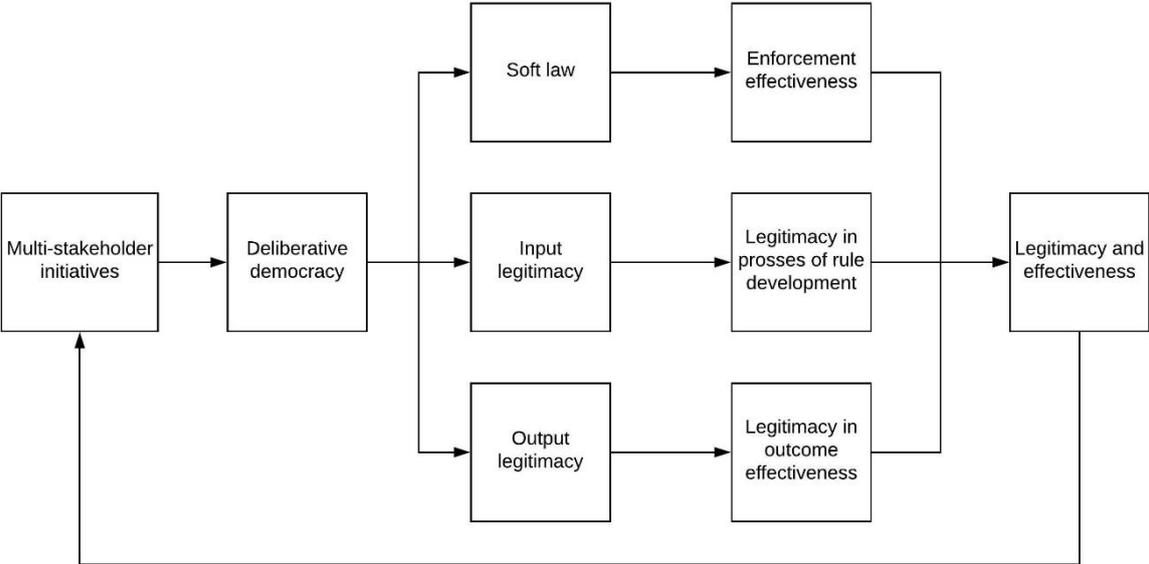


Figure 7: MSI's legitimacy and effectiveness (Source: Author)

Criticism of deliberative democracy derives both from the ethical standpoint, but also from its simplistic view on communication and general human abilities (Eagean, 2018). Firstly, its simplistic view on how policy is constructed, as only certain mean of expression, forms of

argument, and cultural styles are publicly acceptable, then the voice of certain citizens will be excluded (Eagean, 2018). Following, the argument of input legitimacy, by excluding of certain modes of expression, the result will be diminishing the quality and legitimacy of the outcome of the deliberative process itself. As the effectiveness of deliberative democracy derives from the process of deliberation, this is a very contradictory to the framework of the theory itself. Secondly, if deliberation is going to work we should assume that citizens have the capacity to be reasonable, cooperative, unified, and with the ability to shape their views based on rational debate and the views of others (Eagean, 2018). If these conditions aren't met, deliberation would never work as intended and the legitimacy of the organisation is weakened. Furthermore, it may be argued that this is more than humans are capable of, either because of human nature or as their already exist social inequalities and biases (Eagean, 2018). The societal structures of both the global and national conditions with already existing structural inequalities, pluralism, social complexity, together with the increasing scope of political concerns create predetermined conditions that makes it hard from deliberation to be effective. Let alone the impracticality of the effected citizens having to establish forums in which to deliberate are also reasons why the viability of a deliberative form of democracy is being criticised.

Throughout this chapter I have established a framework from which we are able to effectively evaluate the EITI. As I have shown that deliberative democracy explains why private corporations willingly engaged in global governance. Additionally, we have answered questions on; why business firm feel the need to contribute to public good production? How, through cooperation and deliberation with nation-states and NGOs, they gain the legitimacy acquired to effectively participate in international governance. More importantly, deliberative democracy provides an interpretation of how the EITI can, through the legitimacy of the deliberation, affect its compliant states. Furthermore, how promoting transparency as a means of combating the 'resource curse' can have an impact on compliant states. Using Haufler's model, I establish to connection between transparency and how it can improve conditions for countries experiencing the resource curse (Figure 6). While, deliberative democracy determines how to evaluate the legitimacy and effectiveness of MSI operations and activities, through soft-law mechanisms, input legitimacy and output legitimacy.

## **6. Method of analysis**

In this section I will establish the terms of analyses the research question and how research was conducted. I will show, through a deductive approach, how the theoretical impacts of transparency in resource-rich countries can evaluate the success of the EITI. Moreover, I will illustrate the choices of theory, unit of analyses, collection of data and means of analyses, and how through a qualitative research analysis I aim to give a comprehensive evaluation whether the EITI works.

### **6.1. Confining theory into means of analysis**

Using the EITI as the unit of analysis brings with it a complex set of predetermined basic assumptions. So, to evaluate if the EITI works, an understanding how it operates and what it aims to achieve is necessary. As the EITI is a constructed solution around a set of ideas and established theories, a comprehensive understanding of these are necessary to give a precise, correct and sufficient examination of the initiative itself. Furthermore, to illustrate the local effects of the EITI I will use a case study.

As previously stated the EITI builds on the idea of a resource curse, and institutes transparency as a countermeasure or solution to this issue. Using the argument of Haufler (2010) that transparency ‘makes markets work more efficiently: enhances trust and cooperation; strengthens institutions; reduces corruption and mismanagement of resources; enables people to hold others, corporations and governments, accountable for their actions; and increases the legitimacy of decisions and institutions’, this study will examine if the EITI is able to translate this logic into action. Moving forward, we work on the premise that the correlation between transparency and accountability is correct, even though we are aware of the critique or limitations of theory.

Haufler’s model establishes the baseline for how we will perceive the EITI’s logic of operations. While Haufler’s model provides us with basis for EITI’s logic of operations, deliberative democracy will give us a means of analysing the institutional- structure and operations of EITI. The choice of deliberative democracy, together with transparency for development, as the theoretical framework is based on its ability to explain the relationship between international multi-stakeholder initiatives’ decision making, enticement for change

and the corresponding outcomes. Moreover, deliberative democracy structures political CSR and CPA in a way which enables us to evaluate process of creating political policy and political outcomes. Its use of discourse ethics as a means of establishing legitimacy is important, as the initiative is working in a highly diverse and pluralist domain. This also enables us to perceive the field in a more normative account of institutional change (Frynas and Stephens, 2015), which will show important in our analysis of the EITIs' success. In contrast to other theories in the field, the deliberative democracy addresses 'the legitimacy gap created by the involvement of non-state actors in political decision making' (Frynas and Stephens, 2015), and how political power and legitimacy is harnessed through a new form of democracy. The multi-stakeholders' legitimacy and effectiveness is derived from its ability to enforce soft law, and its capacity to uphold input and output legitimacy.

As I draw from these theories, I can establish a means of answering the research question of "Does the EITI work?". Using deliberative democracy, I'm able to evaluate the EITI's own accountability and legitimacy as an international actor and its use of soft law as means for impacting host governments. Not to mention, the EITI's capacity to legitimately establish international rules or norms, as well as its competence in making sure these rules and regulations have effective outcomes. As Haufler's model for transparency provide me with mechanisms to evaluate the EITI's ambitious claims of potential impacts. Hence, I will evaluate the EITI from an institutional and operational standpoint. While the institutional standpoint will focus on the underlying reasons for why the EITI exists and how it's able to establish itself as an international actor. The operational angle is concerned with how EITI is going to translate the ideas and logic into action. Additionally, I will discuss how the EITI interpret the possible impact of transparency. However, as this covers the institutional level and operational level of the EITI, to illustrate the local impact of the EITI and if the established code of conduct is working as intended, I will evaluate the effects it has in one of its compliant states.

Using this deductive method of analysis, combining Haufler's model of transparency's impact in resource-rich countries with EITI's 12 principles of regulations (Appendix 1), we are left with four claims of impact. Has the EITI influenced:

- Corruption
- Management of resources and resource revenue
- Local development and equal distribution of wealth
- Civil society empowerment, and corporate and governmental accountability

It's important to note that this exclude Haufler's claim of transparency mitigating and preventing conflict in host regions as EITI is not covering this in their 12 principles. Additionally, as the EITI claims their work will provide an enhanced environment for domestic and foreign direct investment we need to consider I need to consider this in my analysis. To summaries, the EITI's ability to translate claims into tangible results on the local level will be evaluated in the areas of; a) corruption; b) management of resources and resource revenue; c) local development and distribution of wealth; d) civil society empowerment, and corporate and governmental accountability; e) and foreign direct investment.

As shown through the theory chapter, these variables are interdependent by nature, but also exhibit individual characteristics. While other studies have focused on these variables separately and undergone more comprehensive evaluation of a single variable, this study have a more overlaying approach. The use of all five variables is a conscious decision, as the goal of the thesis is to evaluate the overall success of the EITI. As, no-one of the variables can singlehandedly determine the general success of the initiative. Even though the variables are interdependent in nature, it's hard to direct a single causal direction. Hence the choice of evaluating them separately and then in the end evaluate their causal relationship to the general success of the EITI.

While some of the variables, like corruption, are more easily quantifiable then the others, the study will take a qualitative approach when conducting the theoretical and empirical analysis. As the purpose of this assignment is the evaluate if the EITI works, a purely quantitative approach would give a too narrow picture of reality. By excluding the human element, a quantitative approach would mitigate our ability to evaluate the process and nature of the initiative. Together with our use of deliberative democracy as framework for understanding the interactions between actors in the international sphere, as it bases active decision-making on the human ability to reason drawing rational conclusions. Relying on quantifiable data seems impractical and inefficient. Additionally, by using terminology, like empowerment and accountability, not easily quantifiable because of objective perception and human element, makes a qualitative approach a natural choice. Even so, the use of indexes and datasets will still be part of the evaluating, contributing more hands-on results, and providing means of evaluating the results of the progress and giving us an idea if the normative changes is influencing reality. However, it's important to note that tangible results visible in statics are more susceptible to time. As reforms and norms may experience transition periods and reorganising may result in latency before visible results are distinguishable. Moreover, it's also

important to note that statistical data on such variables, may be affected by shifts in other areas, such as oil and gold prices. Hence, to ensure validity, especially as we work in highly corrupt regions, all data and evaluations needs to be examined against their original source. This brings into question the choice of data and data-collection.

Every scientific study relies on the data collected and its ability to make sure such data is reliable and validated. This is especially important in this study, as I'm working in a field, and with case study situated in an area known for high corruption. Hence, it's important that we can trust in the empirical knowledge and data collected. Particularly, as we are not collecting primary data for this thesis, and relay on previously collected secondary data, it's essential that the data collected is evaluated against its validity and reliability. The choice of using secondary data, and not collecting our own data, is due to both time-constraints and cost-efficiency. Within the timeframe of this study, it was impractical to conduct data collection over such a vast field of study with previous knowledge and timeframes. The data used in this thesis is collected from governmental documents, third party organisations data-collections and indexes, third party case evaluation and scholarly journals in the field. All are evaluated against the significance, validity and reliability. The use of secondary data, as we are able to collect more data from different sources, allows us to better evaluate the trends and changes in the timeframe.

## 6.2. Using the Ganesan case to illustrate the EITI's ability to translate words into action

With the intention of examine the local effects of the initiative, a comprehensive study of one case will provide an extensive illustration of the success of the EITI on the local level. In choosing a single case I am able to get a deeper analysis of the how the different variables are effecting the outcome of the EITIs' endeavours. Additionally, the choice of a single case study is due to the time-constraints and general guidelines for the thesis. In other words, expanding the thesis to include more variables or cases would require additional research and made the study too comprehensive for the limitations of the thesis. Indeed, the addition of more cases would have provided us with the ability to make a more extensive study of the correlating variables against each other, but mitigating our ability to thoroughly examine everyone.

By using the EITI’s effect on Ghana as the unit of analysis to illustrate the local effects of the EITI, and not the EITI itself, I’m moving the analysis away from the international and organisational level, to evaluate the national and local effects. Using a case study to illustrate the effects of the EITI, is to examine whether the EITI is able to translate its institutional output into local impacts, and evaluating the actually results of the actions made on the intuitional level. By using the Ganesan case as a means of illustrating the local effects of the EITI, and not as a separate unit of analysis we are able to avoid infringing on a more cross-sectional design. By keeping the focus on ‘the EITI’s contribution’ in the Ghanaian case, while still considering other external variables, I’m able to effectively analyse if the EITI works on the local level.

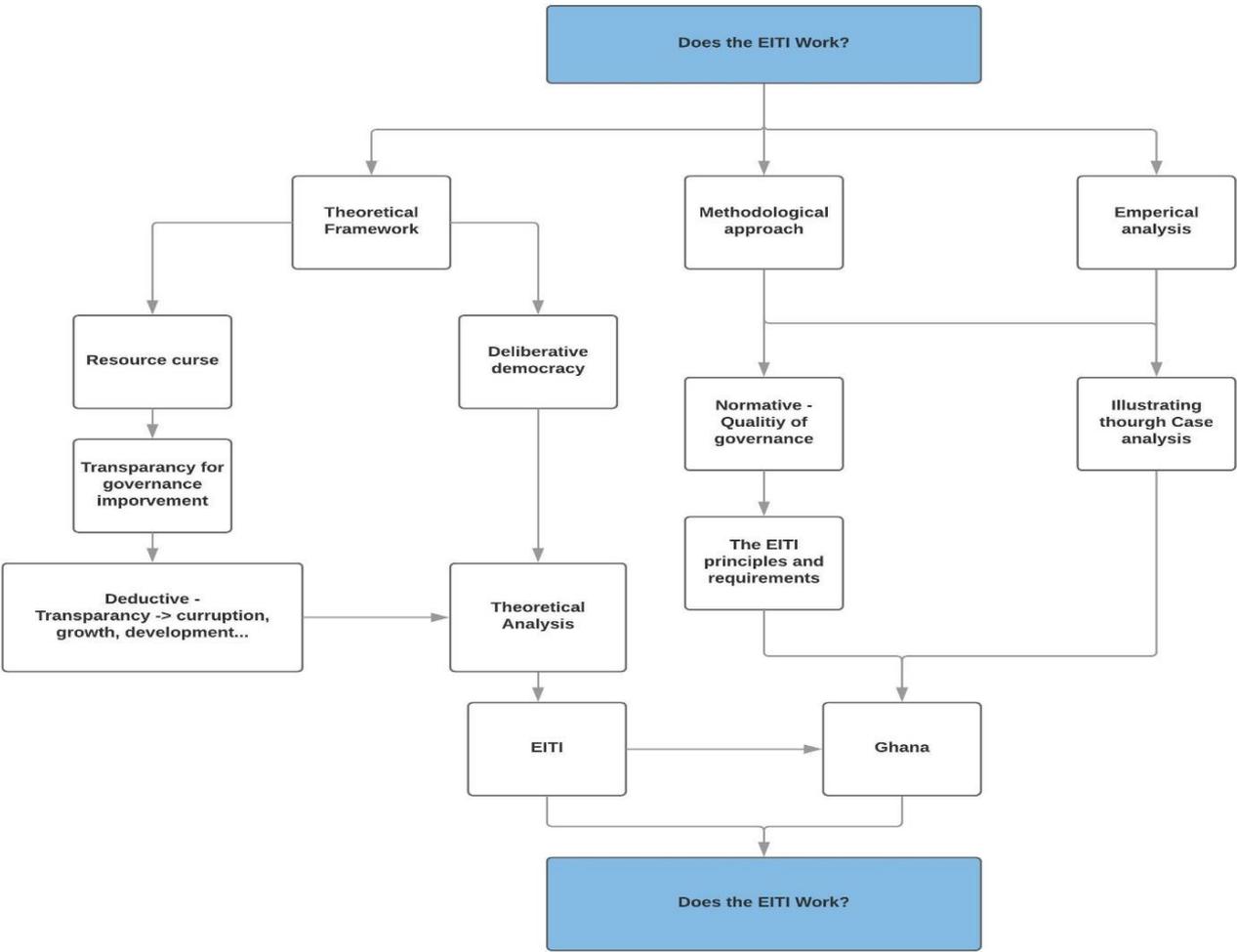


Figure 8: Project structure

Our choice of Ghana as a case for evaluating if the EITI works, is based on Ghana being relatively democratic, with active institutions and civil society organisations, together with alternation of power between political parties and competitive elections. Together with its high

reliance on extractive industry revenues, should make for a compelling illustration (Siakwah, 2017). Drawing from the example of Botswana, where democracy, strong institutions, transparency and unity among the political elite experienced high efficiency for the benefit of the general populace (Mogalakwe, 2003). While the Nigeria known for weak democratic polity is criticised for the poor management of oil windfalls resulting in high poverty, environmental pollution and violent conflict(Watts, 2010).

### 6.3. Limitations to the assignment

The scope and objective of this theses is to evaluate the relative success of the EITI and start a discussion on whether the EITI, in its current form, works or not, and more specifically about transparency in the extractive industry sector. Moreover, its impact or the lack of impact derived from management of resource revenues, civil society empowerment and local development, in the specific case of Ghana. In this it's important to note some of the limitations and challenges faced during the process and analysis of the research. Some of these will be further discussed later in the paper.

Since the data collected in this thesis relays on reports, official documents and publications, as well academic articles as primary and secondary sources, the analysis is presuming the information and assessments captured in aforementioned data is reliable. To the best of my ability every source and data collection is evaluated on these terms. Even so, any data in this thesis that is not accurate, such as revenue allocated, figures of royalties, percentage and figures, as well as opinions or assessments quoted from authors or scholars in this thesis, can affect or influence the general analysis or finding carried out in this work.

The scope of this assignment is to evaluate the relative success of the EITI, hence our use of the EITI claimed impact areas as a framework of evaluation. This may provide a good framework of analysis, but as most of these claims are very ambiguous and relies on statements like "improvement" and "effecting" as a mean of evaluation, it's hard to draw a line for what is considered improvement and what not. Evaluating the EITI on these ambiguous claims is a very subjective task. Establishing more concrete goals, for a better assessment of the case would be desirable. As, it's left up to the readers' own impression of what to be considered a significant improvement. The EITI also relies its impact of theoretically based correlations, which in turn makes it hard to determine what is an impact of the EITI itself and what is the fault of other

relative actors. Hence, making correlation based assessments on how's to blame for success and failure may show difficult.

Additionally, under the limitations of this assignment I made some choices that may affect the result. Like, the choice of merging complex areas such as civil society empowerment and governmental accountability together. As such choices were made under the restrictions of the assignment and not as conscious decisions to further the research, this may affect the unit of analysis. Furthermore, our ability to evaluate every variable falls under the same restrictions, even so further studies could improve on this.

## **7. Does the EITI work?**

Launched in June 2003, the Extractive Industries Transparency Initiatives has been presented as the hallmark of international governance of resource efforts. Originally designed as a voluntary process for the extractive sectors to disclose revenue of payments between companies and governments, the EITI has emerged as a broad apparatus seeking to improve transparency and accountability together with the whole resource management value chain. Even including corporate beneficiary ownership (EITI, 2016b). The EITI has generally been considered a success-story, both from scholars and advocates (Sovacool *et al.*, 2016; Rustad, Le Billon and Lujala, 2017), as a reflection of the large number of resource dependent countries that has committed to joining the initiative and the vast amount of support it has experienced from donors, NGOs, and extractive industry companies. Yet, even with this vast amount of support for the initiative, there was still raised questions by scholars, practitioners, donors and decisionmakers alike, if the initiative should show more significant results. Even raising the question if the EITI works. The questions of where the EITI comes from, what it wants to achieve and how it's going to achieve it, is asked to establish legitimacy and efficiency measures based on soft law, input- and output legitimacy mechanisms. Moreover, this will be discussed later in the analysis.

The EITI derives most of its success from the institutional level, as is portrayed in the Scanteam report of 2011 (Scanteam, 2011) “[o]ne of [EITI’s] most impressive achievements is the virtually universal acceptance and support EITI has mobilized from the international community, private sector, and civil society”. Even so, as other authors argue “the EITI has not yet been as successful as its advocates may want us to believe” (Sovacool *et al.*, 2016). These contradictory assessments open up for a critical assessment of the EITI. While reports and evaluation like the Scanteam promotes the EITI as a successful MSI, through its ability to engage actors into establishing common codes of conducts, others have argued that the very structure of the EITI combined with its inability to formulate significant results, have made the EITI into more of a window-dressing tool for governments and corporations (Kolstad and Wiig, 2009; Sovacool *et al.*, 2016; Rustad, Le Billon and Lujala, 2017). Drawing from these contradictory views, we will make a critical assessment of the EITI.

## 7.1. Recognising the EITI for what it is

As previously advocated, the intuitional success of the EITI is where we should see the strongest result. Hence, the multi-stakeholder initiative structure of the EITI should provide a good base for achieving significant results. Still, the structure of the EITI raises a few questions; are they EITI success just relative to expectations or have they achieved adequately under the limitations of the timeframe?

The general success of the EITI is in many ways realized through its ability to attract relevant actors. As the EITI now consist of 49-member states, situated over four of the main continents, it's clear that the EITI is able to influence communities in a pluralist setting. Arguably drawing from the legitimacy of the rule making prosses. As the initiatives derive its decision-making process from a combined effort between host governments, civil society groups and companies, the formation of regulations, is arguably, a transparent set of common believes between the relevant actors (EITI, 2016b). Hence, the legitimacy of the prosses of rule formation should be maintained. Through the indirect institutional contrition, the EITI has been able to refine MSI governance through the 'good governance' agenda and the opening of governing instruments to industry and civil society organisations (Hemmati, 2002). Even further emphasised through the global approval of its activities, as the initiative has been endorsed multiple times by recognised international organisations like the UN General Assembly, G20 and G7/G8 (Rustad, Le Billon and Lujala, 2017). Additionally, in combination with governmental endorsement, its ability to attain civil society and international corporation support, further underlines the legitimacy of the decision-making process (Scanteam, 2011). Showing its ability to be a norm setter in the international field and its ability to use the multi-stakeholder invite approach in global governance. In this respect, EITI is seen as a novel and efficient model of 'tripartite' governance. However, the support is not unilateral, even the deputy-director and head of the EITI international Secretariat – has repeatedly advocated caution and stated that: "this is a slow and incremental mode of governance resting on a consensus-based approach that often requires a focus on the smallest common denominator". Some critics are blunter, but still recognises the relative success in the EITI's ability to bring the three social domains together in the process of rule formation. Even so, they question both the premises of were the EITI is coming from and the how it's getting there (Sovacool and Andrews, 2015; Sovacool *et al.*, 2016). They also ask, if the initiative is so good, why haven't more countries joined? (Williams, 2011; Rustad, Le Billon and Lujala, 2017).

Before addressing these questions, it should be mentioned that while the EITI on the global level have experienced recognition for its work. Studies focusing on local branding of the EITI like Randall and Blamo (Randall and Blamo, 2011) in Liberia and an assessment of the EITI in Albania (Albania EITI, 2014), has shown that on the local level the EITI is for the most part only experiencing ‘minimum level of awareness’. They also note that it’s harder to assess the success of EITI branding on the national level, but recognises the many efforts devoted to improving EITI awareness. As national EITI organisations campaign to raise local attention, together with endeavours to make revenue information more accessible to local populations.

With regards to where the EITI comes from, as previously mentioned, the EITI was formed as civil society pressure on British petroleum companies in Angola forced BP to disclose documents of their activity. Which in turn raises the question of how this translates to the EITI we see today? Evaluation on this subject seems to differ, as some authors advocates that EITI’s legitimacy to exist stems from the fact that “EITI is seen as a success *simply* by the fact that it exists, with its infrastructure, processes, policies and procedures having now been established” (Rainbow Insight, 2009), while others query that more underlaying reasons may exist for the EITI’s success. Some authors even go as far as to advocate that “EITI has not served the discussion well through its simplistic nature” (Sovacool *et al.*, 2016). As multifaceted as the resource curse is, promoting a simplistic solution of revenue transparency in the extractive sectors seems to undermine the EITI’s approach to the issue. Even more, questions whether the “desire to impact real change in the discussion of resource curse, transparency accountability, and broad socio-economic development would be realized through the EITI” (Sovacool *et al.*, 2016).

## 7.2. Endorsement, but no commitment

If the EITI is such a good approach to the issue, why is the solution not more sought after? As of the writing moment, the EITI has 49 member states which in bigger terms represent 60 % of countries where the extractive industry revenue represent more than 20 % of GDP (Williams, 2011). A sign of just a limited coverage, although the 49 countries participating so far, as more than 130 countries around the world are involved in domestic oil production and extraction and 86 countries are extracting significant amounts of coal (Collier, 2007) the EITI only represents a parts of the field. Which raises the question why the rest of the industry hasn’t

joined? Something made even more apparent, as Angola, the country that started the whole process, has not joined (Williams, 2011). Other major extractive industry actors like China and Russia, has refrained from participation (Collier, 2007), and after the US opted out of the initiative in 2017, no G8 country are longer part of the initiative (Edwards, 2017). Accordingly, it's legitimate to ask who is joining and why?

If the reason was that countries joined because it would be easy, then why have other major extractive industry actors like Canada not joined? Sovacool et al. (2016) describes this example as speaking "to the issue of a double standard since the extractive sectors of the country are not necessarily devoid of transparency concerns". Canada seems to be an obvious candidate for the EITI, it's simply surprising to say the least, why they are not yet a member. The country should have little to no problems implementing the requirements needed to join (Deneault and Sacher, 2012). As the legitimacy of the initiative itself is determined by its ability to attract relevant actors in order to ensure that process of rulemaking is legitimised, wouldn't the inclusion of major actors like Canada and the US accelerate the process? The U.S. joining the EITI in 2014 is described by Fineberg (Fineberg, 2014), as having little to show for in terms of real changes in the sector. Together with Edwards (Edwards, 2017) assessment in of the U.S. leaving three years later, the US joining and subsequently leaving the EITI seemed to have little impact on the EITI itself. Even so, it's as Edwards says it, important to note that the U.S. leaving, even though it's hard to draw direct conclusions, prompted Mexico to join. She also states that the U.S. leaving may make it harder to convince other major actors like Brazil, Russia and South-Africa to join. Additionally Moses Kulaba, chair of the EITI finance committee and executive director of the Governance and Economic policy Center, described the U.S. decision as "regrettable and a dirty decision" and indicated that the EITI saw this coming(Edwards, 2017). He went further, and emphasised that "It is ... likely that the U.S. decision [is] lifting the lid off the can for potential candidate countries and current implementing countries [to] follow suit". As the U.S. involvement in the EITI seemed to have little effect on the initiative, does this undermine the legitimacy of the EITI? As the U.S. is a major player on the international stage, wouldn't retaining the U.S. as a member have a significant impact on the EITI as a norm setter?

For the U.S, the choice of leaving seemed to have little to no repercussions. Arguably, the repercussions may have abstained dew to the U.S. planning to offer political and financial support. The only response seemed to be harsh words and denouncement of the decision (Edwards, 2017). Which brings up the issue of the voluntary nature of the initiative and lack of enforcement mechanisms. As an important actor like the U.S as able to leave as they choose,

without the EITI being able to do much about it. The inherent weakness of the EITI as a purely a voluntary approach, highlights fundamental issues with its ability to effectively promote its agenda. As governments are encouraged, but not required to adopt the principles of transparency, mean that only governments and corporations committed to integration and transparency would commit (Al Faruque, 2006). Even though this should be the case in theory, reality is portraying a different realism. Countries that voluntarily join are not compelled to follow up with action, as there are seemingly no sanctions against noncompliance other than rejecting or retracting the country's Candidate status (Kolstad and Wiig, 2009). As illustrated by the U.S. leaving, there is no fines, criminal charges, or other penalties. Such a system creates opportunities for window-dressing. Sovacool et al. (2016) emphasises this as “[c]orrupt and nontransparent companies and countries have an incentive to join the EITI in the knowledge that, in a best-case scenario, they gain increased prestige and recognition at low cost and, in a worst case scenario, they lose little or nothing if expelled from the EITI”. Even though it may be argued that this is the fault of global governance and not the EITI, this undermines the legitimacy of the initiative and its efficiency. As the EITI is working of soft law mechanisms, there is no enforcement structure in place and the EITI's performance is based on its ability to promote a favourable agenda and creating incentives to stay.

Sovacool et al. (2016) states the issue as a simple question “with the absence of global pacesetters in the extractive sector supported by the fact that it is voluntary, why would one expect the initiative to be effective in its agenda?”. In effort related to the unsatisfactory voluntary regime of the EITI, both the United States, in 2010, and the EU, in 2013 tried to implement mandatory disclosure rules for the extractive industries (Sovacool *et al.*, 2016). Even so, these rules are unlikely to bear immediate effect. In the case of the EU, it will take time to implement the rules into national law. While in the U.S. case the rules have met stiff opposition from the oil industry. The U.S. Securities and Exchange Commission losing two times in lawsuits when trying to enact the new disclosure rules, further delaying the process (Sovacool *et al.*, 2016). Rustad et al. even goes as far as indicating that “Although the EITI contributed to, and benefited from the consolidation of a broad policy community around the diffusion of transparency norms in governance, some critics point at the deflecting effect that the EITI, as a voluntary initiative, may have had on mandatory ones”. This reluctance of companies within countries that should have small issues implementing transparency as a tool for better resource management, raises the question of whether the belief in transparency is too limited as a mandate?

### 7.3. Words into action

This notion of a limited mandate has been criticised from many different angles (Kolstad and Wiig, 2009; Sovacool and Andrews, 2015; Sovacool *et al.*, 2016; Rustad, Le Billon and Lujala, 2017). It has been a major objective and operating mode of the EITI to define and implement transparency standards. Derived from the EITI principles established in 2003, the process of define the EITI standards has been an ongoing process. The credibility of the EITI standards rests on objective third party verification, auditing and assessments, together with EITI Board evaluations, on such junctures like changes in compliance status, suspensions, or delisting (Rustad, Le Billon and Lujala, 2017). Even if the process of rule formation retains its legitimacy, there are no external evaluation studies that specifically examine the issues of standard clarity and credibility. Hence the question, of a limited mandate or the intentions of the EITI itself comes into question. Moreover, scholars like Gillies and Heuty (2011) and Kolstad and Wiig (2009) have come to criticise the scope of the requirements of the EITI, especially the fact that in the early years the data requirements not being detailed enough and the EITI's narrow focus on revenues flowing from companies to the government. As previously mentioned, drawing from the 12 principles of the EITI, the EITI claim to affect a few different areas of impact, however the real requirements is only concerned with revenues disclosure in the extractive sector (Sovacool *et al.*, 2016). The EITI has been criticised for its narrow approach to revenue disclosure and the initiative excluding aspects like environmental impact assessments, project siting, or community relocation (Sovacool *et al.*, 2016), just to mention some of the externalities that comes with resource extraction. On commentator of the EITI, N. Shaxson, illustrated some of the issues with the EITI is because of the focus “on transparency in government oil revenue, or the financial flows between the oil industry and national treasuries, and misses where the corruption is often far worse: in government spending” (Shaxson, 2008). Shaxson is referring the fact that countries publish aggregated data about revenues, but not individual data concerning particular companies, on the private side, or departments and governmental institution, on the government side. This is in turn making it difficult to track where the money is going and how it is spent. Kolstad and Wiig (2009) emphasis this as the EITI taking a too narrow approach to the issue of the resource curse and states that since corruption start at the earliest stages involving contracts procedures, the late involvement of the EITI will have little effects. In addition to the EITI's limited mandate in monitoring and tracking the illicit financial flows, one may argue that the EITI is missing the

mark. Even though the EITI tried to address such issues is the EITI standard revision in 2013, critiques still argue for an insufficient solution (Kolstad and Wiig, 2009; Le Billon, 2011; Sovacool and Andrews, 2015).

As this translates to the claims of corruption, resource management, local development and civil society empowerment, in addition to enhanced environment for FDI. The ambiguity of these claims is represented through the discrepancy between the EITI principles and the EITI requirements (Appendix 1 and 2). While the EITI recognises the needs for improvement in following, they have little no concrete requirements for implementing such improvement. Relying on the causal effects of transparency and disclosure in resource management, is apparent through the principles using wording like “we recognise”, “we share the believes”, “we affirm” and “we underline”. These claims show no commitment to the EITI’s role in solving the issue, and with the expectation of point 9 in the EITI principles, which underlines the obligations of the initiative to promoting transparency in the resource sector, the role the EITI itself in solving the issue is nothing more than dubious. The lack of commitment to the issue is also, according to Sovacool et al. (2016) has translating to lack off results in matters related to ‘good governance’. In their study using the metric status of candidacy, between pre-EITI, EITI-candidacy and EITI compliant, showed that only in the fields of regulatory quality and FDI did the EITI countries show tangible improvement from pre-EITI status all the way through EITI compliant status. Countries may have improved in this period, but not more than the trajectory before the EITI already indicated. Hence, the insignificancy of EITI status as an indicator for improvement. These results are supported by Rustad et al., and even though the EITI is not making strong claims about contribution to societal development, it is clear from the EITI principles and EITI Articles of Association that this is the long term goal of the initiative (Scanteam, 2011).

#### **7.4. Foreign direct investment may be counterproductive**

As previously mentioned, point seven in the EITI principles is seen as an outlier, by using Haufler’s model of transparency’s impact in resource-rich countries, improvement in FDI environment is not mentioned as a causal effect of transparency. Still, EITI implementation is both claimed and though to send a signal to investors that these countries are safe investment climates (Rustad, Le Billon and Lujala, 2017). Thus, membership in the EITI should increase

the general inflow of FDI. Additionally, implementation for the EITI is also a requirement for getting access to funding support from some international organisations and institutions, thus creating a system enticing governments and corporations to join the EITI (Rustad, Le Billon and Lujala, 2017). The notion that there is a connection between motives to join the EITI and funding contribution, as well as FDI, seems to be an almost unanimous claim in the field of scholars (Scanteam, 2011; Schmaljohann, 2013; Sovacool *et al.*, 2016; Rustad, Le Billon and Lujala, 2017; Haufler, 2018). Maya Schmaljohann notes the quality of governance is an important characteristic for investors when deciding on where to invest their capital (Schmaljohann, 2013). Why this is so important is that, while countries in the EITI has not experienced in governance indicators (Sovacool *et al.*, 2016), they have on the other side experience a 50 % increase in FDI, amounting to on average two percent of the national GDP (Schmaljohann, 2013). Which opens for questioning countries intention for joining the EITI. This is further emphasised by David-Barrett and Okamura (David-Barrett and Okamura, 2016) as they show a correlation between the time of membership in the EITI and the amount of aid received. From this argument the EITI membership serves as an aid-conditionality. Going from this they go on to ask if the motives to join for the sake of accessing more FDI.

This line of questioning is made more important as most of the EITI members are identified as developing countries (Sovacool *et al.*, 2016) One of the more basic problem that has led to the economic difficulties in developing countries is the lack of access to capital needed for growth-spurring investment (Schmaljohann, 2013). FDI has become the preferred solution to this issue and favoured means of external finance for developing countries. Backed by two main reasons for filling the gap between domestic savings and investment; they are less volatile sources of capital and have the possible additional advantage of knowledge transfers, which in turn would contribute to growth (Schmaljohann, 2013). This leaves us with a situation where the only incentives countries have for the EITI is prestige and recognition, along with knowledge of resource management and funding, and countries joining the EITI for access to FDI. As they are so aid, is this the real reason for joining the EITI?

Two other aspects of the questions may even further undermine the activities of the EITI. Firstly, local corporations has been known to criticise the voluntary nature of the EITI, as this puts them at a 'competitive disadvantage' (Sovacool *et al.*, 2016). As the EITI require them to disclose information about royalties within countries they operate in (Al Faruque, 2006) and companies that does not favour transparency can gain easy access to license to operate. Secondly, as the EITI's desire to improvement to an investment environment is built on

“corporations and investors, doing business in EITI Compliant countries reduces both political and reputational risk. This, in turn, reduces costs by reducing the need for or lessening the cost of risk insurance” (Freidman, 2001). Hence, creating a better environment for foreign investors and contributes an incentive for the western countries and their corporations to provide funding to the initiative, as an investment in security for future or current business ventures in compliant states. This is further protecting the companies from scrutiny for illegal operations and payments, through the means of self-regulations and blue-washing. In combination with western companies expressing a desire to invest in low- and middle-income countries, as they provide accessible cheap labour and low property rent, a dynamic based on economic desires and not on solving socio-economic issues, like poverty reduction, is created. This become especially apparent as FDI flow only seems to rise as when countries become EITI compliant, the countries announcing EITI involvement doesn't seem to effect aid flow (Schmaljohann, 2013). Companies and countries only seem to trust the necessary intuitional surroundings are in place when they host-countries have achieved compliant status. This dynamic puts the intentions of the EITI into question, as a reasonable argument for the EITI working of an interdependence in securing economic opportunities seems to have merit in reality. In turn questioning the legitimacy and effectiveness of the initiative altogether. If the aim is to cure the resource curse, the economic dynamic of using funding as incentives for participation may show counterproductive. As countries may join purely for economic reasons and with no real intention of changing the status quo, the funding and promotion of an improved investment environment, together with the voluntary nature of the EITI, may show prejudicial.

### 7.5. Civil society as the cornerstone for transparency

As previously mentioned, EITI was created of the civil society pressure made on British Petroleum in Angelo, expressing the need for a strong civil society. The EITI recognise that (stated both through the EITI principles and the EITI requirements (Appendix 1 and 2)) for transparency to work, information produced and consumed must be embedded effectively into procedural practice. Mandating that the civil society be a part of the everyday decision-making practices, through effective multi-stakeholder oversight and a full, independent, active and effective participation. Empowering the civil society through mandated multi-stakeholder

oversight and requiring disclosure of information related to rules for how the extractive sectors is managed. However, by recognising the need for a strong civil society for transparency to work, this can functionally exclude the process to start where insufficient civil society capacity exists (Sovacool *et al.*, 2016). Further stated by Alex Kardon (2008) as “achieving transparency may not cure the curse where civil society is not strong enough to convert information into accountability”. Considering this, transparency cannot by itself achieve a responsible use of resources revenues, if no-one is able to hold decision-makers accountable (Sovacool *et al.*, 2016). With a lack of empowered civil society, extractive companies are able to successfully override efforts or endeavours made to achieve ‘good governance’ transparency (Smith, Shepherd and Dorward, 2012).

The EITI efforts made to unsure civil society involvement is made through establishing multi-stakeholder groups, funding of local initiatives working with promoting the EITI and establishing channels for influencing the decision-making(EITI, 2016b). However, civil society participation is deemed one of the major disappointments of the EITI (Sovacool *et al.*, 2016) Not in terms of its usefulness, but the EITI hasn’t been able to establish the so-called ‘partnerships’ in a genuine way. As they are purely voluntary the “EITI does not obligate an implementing government to be open, accountable, and engaged with its citizenry on extractive revenues. Thus, it is effective only if those countries willing to inform groups of citizens, allow citizens to use information to challenge government.” (Aaronson, 2011). Hence, if governments are already resistant to such practices, they are not obligated to do anything about it. A situation may accrue where governments may listen, but don’t have to follow recommendations put forward by the multi-stakeholder groups. As the EITI is over-emphasizing the need for utilising multi-scalar governance arrangement and public-private partnerships, this remains one of the more basic flaws of the initiative (Sovacool *et al.*, 2016).

Even though the EITI standard through the years has evolved into covering several other aspects of the natural resource value chain (EITI, 2016c), and the 2016 EITI standards makes a clear attempt to address the criticism of a limited mandate and lack of civil society involvement. A broader scope and more rigid validation process has raised implementation costs and greater risk of losing compliant status, which in turn has raised frustration among participating countries (Bickham, 2015). However, in addressing named issues the EITI is also expanding the scope of its involvement. The EITI has been relatively successful in obtaining support for its operations. In the beginning the EITI was mostly supported by the British and Norwegian governments and worked of a budget of US\$ 0,8 million in 2007. From this, it worked its way

up to US\$ 5 million in 2011 and has since plateaued at the same level. Additionally, the EITI also receives about US\$ 1,2 million from off-budget funding for the EITI Global Conferences (Rustad, Le Billon and Lujala, 2017). This model has come under increased stress as the EITI continues to expand the reach and breadth of the initiative. Signs of donor fatigue has become more apparent as commodity prices have fallen sharply and there is still self-finance system in place for the implementing countries, as they contribute to less than 1,5 % of the total budget (EITI, 2016a). Such a system puts economic constraints on what the initiative can achieve. As the budget is plateauing, but criticism of the initiative demands more monitoring and higher commitment in additional areas, an imbalance between what can be achieved within the current limits and what the EITI wants to address is apparent.

#### **7.6. Has the EIT been a success?**

This assessment of the EITI has been very critical, but in attempt to uncover the shortcomings of the initiative I'm able to evaluate what works and where improvement is needed. As previously mentioned, the questions of where the EITI comes from, what it wants to achieve and how it's going to achieve it, where asked to establish legitimacy and efficiency measures based on soft law, input- and output legitimacy mechanisms. When evaluating the input legitimacy, we can draw two main reasons for countries joining the EITI; a) the multi-stakeholder initiative approach based on deliberative democracy providing tools for government accountability and b) the economic interdependency of the member states. As we have illustrated, the EITI has shown a relative success in maintaining a 'tripartite' governance model, including governments, corporations and civil society. Through maintaining an environment, where every player in the international domain have their voices heard, the EITI can use the model of deliberative democracy and preserve legitimacy in the process of rule formation. Even though, the inability to attract more actors may cripple this notion, some credibility must be awarded for the achievements so far. After all, the initiative has only been around for one and a half decade at the writing point and establishing a process for normative changes in the international sphere takes time. This should be taken into consideration, both when talking about intentions and outcomes. The discrepancy between principles and requirements, in the process of rule formation, may just be a result of an ongoing process and other external constraints.

Even so, as the intention of the actors are in question, because of the role of FDI may play in acquiring complaint members, the legitimacy of the whole initiative is in question. As observers may perceive the EITI as just window-dressing, when the real purpose is establishing economic connections. In addition, one should inquire if the process of deliberative democracy is still able to uphold its legitimacy, as this may still be the best solution after everyone's attention is made clear. However, then this should be made clearer in the principles of the EITI, as with the current discrepancy this would impair the current legitimacy of the process. We still have to ask ourselves if the EITI has deviated from the intention to solve the resource curse or if it is, in combination or singlehandedly, trying to establish or maintain economic connection in developing countries? These are complex questions that are hard to answer under the constraint of the assignment. In addition, the EITI is facing more pressing concerns, like donor fatigue.

As the budget has plateaued, at the same time as the EITI is trying to address criticism for its limited mandate, the EITI is pushing the limits of the organisation. As the budget is making constraints on what is possible to achieve, it limits the possibility of a more legitimate outcome. Instead of making the best solution, the EITI is left with making the best solution available. Hence, addressing criticism towards its outcome legitimacy. As EITI in its current form have shown to be ineffective in addressing certain issues, the legitimacy is judged thereafter. However, as previously mentioned we have evaluate the EITI under the conditions accessible. Hence the ambiguity or contrast between the principles and the requirement, can be an illustration of what means where available to realistically be addressed, making the best out of a bad situation. On the other hand, other than window-dressing and blue-washing, was there a need to include these claims in the EITI Principles?

On the other hand, the EITI improving the compliant requirements and demanding a higher commitment from its member states, may result in the EITI losing some member states, but the once that are left will be those who are really committed to change. Hence, improving both the input and output legitimacy of the initiative. As deliberative democracy is all about finding the best solution available through an open and fair deliberative process, this may show to be a step in the right direction. As this may give a higher chance of real change. Indeed, even though this may lead to losing some members short-term, in the long run a higher output legitimacy may lead to the EITI attracting new members. It's important that the EITI shows results and improvement in order to maintain its global position and attaining its status as a pioneer in resource management. This can only be achieved if legitimacy is maintained.

Due to the fact that EITI is working within the international sphere gives the initiative limited amount of ways to influence its member states. Hence, in the evaluation of the EITI the constraints of the international sphere have to take into account. For the purpose of not infringing on national sovereignty the EITI is relying on soft law mechanisms. In many ways this is seen as the only possible way for the initiative to work or the only tool available. However, as a result many of the initiatives shortcoming is also related to this space of operations. I have illustrated that on the institutional- and operational level the voluntary nature of the initiative seems to be a common denominator for most of the issues the EITI is experiencing. The EITI seems to be walking on a knives-edge, between attracting countries attention with a lucrative solution and having the requirements necessary to effectively achieve its goals. As the initiative is voluntary, countries will only stay involved as long as they see the benefits of an EITI membership. Especially, as the U.S. leaving showcased an inability to sanction non-compliance. This may arguably be the fault of soft-law mechanisms, but as other organisations are able execute harsher injunctions for noncompliance, one most ask why this is the case with the EITI? Arguably, this relates to the fact that the EITI has a weak connection to other aspects of the involved countries international operations, other than FDI. Hence, the attraction of aid dependent countries as member states and the interest from this group in joining the EITI. The EITI attracting members with other external interest, like FDI dependency, together with its voluntary nature, opens the possibility of window-dressing. In summary, the use of soft-law mechanisms, may be the only tool available to influence its member states, but is also crippling the effectiveness of the EITI.

## **8. Illustrating the local effects of the EITI**

We have through a critical assessment of the EITI as a MSI brought into question the legitimacy and effectiveness of the EITI on the institutional- and operational level internationally. For the purpose of illustrating how this translate to the national level I will evaluate the EITI in Ghana. I have previously explained the basic structure of Ghana's political and economic structure. I will now illustrate how EITI's decision-making output translate to the local level and if the issues portrayed on the international level is present in the compliant state of Ghana.

### **8.1. EITI's effects on Ghana**

#### **8.1.1. Management of resource revenues and equal distribution in Ganesan case**

As described in a previous chapter the fund structure of recourse revenues in Ghana is divided between mining and, oil and gas and even though they are many of the same characteristics, they portray a very different revenue allocation. This may arguably relate to attributes from the two sectors, as mining operations has higher risks and lower margins, they are often taxed at lower rates as the mining companies higher rate of return on investment. However, as oil was found in 2007, the fact that more of the revenues are returned to development funds, is arguably related to higher and more organised civil society pressure in the formation of the regulations (Oxfam America, 2016; Siakwah, 2017). It's important to note that most of the revenue collected is used for covering government expenditures and only ten percent of mining revenue is allocated for local development, while thirty percent in the oil and gas sector.

All minerals found in Ghana, under Article 176 by subject of constitutional law, is property of Ghana, and ten percent of revenue collected raised or received shall be deposited in the Consolidated Fund. Hence, giving the governments all legislative power, as well as the right to collect royalties and negotiating licence agreements. Thereby, the government control how, when and where minerals are extracted. The Mining and Minerals Act (MMA) of 2006 specifies the royalties, rent, and fees that are to be collected for the Consolidated Fund, while the Mining Commission serve as the regulatory body for the Ganesan mining-industry. Whereas, the

Stability and Development Agreement (SDA) stipulates the formal rules for collecting revenue. This structure of auditing in mining sectors is in many ways been criticised for its simplicity (Oxfam America, 2016). The commission controls where the revenue is going, but doesn't dictate how the money should be used when it gets there.

In term of oil and gas revenues, the 2015 Petroleum Revenue Management Act (PRMA, Act 893), is defining central budget allocations and rules and regulations on investment and savings from oil and petroleum. Additionally, providing financing for the national oil company (Oxfam America, 2016). The PRMA 893 stipulates that 30 percent of revenues should go to Ghana Petroleum Funds (GPF), while the rest should be used for government annual budgets. As mentioned, the civil society pressure contributed to a lot more generous revenue allocation model then in the mining sector, and something we will discuss later. In addition to thirty percent being allocated to the GPF, 25 percent of annual revenue is to be allocated to the Ghana Infrastructure Investment Fund (GIIF), with the purpose of infrastructure development. However, PRMA demands that allocations of the annual budget funding amount be approved annually by the parliament, while, the national petroleum company can, by law (PNDC law 64), borrow without parliamentary approval. Hence, the PRMA takes away the legislative power of parliament over its national petroleum company. Making it harder for the government to control activities and operation made by the national petroleum company. A decision made even more ambiguous as member of set parliament sits on the board of the national petroleum company. Additionally, the PRMA prohibits earmarking of petroleum revenue, meaning that the funds cannot be allocated to affected communities (Oxfam America, 2016).

The EITI and GEITI's contribution to bringing attention to discrepancies between production and revenue data is considered a success. Their work has generated guidelines for the share of royalties distributed to local development funds and documenting that company payments and government revenues match (Oxfam America, 2016). In doing so, the EITI is making sure that Ghana is meeting the EITI Requirements, hence its ability to maintain its compliant status. However, this is where the auditing of Ghana's revenue streams ends, as illustrated in figure 5. As the Oxfam report (2016) describes it "it remains difficult to assess whether the lowest-levels of recipient institutions, such as traditional institutions, actually receive what is duly theirs". The issue doesn't stop there, as most laws and regulations regarding the use of resource revenue funds are seen as more of guidelines and it's left up to local authorities how they want to use the funding, most of the money is used for covering daily expenditure and personal gain (Dupuy, 2017). Beyond the allocation formula earlier portraited,

“no rules exist for how decisions should be made regarding the use of funding for community purpose by the chiefs or the traditional council” (Standing and Hilson, 2013). It’s clearly visible that the critics from the international level of the EITI, arguing that the EITI is not covering enough of the revenue process was right, as it is clearly the case in Ghana. The government of Ghana have not presented any rule and regulations for management of the resource revenues further than what the EITI is auditing. Hence, presenting fuel to the claim of the EITI’s limited mandate. Additionally, the relatively small sum transferred to local chiefs and administration may reflect “the state’s largely symbolic recognition of chiefs, and the intuition of stools” (Oxfam America, 2016).

#### 8.1.2. The extractive industry sectors contribution to economic development in Ghana

The EITI’s involvement has played a big part in the auditing process of revenue allocation on the national level. Through the support of the Ghana EITI group, discrepancies in payment transfer and royalty collection is mitigated (Dupuy, 2017). As presented in the last chapter, allocation mechanisms for local development is in place. However, as the EITI is working of a limited mandate, its output is not able enforce mechanisms that ensure rules and regulations are followed up further down in the process. Even though, the process has established funding structures like; Consolidated Fund, Heritage Fund, Stabilization Fund and Infrastructure Investment Fund, a lack of rules and auditing mechanisms, as well clear guidelines for how the funds should be distributed, expectations for tangible results are limited (Oxfam America, 2016). As poverty and local conditions for the most part remain the same, it’s clear that the EITI is not contributing to local development. Ghana has through an absence of accountability in the institutional structure at all levels, developed a system unable to implement efforts with reasonable expectations for legitimate change. The EITI’s limited mandate has yet again shown an inability to make significant change.

### 8.1.3. EITI Transparency's effect on corruption in Ghana

As the PRMA and the MMA is only concerned with allocation of revenues into national funds, but we no system to ensure allocation of set funds to local development or contractual disclosure, an environment without auditing, rules or regulations to make sure money reaches whom every they are meant for, creates opportunities for corruption. As previously mentioned, critics like Shaxson (2008) points to the fact that corruption is often far worse in government spending than in than revenue transfer. Hence, the PRMA and MMA inability to manage or audit revenue allocation in the lower levels of government spending, opportunities for corruption are present. An allegation back by K. E. Dupuy (2017) as “there is no clear guidelines as to what exactly maintenance of [local] offices and status entails” in regard to the locally distributed funding and “the consequences of this ambiguity is that [local officials] who receive the funds simply use the money for their private projects and personal gain...”.

When considering the output legitimacy of the EITI, it's a clear that the output or activities on the local level is not substantial enough to have a real impact on corruption, as the limited mandate isn't 'hitting the mark'. Hence, the operational issues of the EITI is illustrated as transferring to the local level. A key lesson from this is that if transparency should mitigate corruption, implementation of resource revenue distribution policies cannot depend on inaccessible and unaccountable local institutions, because if so, revenues are more likely to be siphoned off private use or selective interests.

### 8.1.4. Civil society empowerment and, corporate and government accountability in Ghana

Civil society pressure has shown to work in limited fashions in Ghana. The arrangements for governing revenue management is so different between oil and mining, because the mining sector was reformed during a period of structural adjustment, while the oil was discovered in 2007, and civil society was significantly engaged in the process of drafting the legislations(Oxfam America, 2016). Over 100 civil society groups, NGOs, experts and community-based organisations formed the Civil Society Platform on Oil and Gas (CSPOG) came together in order to put pressure on the government to improve the existing petroleum laws. The CSPOG experienced significant success and managed to influence the government

to include specific provisions in the PRMA, like the 30 % of revenue to a separate development funds and more importantly the establishment of the Public Interest and Accountability Committee (PIAC) (Oxfam America, 2016).

However, the initial success, later showed to have limited effects on the accountability. The PIAC's institutional weakness derives from it mainly being a result of civil society pressure and not wanted by the government. Something especially visible through the government unwillingness to curtail its own discretionary power. As civil society hasn't been able to pressure the government to disclose contractual procedures, the result is that by the time extractive contracts reaches parliament, it is too late to make changes (Oxfam America, 2016). As previously mentioned, CSOs and the GEITI have shown success in disclosing discrepancies in royalties and payments, but as the disclosure of such information stops at this level, accountability of further transfers of money is lost.

Moreover, as CSOs and GEITI is voluntary, goodwill initiatives, and not part of the judicial process of decision-making, they lack the power of enforcement or prosecution, and therefore cannot enforce sanctions. In addition to this, as the PIAC is funded through the PRMA, its independency is in question, as the funding comes from the very institution it is there to investigate. In addition, as the CSO's and GEITI are unable to prosecute the government accountability is lost. When they are called upon to provide reports for the Parliament or the executive branch, the report is merely seen as suggestions and usually not taken into consideration.

Hence, even though the civil society has shown some results in legislation formation, their inability to hold actors accountable later in the process, due to lack of disclosure contractual procedures, have resulted in an ineffective civil society. As the EITI's limited mandate can't provide the CSOs with the necessary information to prosecute the executive government, the civil society in Ghana will remain ineffective. Consequently, if the judicial system remains heavily in favour of the executive branch, the power gap between the executive branch and the civil society will endure. The case of Ghana, illustrates the issues expressed on the international level, if EITI doesn't provide civil society with the tools necessary, they won't be able to hold governments accountable.

#### 8.1.5. Can the EITI solve the local issues in Ghana?

As we can see from the Ganesan case many of the institutional and operational challenges of the EITI is translated to the local level. The main issue for Ghana is remains institutional barriers to obtaining information about the collection and management of resource revenues accruing from natural resources. Despite Ghana making significant democratic gains over the last decades, the relationship between executive branches of government and the pressure from parliament and civil society seems to be the heart of the problem. A problem seemingly driven by a capacity issue, but also a law bias towards the executive powers. This results in a lopsided relationship where horizontal oversight institutions are rendered dysfunctional, both through lack of investigative resources and procedural authority. The imbalance of power between the ruling and the ruled, make the ruled relying on parliament as their champion. As the Oxfam report describes the Parliament as “dysfunctional, these institutions [civil society institutions] are rendered largely ineffective, or only effective in instances where their findings galvanize public outrage”. The outcome of such imbalances, as insufficient oversight to drive high level decision-making, makes accountability move from manifested between citizens and the elected officials, and instead manifesting itself between members of parliament. As a result, without an empowered civil society, access to natural resources are leveraged to maintain positions of authority within this informal system, which in turn makes resource management highly inefficient. Instead of natural resource wealth being used for development, it is used as leverage for personal political gain.

The EITI not wanting to infringe on national sovereignty, can only try to provide the Ganesan civil society with the tool for scandalising the executive decisionmakers. However, as the judicial system is so lopsided in favour of the executive branch, description of institutional responsibilities to raise accountability may show to be a slow and tricky task. However, the EITI undermining the interest of the political elite may result in Ghana opt out of the initiative. So, the EITI must balance its involvement, and make sure legitimacy of operations are intact with the principles of the EITI.

## **9. Discussion**

Throughout last half a century the international sphere has been in constant change, and as we are moving towards a post-Westphalian world order, the need for need for international structures is growing. Actors from all social domains are expressing the need for a way of governing activities on the global sphere. Hence, in an effort for a common solution corporations, civil society and governments come together to solve bigger issues, that in some cases require more than just national pressure. As actors move their operations over state lines, even over the whole world, previously assumed truisms are being questioned in the pluralist global society. In consequence, to establish predictability and a common understanding, where rationality rules, actors use communication to create norms and codes of conduct which everyone can follow. Involving all affected members in multi-stakeholder forums to ensure the best decisions are drawn.

One of such global issue is the resource curse. Portraying, a situation where a starving group of people are handed the building blocks for a farm big enough for them all, but without a blueprint or instruction, they don't know what to do, and sells the farm up of scraps or break it down into bows and arrows. For without the knowledge or leadership to utilise what they are handed, they can't turn a golden opportunity into a foundation of security for a sustainable future. As earlier the expressed, the reason for the resource curse are many, but organisations like the EITI claim to provide tools for the solution.

However, as we have analysed and discovered the EITI, despite its best efforts, may not have all the answers. The reason for this seems to be many; a limited mandate, ambiguity, lack of incentives and enforcement mechanisms, maybe even if the intention to solve the issue is genuine. The EITI's limited mandate is in many ways a representation of what the funding structure allows. How more elicited financial audit may both impose on undermining national sovereignty, and require a substantial expansion of the EITI organisation. Hence, unless the EITI experiences a substantial uptick in member states or funding support, it's unlikely that EITI can expand its mandate without stretching itself too thin. I also raised question of the ambiguity in the principles and requirements, and as I have tried to show it may stem from the EITI using of blue-washing mechanisms to attract more attention or an effort for outlining the future potential for transparency. However, claims without action is undermining the legitimacy of the operations. Why should we trust the EITI in achieving substantial results, if their actions

portray a different reality? Additionally, as the EITI is working off soft-law mechanisms, it can only incentivise the member states in making change. Hence, its influence is based on its ability to establish favourable conditions for the countries to work off. Much of the criticism of the EITI's approach to solving the resource curse, is reflecting in soft-law mechanisms issues. Hence, issues that may not be related to the EITI, but related to the global sphere in total. Even so, the EITI's inability to scrutinise and sanction leaves the initiative with a voluntary nature, and as we have shown limits the mandate and consequently its output legitimacy.

It is clear that using soft-law is having substantial consequences for the EITI's effectiveness. Additionally, the incapacity to solve the resource curse, even though it is under the current restriction may be unrealistic, this undermines output legitimacy. As the EITI has 20 compliant states, it shows to be somewhat effective in implementing its requirements. However, as the evaluation of the compliant status is done internally, with no third-party evaluation, it is legitimate to ask what compliant status actually means? Sovacool et al. (2016) shows that gaining compliant status has little to no impact. Still the EITI itself categorises some of the compliant states as having 'satisfactory progress'. Illustrating a discrepancy between what is considered 'real impact' and putting input legitimacy into question, as the process of rule formation may build on a too simple a premise. Importantly, Sovacool et al. (2016) does not dismiss the EITI as a whole, as they recognise the limited timeframe of the EITI. Results may be different in the future.

As portrayed by Etter (2014) externalities or local conditions in the cases of Mali and Peru, showed to play a significant role in the effectiveness of the EITI (Etter, 2014). Hence, the EITI's universal approach will rationally display distinct effects in different cases. Even so, personalising and designing different mandates for every member will be more efficient, this will create bias and favouritism, hence limiting the input legitimacy of the EITI. Therefore, limiting the EITI to a universal approach.

In our study of the Ganesan case it is clear that many of the institutional and operational challenges of the EITI are well illustrated. Especially, when it comes to the limited mandate and civil society empowerment. While Ghana is meeting the requirements of the EITI, it's not making a real effort in changing the system. In many ways portrayed in the imbalance between the executive branch and the rest. Even though Ghana has a vibrant civil society, without the mechanisms in place for accountability and involvement in real legislative discussions, the civil society aren't able to effect process substantially. However, it showed sparks of what may come to be under negotiations of the PRMA. As the culture for elitism and chieftainism is well

embedded and it may take longer for the civil society to gain the support necessary for change. The EITI is providing some tools, but Ghana needs to make the change themselves, after all the change is for them.

So, as we have asked through this study, ‘Does the EITI work?’. In absolute terms, ‘no’. However, if you value the EITI’s limitations against its achievements, it has, in only 15 years, made substantial leaps in the right direction. Deriving from simple civil society pressure in Angola on a single oil company, it has been able to establish itself as a norm-setting initiative. Moreover, through deliberation is able to bring governments, corporations and civil society organisations together for cooperative solution to a major issue like the resource curse. It’s an organisation still in evolution, and through constructive discussion, learn from its limitation and arrive at new solutions. That in itself is a remarkable, and not something that can be set for most actors in the international sphere. As clergyman Robert H. Schuller once said, “It’s better to something imperfect, then to do nothing perfectly”. If you’re able to see through the EITI’s imperfections, it’s remarkable achievement may not have yet shown tangible results, but the seed is planted for countries affected by the resource curse to make changes in the future. The EITI may have been too ambitious in its claims, and transparency may not solve everything, but at least its providing the countries with further tools. You cannot ask the countries to change and simple expect that it will happen overnight. As history has shown us, normative change takes time, even though the solution may seem clear from the outside, it’s always more complex changing it from the inside.

### **9.1. Way forward**

I have evaluated the different limitations of the EITI against expectations of the EITI. As stated, the EITI has shown to have many limitations, but as we argue, not all are they fault of the EITI. Some of its limitations may derive from the global sphere its operating in. However, it is clear that through the criticism of the EITI, organisations and scholars alike, think the EITI should do more. If they are right in claiming so, or if these are unrealistic claims without roots in reality, is still up in the air. Even so, as the EITI has shown to be inefficient in many of its claims, hence it’s legitimate to ask for improvement. Where does the road end for the EITI and when can we with certainty define the EITI as a success? As, the EITI is part of a process, we should not be too quick to judge a legitimate effort to do good.

However, one question still remains; the use of FDI as incentives for joining the EITI. As we illustrated earlier many of the member states of the EITI were highly aid dependent before joining the EITI. Questioning whether joining the EITI is to solve the resource curse or if it's to access to more FDI that determines the interest in EITI? Together with western countries and companies interest in access to natural resources that drives the intention of the initiative. Providing grounds to future studies and certainty give clarification to the input legitimacy of the EITI. Also lay to bed questions of the EITI being a window-dressing to cover other intentions.

## 10. Concluding remarks

After analysing the EITI's successes and failures, it has become clear that an absolute answer is both inadequate and insufficient to describe if the EITI works. While the EITI has been successful in establish itself a MSI in the global sphere, through its ability attract relevant actors and how it has become a norm setter both in the extractive industry sector and for multi-stakeholder initiatives as a whole. The limitations of the EITI is many and the EITI is not in itself cure for the resource curse. As I have shown, the EITI isn't able to translate successes on the institutional level into meaningful changes in the operational and local spheres. Even though the ambiguity of its claims, gives the EITI leeway in terms of perception on success, not showing any significant results, in areas other FDI and regulatory quality, questions the legitimacy of the initiative (Sovacool *et al.*, 2016). As Palazzo et al. (2012) stated 'without legitimacy MSI's will be ineffective'. As illustrated through the Ganesan case, the tools supplied may not be sufficient and provide any meaningful change. As structures of accountability isn't working, the EITI is missing the mark in curing the curse in Ghana.

Even so, we should give credit where credit is due, with only a lifespan of 15 years and operation in highly unstable and corrupt areas, for twenty countries to meeting the requirements with 29 in the process of doing so is remarkable. Of course, the EITI could have achieved more, but normative changes in a pluralist society is a tall task to accomplish in just one and a half decade. This is not the end of the road for the EITI, it has shown an ability to adapt before, something that will be important in the future. With the continues support the EITI is receiving, I don't see the initiative ending any time soon and a few bumps in the road is the be expected.

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## 12. Appendix

### Appendix 1: The EITI's 12 principles of regulations

1. We share a belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction, but if not managed properly, can create negative economic and social impacts.
2. We affirm that management of natural resource wealth or the benefit of a country's citizens is in the domain of sovereign governments to be exercised in the interests of their national development.
3. We recognise that the benefits of resource extraction occur as revenue streams over many years and can be highly price dependent.
4. We recognise that a public understanding of government revenues and expenditure over time could help public debate and inform choice of appropriate and realistic options for sustainable development.
5. We underline the importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability.
6. We recognise that achievement of greater transparency must be set in the context of respect for contracts and laws.
7. We recognise the enhanced environment for domestic and foreign direct investment that financial transparency may bring.
8. We believe in the principle and practice of accountability by government to all citizens for the stewardship of revenue streams and public expenditure.
9. We are committed to encouraging high standards of transparency and accountability in public life, government operations and in business.
10. We believe that a broadly consistent and workable approach to the disclosure of payments and revenues is required, which is simple to undertake and to use.
11. We believe that payments' disclosure in a given country should involve all extractive industry companies operating in that country.
12. In seeking solutions, we believe that all stakeholders have important and relevant contributions to make – including governments and their agencies, extractive industry

companies, service companies, multilateral organisations, financial organisations, investors and non-governmental organisations.

Source: (EITI, 2016b) The EITI Standard 2016

## Appendix 2: The EITI Requirements

### 1. Oversight by the multi-stakeholder group.

The EITI requires effective multi-stakeholder oversight, including a functioning multi-stakeholder group that involves the government, companies, and the full, independent, active and effective participation of civil society.

### 2. Legal and institutional framework, including allocation of contracts and licenses.

The EITI requires disclosures of information related to the rules for how the extractive sector is managed, enabling stakeholders to understand the laws and procedures for the award of exploration and production rights, the legal, regulatory and contractual framework that apply to the extractive sector, and the institutional responsibilities of the State in managing the sector.

### 3. Exploration and production.

The EITI requires disclosures of information related to exploration and production, enabling stakeholders to understand the potential of the sector.

### 4. Revenue collection.

An understanding of company payments and government revenues can inform public debate about the governance of the extractive industries. The EITI requires a comprehensive reconciliation of company payments and government revenues from the extractive industries.

5. Revenue allocations.

The EITI requires disclosures of information related to revenue allocations, enabling stakeholders to understand how revenues are recorded in the national and where applicable, subnational budgets.

6. Social and economic spending.

The EITI requires disclosures of information related to social expenditures and the impact of the extractive sector on the economy, helping stakeholders to assess whether the extractive sector is leading to the desirable social and economic impacts and outcomes.

7. Outcomes and impact.

Regular disclosure of extractive industry data is of little practical use without public awareness, understanding of what the figures mean, and public debate about how resource revenues can be used effectively.

8. Compliance and deadlines for implementing countries.

This section outlines the timeframes established by the EITI Board for publication of EITI Reports (8.2), annual progress reports (8.4) and Validation (8.3). It outlines the consequences of non-compliance with the deadlines and the requirements for EITI implementation. It also explains the possibility and criteria for countries to apply for adapted implementation (8.1) and extensions (8.5).

Source: EITI (2016) 'The EITI Standards 2016' Edited by Dyveke Rogan. Oslo: The EITI International Secretariat.



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