

Norges miljø- og
biovitenskapelige
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Master's Thesis 2016 60 ECTS

International Environment and Development Studies (Noragric)

**Is transparency the answer?
A study of the impacts of
transparency in the extractive
sector in Ghana.**

Zoila Sofía Lorena Mazariegos Samayoa
Master of Science in International Relations



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Is transparency the answer?

A study of the impacts of transparency in the extractive sector in Ghana.

1. Introduction

Transparency has become more than a buzzword in the global governance discussion. In the later decades, many international nongovernmental organisations, academics and the international financial organisations give transparency the status of ‘swiss-army knife’ (Andrews 2016; Gillies and Heuty 2011) of international development policy making. It seems that transparency has become the global norm to tackle corruption and improve governance. Civil society groups and coalitions –Global Witness, Oxfam, Publish What You Pay- have been formed demanding the public disclosure of information from governments and transnational companies. International financial organizations, such as the World Bank, promote it as a global norm by financing projects aimed specifically to this end.

Nonetheless, many academics and opponents of this measure have criticised transparency as an all-encompassing and only solution for problems such as corruption and patronage, improving the social and economic wellbeing of citizens and improving governance. Gillies and Heuty (2011:30) explain this critique:

Transparency cannot directly affect the social and economic wellbeing of the population or the quality of governance. There are intermediate stages, and transparency’s singular impact dilutes with each subsequent stage. The development of a more complex and specific understanding of the causal pathways between transparency, governance, economic, and development outcomes is paramount to monitoring such initiatives and to improving their design (Gillies and Heuty 2011:30).

Transparency in natural resource governance is particularly encouraged in the global governance discussions, especially in the extractives industries and in high-value resource rich countries. In the 1990s, the resource curse theory was developed and it attributes corruption, patronage and control of the resource revenues by the elites as causes for low economic growth in countries endowed with natural resources.

Following that line of thought, advocates of transparency have promoted different initiatives. One of the initiatives promoted for transparency in the extractive sector is the Extractive Industries Transparency Initiative –EITI-, which is a voluntary standard adopted by countries with abundance of natural resource in order to get international recognitions for their efforts in tackling corruption in the extractive industries. The EITI was created in 2003 and up to August 2016 has 51 member countries (EITI 2016b). The main purpose of the EITI is that governments and companies disclose revenues from their operations in the extractive sector and makes them available to the public.

From the academic point of view, it is valuable to analyse and study the impacts of transparency in the extractive industries, particularly in developing countries. In this thesis, I have focus on studying the impacts of transparency in the extractive sector of Ghana. Ghana has been part of the EITI since 2010 and has published reports on the extractive industries since then. Ghana has historically been a mining country, but with the discovery of oil in 2007 and began production in 2011. Ghana is a focus country for the transparency advocates since, due to political and economic stability in the past two decades, has escaped ‘the curse’ from natural resource production. But with the discovery of oil and the volatility of the prices, the economic growth and stability of Ghana can take a turn if those resources are not well governed.

This thesis explores the different theories and assumptions related to natural resource management, such as a description and understanding of what is the *resource curse*, how it affects countries rich in high-value resources and why some countries have seemed to have escaped it, while others have succumbed to it. The thesis also explores the initiatives and actions promoted to avoid such curse, particularly *transparency*, and how advocates of transparency see it as a solution for many of the development problems that affect developing countries, particularly in the *extractive industries*. Furthermore, it explores how several

organisations that implement programmes in developing countries come up and advocate for change in policymaking with their own *theories of change*, being transparency in the extractive industries one of them.

To further understand and put into context all the above theoretical assumptions, I have decided to use Ghana as a case study. Thus, this thesis will try to answer the following question: To what extent transparency actions and public disclosure of revenues from the extractive sector in Ghana, have led to a more comprehensive distribution and allocation of such revenues?

The thesis is divided in four sections. Section 1 discusses the methods used for the research. Section 2 describes the extractive sector in Ghana. Section 3 explores the theories and concepts relevant for the research: the resource curse, theory of change and transparency. Section 4 links the theory with the findings.

1.2 Methods

This research is a qualitative research. I chose to conduct a qualitative research because, according to Bryman (2012:380), “Qualitative research is a research strategy that usually emphasizes words rather than quantification in the collection and analysis of data. As a research strategy it is a broadly inductivist, constructionist, and interpretivist, but qualitative researchers do not always subscribe to all the three of these features.”

I chose to use the case study method, which “entails the detailed and intensive analysis fo1 single case.” (Bryman 2012:66). It can be defined as “an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.” (Yin 2009:18). Case study research explores the complexity and particular nature of a chosen case. The main objective of case study researchers is “to generate an intensive examination of a single case, in relation to which they then engage in a theoretical analysis.” (Bryman 2012:71). The main concern is the quality of the theoretical reasoning engagement. The sub-category of case for

this thesis is the representative or typical case, which Bryman calls the exemplifying case. The objective of this case study is “to capture the circumstances and conditions of an everyday or commonplace situation” (Yin 2009:48). Exemplification may refer that cases are often chosen because they can provide a suitable context for certain research questions to be answered. A case study “allows investigators to retain the holistic and meaningful characteristics of real-life events.” (Yin 2009:4).

The data was collected from primary and secondary sources, such as official documents from the Ghanaian government, as well as official reports from organisations, and academic articles and studies. What I refer here to official documents include reports, standards, and institutional webpages. The academic articles and studies often refer to such official documents, but also are used as reference in the theoretical analysis. The majority of the revised documents were obtained through a combination of systematic internet-based article searches. In addition, key papers and reports were identified through my personal knowledge, and my supervisor’s suggestions.

To analyse the documents, I used the qualitative analysis of documents. According to Bryman (2012:557), this “comprises a searching-out of underlying themes in the materials being analysed”. A theme is “a category identified by the analyst through his/her data; that relates to his/her research focus (and quite possibly the research questions)” (Bryman 2012:580). Additionally, a theme “provides the researcher with the basis for a theoretical understanding of his or her data that can make a theoretical contribution to the literature relating to the research focus.” (Bryman 2012:580). After identifying the central theme of the thesis, transparency as a global norm, I went on to identify sub-themes of interest within the chosen case study. This led me to identify themes and recurrent terms and topics within the main subject.

Since this thesis is based on the qualitative research method, reliability and validity of the chosen methods should be taken into consideration. However, I have chosen to use the term trustworthiness and authenticity, proposed by Guba and Lincoln (1984 in Bryman 2012) instead the usual terms of validity and reliability. They propose that the application of reliability and validity standards to qualitative research is that such criteria assumes that “a single absolute account of social reality is feasible.” (Guba and Lincoln 1984 in Bryman 2012:390). They argue that, instead of the realist view of absolute truths about the social

world, there can be more than one and possibly several accounts. Therefore, they propose an alternative criteria to the use of validity and reliability, used mainly in the quantitative methods: trustworthiness and authenticity. I will use the term trustworthiness for this thesis.

Trustworthiness has four main criteria: credibility, transferability, dependability and confirmability. The first criteria, credibility, refers to “ensuring that research is carried out according to the canons of good practice” (Bryman 2012:390). Transferability refers to “the intensive study of a small group, or of individuals sharing certain characteristics (...), qualitative findings tend to be oriented to the contextual uniqueness and significance of the aspect of the social world being studied” (Bryman 2012:391-392). Confirmability “is concerned with ensuring that, while recognizing that complete objectivity is impossible in social research, the researcher can be shown to have acted in good faith; in other words, it should be apparent that he or she has not overtly allowed personal values or theoretical inclinations manifestly to sway the conduct of the research and the findings deriving from it.” (Bryman 2012:393). In sum, trustworthiness means that the researcher has the best intentions, does not intend to influence the research to have any gains from it and that the focus of the research as such is on the contextual uniqueness of the case that it is studied.

Although these qualities are nearly impossible to measure, the researcher role in any qualitative study is relevant to take into consideration. In that sense, it is worth mentioning that the purpose of this thesis for myself as a student, is to gain an understanding and experience by carrying out a research of a topic of my interest, without any further interest than to gain insights on the studied case from an academic perspective. The role of the researcher is also important when it comes to the inclination of the analysis. Although the rigour in social qualitative research can be claimed to be subjective, I have tried to be as objective as possible. An important aspect that I believe is worth mentioning is that my interest for studying this case study is a six-month internship carried out at the EITI International Secretariat in Oslo, Norway during the fall and winter of 2015/2016. This internship allowed me to get an insight and a general idea of what the EITI is and how transparency in the extractive industries is a current topic within many organisations and advocates of transparency.

Regarding the ethical considerations for this thesis, it is worth mentioning that all the documents, articles and books that were analysed for the research are of public domain. As

mentioned above, the analysed documents are official documents from the government, or reports from organisations as well as academic articles. Hence, the need for confidentiality clauses or handling of sensitive information does not apply in this case.

Limitations of the study

The scope and objective of this thesis is to start a discussion about the transparency as a global policy, more specifically about transparency in the extractive industries and its impact or lack of impact derived from the redistribution and allocation of the revenues from the extractive sector, specifically in Ghana as case study. However, it is important to note some of the limitations and challenges faced during the research process.

Since the data collected comes from official documents, reports and academic articles as primary and secondary sources, the research presumes that the information in such documents is reliable. Thus, any information that is not accurate, such as figures of royalties levied, revenues allocated, or any other percentages and figures, as well as perceptions and opinions from authors quoted in this work can affect and influence the findings and analysis carried out for this thesis.

2. The extractive sector in Ghana

2.1 Country background

Map of Ghana



Source: http://www.nationsonline.org/oneworld/map/ghana_map.htm. Retrieved August 21, 2016

Ghana is located in Western Africa, bordering the Gulf of Guinea, between Cote d'Ivoire and Togo. It has an area of 238,533 sq km. Ghana possess the world's largest artificial lake (manmade reservoir) by surface area (8,482 sq km; 3,275 sq mi), the Lake Volta which was created by the Akosombo Dam in 1965, holding back the White Volta and Black Volta Rivers (CIA 2016).

Ghana was the first sub-Saharan country to gain its independence in colonial Africa, enduring many coups until Lt. Jerry Rawlings took power in 1981 and banned political parties. In 1992, and after the approval of a new constitution and the restoration of multiparty politics, Rawlings won the presidential elections of 1992 and 1996, followed by John Kufuor elected in 2000 and 2004, John Atta in 2008 but died in 2012, consequently succeeded by his vice president, John Dramani Mahama who won presidential elections in 2012 (CIA 2016).

Ghana is considered as a stable democracy for over two decades, which have been characterized by free and open elections, comparatively low levels of corruption, freedom of press, independent media, strong public dialogue and peaceful political terrain in general (ACEP 2015, NRG I 2015).

Furthermore, in the last 5 years, Ghana has experienced a rapid economic growth of an average of 8 percent. This growth has attracted foreign direct investment, particularly in the extractive sector, making Ghana the fifth-largest recipient of inflows into Africa in 2012. The foreign direct investments increased from US\$2.89 billion in 2009 to US\$3.3 billion in 2013, where more than half of these investments went to the extractive industries (ACEP 2015, Ministry of Finance and Economic Planning 2014).

Ghana has a good international reputation in terms of economic management and has a lower-middle-income country status. Nonetheless, the country faces a high budget deficit and a weak fiscal discipline, which has contributed to shortcomings in the macroeconomic management and risks to a sustainable growth (NRGI 2015). Furthermore, Ghana has a public debt of as a percentage of GDP with an increase from 49.4 percent in August 2013 to 60.8 percent in September 2014, as a direct consequence of pro-cyclical fiscal spending (NRGI 2015).

Additional to the public debt stress in the Ghanaian budget, the fall in gold and cocoa prices as well as the production levels and operational challenges in some of the gold mines of the country has led to layoffs. Furthermore, the decrease in prices in 2013 contributed to a fall in export revenues of US\$1.6 billion of foreign exchange earnings. Gold companies as Anglo Gold Ashanti and Newmont Ghana Ltd had reported 3,000 and 400 layoffs respectively (NRGI 2015). Another stress factor is the energy crisis reported in the country, with less growth than the anticipated economic growth in the industrial sector, thus contributing to a deterioration of the investment climate, due to high taxes, high interest rates, high unemployment and increased cost of living (NRGI 2015).

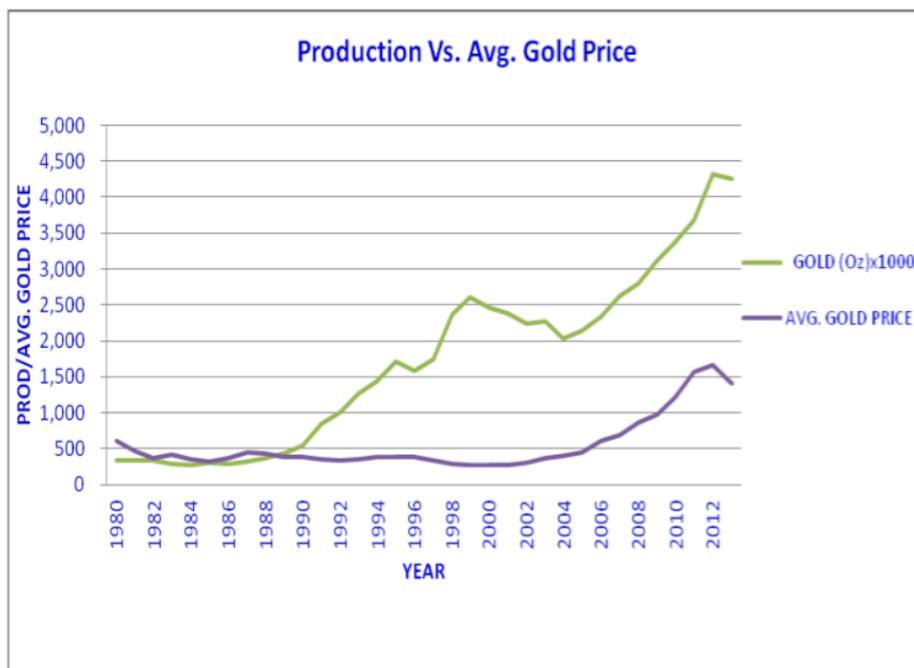
Ghana is not seen as a typical case of the resource curse. In regards to the relatively new oil industry, some academics argue that Ghana has 'structural immunity' (Kopinski et al 2013 in Andrews 2016) to the resource curse due to its political stability, economic diversification and active civil society engagement. However, other authors claim that the curse is emerging in Ghana because of the continuous exploitation by global capital (Ayelazuno 2014 in Andrews 2016). Thus, if Ghana aspires to escape the resource curse, then any aspect related to oil and gas development should be left to chance (Andrews 2016).

2.2 The extractive sector in Ghana

The extractive industries -which includes oil, gas and minerals- takes up a great space in the economies of many resource-rich countries. According to Hålland (2015), it accounts for over 20 percent of total exports and 20 percent of total government revenue in 29 low-income and lower-middle income countries. Moreover, the extractives sector takes up more than 90 percent of total exports and 60 percent of total government revenue in 8 of those countries (Hålland 2015). Additionally, due to the expansion of the extractives sector, investments in such countries has experienced an extraordinary amount of foreign direct investment in Africa between 2000 and 2012, going from \$10 billion to \$50 billion, that is an increase of five times the value of investments in one decade (Hålland 2015).

The 1992 Ghanaian Constitution establishes under the Article 256, that “*every mineral in its natural state, in under or upon any land in Ghana, rivers, streams, water courses throughout the country, the exclusive economic zone and any area covered by territorial sea or continental shelf is the property of the Republic of Ghana and is vested in the President in trust for the people of Ghana*” (Ministry of Finance and Economic Planning 2014).

The extractive sector in Ghana contributes significantly to the economy of the country. During the year 2012, the contribution of the minerals sector was for over 27% fiscal receipts levied by the Ghana Revenue Authority. In 2013, the contribution decreased to 19% due to the decrease of gold prices (Ministry of Finance and Economic Planning 2014).

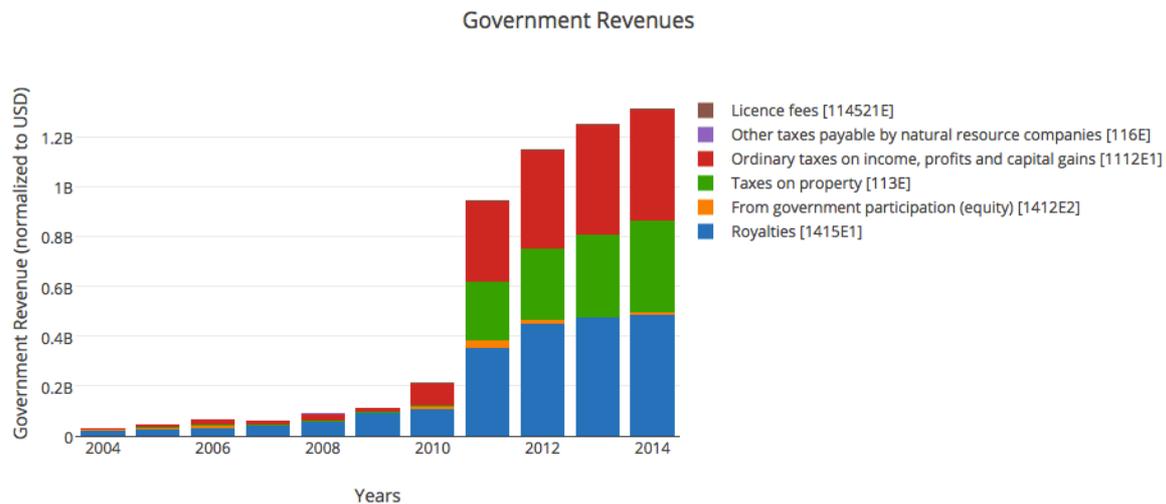


Source: Ministry of Finance and Economic Planning 2014 with information from Minerals Commission.

Since 2012, mining companies with operations in Ghana are subject to different taxes, such as 35 percent corporate tax, 15 percent on capital gains, 15 percent withholding tax for foreign resident companies, as well as 5 percent of royalty on their total revenues (Ministry of Finance and Economic Planning 2014).

Gold is the highest contributor to the extractive sector in Ghana, with large-scale gold mining providing for over 80% in value of the total income from the sector. Other important minerals for the sector are diamond, bauxite and manganese. Exports from the mining sector

represented 42.6 percent of total exports in 2012 and 37.3 percent in 2013 (Ministry of Finance and Economic Planning 2014).



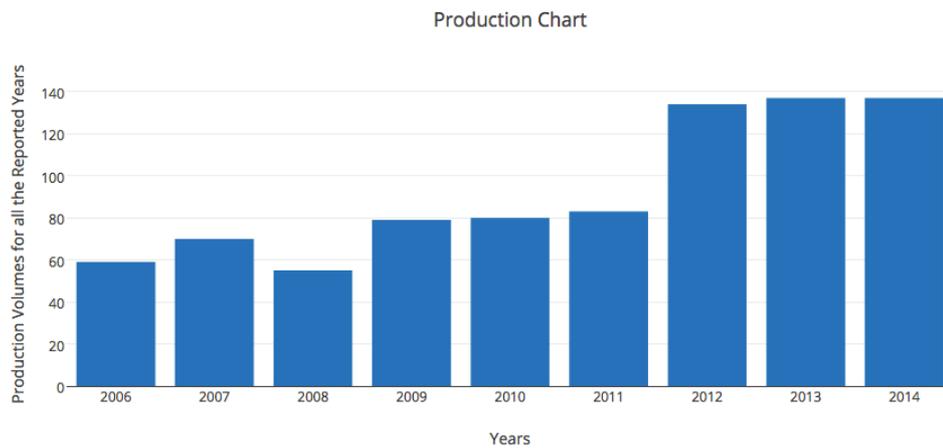
Source: EITI. Ghana. Accessed 22 August 2016. Available at https://eiti.org/implementing_country/4.

Minerals and Oil production

As it has been mentioned previously, Ghana is the second largest gold producer in Africa and the tenth largest in the world. It also has a small production of diamonds (NRGI 2015). The mineral sector accounted for approximately 62.5 percent of exports in 2014 and according to the Ghana Revenue Authority (GRA) the mining sector contributed to over 27 percent of fiscal receipts in 2012. The mineral sector also employed over 17,103 people in large scale mining, and directly or indirectly over one million people through small scale and artisanal mining (NRGI 2015).

Furthermore, approximately 90 percent of the total of government mineral revenues come from gold, where 80 percent is contributed by the large gold mines. Since 1983, the Ghanaian mining sector has attracted over US\$12 billion in foreign direct investments. For the year 2013, the mining sector attracted over US\$1 billion in investments related to mining support services, exploration and production systems (NRGI 2015).

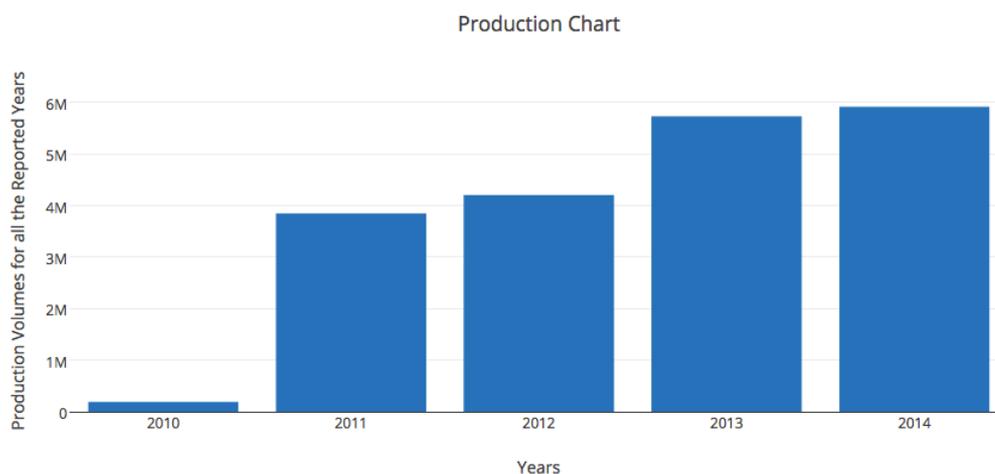
Gold production (Tonnes)



Source: EITI. Ghana. Accessed 22 August 2016. Available at https://eiti.org/implementing_country/4.

In 2007, Ghana discovered its oil reserves at the Jubilee Field and the production started in 2010. For the year 2013, the estimated total of oil reserves in Ghana is of 1.29 million barrels and of gas reserves is of 2.18 billion cubic feet (NRGI 2015). By 2015, oil production had contributed to the Ghanaian economy with US\$2 billion in revenues, and in 2013, the fiscal revenues from oil surpassed the mining receipts. Exploration activities are still ongoing, with two the Jubilee Field and Saltpond field as the main producers until 2014, producing 28,017,990 barrels and 60,728 net barrels respectively. It is expected that for the next decade, the oil production will be carried out in three production developments: Tweneboa, Enyenra and Ntomme (TEN); Sanfoka; and Jubilee. In 2015, the revenues from oil and gas production were of US\$1,236.4 million (NRGI 2015).

Oil production (Sm3)



Source: EITI. Ghana. Accessed 22 August 2016. Available at https://eiti.org/implementing_country/4.

The oil sector is dominated mainly by small independent companies, but larger oil companies have also shown interest of acquiring blocks in the offshore fields (NRGI 2015). Moreover, the government is supporting the national oil company, The Ghana National Petroleum Company (GNPC) and have established The Ghana National Gas Company (GNGC) (NRGI 2015).

Institutional Framework

The mining industry is governed by the Ministry of Lands and Natural Resources under the Minerals and Mining Act 2006. However, due to a lack of regulations for how certain provisions are to be applied, as of 2015 the Act was not fully implemented (NRGI 2015).

The legal framework for the oil and gas sector is comprised by the Petroleum Revenue Management Act 2011, Petroleum (Exploration and Production) Act 1984, Ghana National Petroleum Corporation Act 1983, Petroleum Income Tax Act 1987 and Petroleum Commission Act, 2011. Other proposed legislation includes the 2013 Ghana Local Content Act to regulate and promote domestic employment in the petroleum industry. Additionally, there are two bills going pending of parliamentary approval, including the revised Petroleum Exploration and Production Bill 2013 and the GHEITI Bill (NRGI 2015).

The Extractive Industries Transparency Initiative in Ghana -GHEITI- is governed by the EITI Steering Committee, which is integrated by the Ministry of Finance, the Ministry of Land and Natural Resources, the Minerals Commission, the Ghana National Petroleum Company (GNPC), the Ghana chamber of Mines, the Office of the Administrator of Stool Lands, the Ghana Revenue Authority, Civil Society organisations and the Ministry of Energy and Petroleum (Ministry of Finance and Economic Planning 2014).

Regarding the subnational level, a total of 9 percent of royalty revenues are received by the district assemblies, traditional councils and stool lands or local kingdoms. More than 20 percent of annual revenues for district assemblies are comprised by the royalties and property rates that are collected directly from mining companies (NRGI 2015).

Mineral royalties in Ghana are distributed in the following way: 80 percent to the Consolidated Fund (the general State account); 10 percent to the Minerals Development Fund (MDF), 1 percent to the Administrator of Stool Lands for administrative purposes; and 9 percent are allocated to the local districts that provide the minerals (Nguyen-Thanh and Schneel 2009 Andrews 2016).

GHEITI

The Extractive Industries Transparency Initiative in Ghana -GHEITI- has as governing body the EITI Steering Committee, which is integrated by the Ministry of Finance, the Ministry of Land and Natural Resources, the Minerals Commission, the Ghana National Petroleum Company (GNPC), the Ghana chamber of Mines, the Office of the Administrator of Stool Lands, the Ghana Revenue Authority, Civil Society organizations and the Ministry of Energy and Petroleum (Ministry of Finance and Economic Planning 2014).

Additionally, Ghana has signed a partnership with the UK in 2013 on increasing transparency of extractives and the country signed the Open Government Partnership in 2011 and is a member of the working group on extractives that was created in 2013 (NRGI 2015).

Although academic literature with a specific focus on the GHEITI is limited, some authors, including Andrews (2016) have written articles regarding the performance of the GHEITI and the impact of transparency in the extractive industries. According to Andrews (2016), the GHEITI has some limitations. These include “the separation of GHEITI from other corporate social responsibility efforts, challenges with the provision of data for EITI reports, diverse stakeholder expectations and power relationships, general institutional disinterest in reforms, and the lack of correlation between recorded revenues and royalties and demonstrable positive developmental outcome(s) in host mining communities.” (Andrews 2016:68).

Of the five limitations mentioned above, I will explore more in detail the last one – lack of correlation between recorded revenues and royalties and demonstrable positive developmental outcome(s) in host mining communities. Andrews (2016), claims that even though the distribution of mineral royalties in general is disclosed, there is little knowledge regarding the specific flow of revenue or the use of funds in the MDF. In addition, there is

uncertainty on whether the 9 percent that is allocated to local districts is properly used for community development projects in benefit of the wellbeing of the local communities. According to Andrews (2016:73) this “reflects the lack of correlation between proactive transparency efforts and improved livelihoods at the host community level.” Moreover, he claims that there is an expectation that if the government more revenues as a result of increased transparency, the host communities will be better off. Nonetheless, Andrew’s article suggests that the local communities are concerned that government agencies do not perform their developmental role as expected. He argues that it is clear that without the GHEITI’s reports the general public would not know exactly how much the government receives on revenues. However, the knowledge is not sufficient, since it is important to know how these royalty payments are being used to provide basic needs to people in rural mining areas.

3. Theoretical Framework

3.1. The Resource Curse

The resource curse thesis emerged in academia in the mid 1990's making it a relatively new. The core argument is that countries that are rich in high-value natural resources do not utilize the additional revenue from those resources as a 'blessing' to improve and thrive, and instead the presence of those resources can harm the countries where they are extracted from (Keblusek 2010). A distinction to be made for this thesis is that it does not refer only to the presence of untapped extractive resources, but it is more applicable to economies that derive the vast majority of their revenue from these resources (Keblusek 2010). Such dependency is generally measured by how much the oil or mineral exports dominate the total exports, which according to Karl (1997), it is usually from 60 to 95 percent of total exports. Moreover, it can be measured by the ratio of oil and gas exports to gross domestic product (Keblusek 2010).

Some of the first academics to explore the concept of the resource curse were Jeffrey Sachs and Andrew Warner with their paper *Natural Abundance and Economic Growth* in 1995; as well as Terry Lynn Karl and her work *The Paradox of Plenty* in 1997. The NGO Global Witness' documented work in Angola was documented in the report *A Crude Awakening* in 1999, which brought more attention to the problem. In the words of Keblusek (2010:2), "*These and other reports and studies made it very clear how oil revenues (and by extrapolation, any mineral revenues) frequently served to help a very narrow and unseen segment of elite grasp political control without accountability to the citizens of their countries*".

In the book *Escaping the Resource Curse* (Humphreys et al 2007a), Macartan Humphreys, Jeffrey D. Sachs and Joseph E. Stiglitz claim that countries with abundance of natural resources, mainly oil and gas, usually perform worse than countries with fewer resources, particularly in terms of economic development and good governance. This paradox is noteworthy, since the abundance of natural resources could be an opportunity for wealth and economic growth; nonetheless, this is usually not the case due to this abundance hindering instead of promoting balanced and sustainable development.

Since the emergence of the resource curse theory, academics from political science, economy and development have broadly explored the theory as such, and in the last decade the theory-practice has been widely documented. Comparisons between the economic and development performance of resource-rich countries can be found in many academic articles. Examples as the following lead to academics to question the paradox existing behind the abundance of resource and the links to political and social aspects.

On one hand, those countries that lack natural resources do not particularly face a fatal barrier to economic success. For example, Hong Kong, Korea, Singapore and Taiwan (the so called Asian Tigers) have all achieved rapid economic growth through booming export industries that are based on manufactured goods, despite that their territory has not been ‘blessed’ by natural resource abundance. On the contrary, countries that are considered resource-rich have faced struggles to generate self-sustained economic growth and have even faced economic crises. In the 1990s and first decade of the 2000s, resource-rich countries grew less rapidly than those who are considered resource-poor. Moreover, beyond economic growth, resource-rich are more likely to experience weak democratic development, corruption and conflicts (Humphreys et al 2007a).

Some resource-rich countries have performed better than others in regards to sustainable economic growth, poor governance and redistribution of the revenues from the resources to their population. For example, Indonesia and Nigeria had comparable per capita incomes in the late 1970s, which depended on oil production and sales. However, in the early 2000s, the income per capita in Indonesia is four times than the one in Nigeria (Ross 2003 in Humphreys et al 2007a). Furthermore, the United Nations’ Human Development Index shows that Norway, a country that is a major oil producer, usually ranks on top of the index, and other oil-producing countries such as Argentina, Qatar, Kuwait and Mexico also rank high up in the same index. On the other hand, other oil-producing countries rank at the very end of the same index, including Equatorial Guinea, Gabon, The Republic of Congo, Yemen, Nigeria and Angola (Humphreys et al 2007a).

Additionally, the hindrances of the resource curse can be found not only on the economic growth of a country in comparison to others, but also within the same countries. Even though some countries have a sustained economic growth, or are an important actor in the global resource sector, the inequalities within their territories are on the rise, due to a lack of

redistribution of the economic gains from the international sales of oil and minerals. For example, Venezuela is an oil-producing country with high economic gains from international oil sales, but approximately half of its population lives in poverty due to a lack of redistribution and the prevalence of elites (Humphreys et al 2007a).

Karl (1997) claims that countries that are dependent on minerals share characteristics that are unique to mining countries, but such features are not given as some economic theories postulate, with the exception of minerals being depletable. She argues that such characteristics are a result of prior choices regarding how mining industries should be organized but those decisions are usually made outside these countries. Karl describes the following shared features: a) Economic dependency on a single resource - oil exporters have a more acute economic dependence; b) reliance on a highly-capital intensive industrial sector -petroleum and coal being the highest capital-intensive industries; c) reliance on an exhaustible primary commodity; d) dependency on a resource that is capable of generate extraordinary rents -particularly oil, as a result of unusual organization of the oil market and the special status of oil as a strategic resource; e) in developing countries mineral rents accrue directly to the state, basing their economic power and political authority on their dual capacity to extract rents from the global market and distribute the revenues internally.

Policy makers in resource-rich countries face common problems and pursue common solutions. At the domestic level, they attempt to diversify their economies by using the oil or mineral revenues to encourage other productive activities such as agriculture and industry and at the same time, they try to find mechanisms that relieve the serious equity problems that are common in mineral states. At the international level, they attempt to find ways to collect taxes on their income stream to pay for this development without harming or reducing the strength of the international cooperation. *“The ability to accomplish their domestic goals depends on their special extractive capacity.” (Karl 1997:53).*

Another characteristic of resource-rich countries is that they do not invest in education as soon as they start relying on natural resource wealth. They often ignore the need to a more diversified and skilled workforce that can support other economic sectors when the resources have depleted. Although, the effects of the decline in education and enrollment, mainly for girls, cannot be perceived in the short-term, the effects are likely to become more significant in the longer run as soon as the economies begin to try to diversify (Humphreys et al 2007a).

An important aspect for the analysis of the resource curse paradox is the understanding of the two aspects that make the resource wealth different from others. First, there is no production involved but extraction, which can occur independently from other economic processes that take place in a country. For example, it can be carried out with the participation of small amounts of local labor force and it can involve only one region of a country and not the whole. Secondly, most of natural resources, such as oil, gas and minerals, are non-renewable, which, from an economic point of view, makes them an asset and not a source of income. These two characteristics, according to some political scientists, lead to a 'rent-seeking behavior', mainly from the private sector or politicians, who have incentives to use political mechanisms to capture these rents (Humphreys et al 2007a).

Furthermore, Lujala and Rustad (2012) argue that some of the potential causes for the resource curse can be: a) an easy detached from the populace and less accountable government that is able to finance its budget through natural resource revenues instead of public taxation; b) resource revenues often incite patronage, corruption and rent-seeking, often promoting the interests of a small elite; c) political and economic underperformance is endemic in many resource-rich countries, making them vulnerable to conflict; d) high-value resources, renewable or non-renewable, tend to be located in geographically limited areas; e) all high-value resources have in common the potential to generate substantial revenue but are scarce.

In the next paragraphs I will describe some of the ways in which academics argue that the negative impacts of the resource curse are manifested.

Dutch disease

This concept was coined in 1977 after observing the effects of North Sea gas production on the Dutch economy. Economists noted that the Dutch currency at the time, the guilder, which was supported by export revenues from natural gas, appreciated very quickly compared to other currencies. This resulted in the exposure to Dutch industries to foreign competition, loss of employment and de-industrialization (Karl 1997, Keblusek 2010).

This concept is referred to when a large portion of a country's economy consists of resource exports, namely oil and gas, thus rising the currency value due to the international demand for the resource, negatively affecting other export commodities -agriculture or manufacturing- to compete in the global market. This phenomenon often leads to policymakers to implement protectionist policies by intensifying the dependence on oil revenues. The persistence of the Dutch disease contributes to a fast and sometimes distorted growth of services, transportation and other non tradeable services and at the same time it discourages industrialization and agriculture. Moreover, this syndrome may intensify the impacts on oil price volatility (Karl 1997, Keblusek 2010). In other words, because of the sudden rise in the value of natural resource exports, an appreciation in the real exchange rate is produced, making exporting non-natural resource commodities more difficult. Additionally, foreign exchange that is earned from natural resources may be used to purchase internationally traded goods, negatively affecting the domestic manufacturers of the same goods. At the same time, domestic labor and materials are shifted to the natural resource sector, and as a result, the prices of such resources increases in the domestic markets as well as increasing the costs to producers in other sectors. In the Dutch case it was manufacturing, but in developing countries it tends to be agriculture (Humphreys et al 2007a).

The Dutch disease becomes increasingly more negative when it is combined with other barriers to long-term productive activity which are characterized by exploiting depletable resources. Economists from Adam Smith have warned about the risks of mineral rents, arguing that such rents often promote continuous rent-seeking behavior and bias towards unproductive activities that result in poor economic development (Karl 1997). However, these arguments do not explain by themselves the discrepancies of poor development outcomes in resource-rich countries, usually not taking too much into consideration the underlying political and institutional processes that trigger economic laws and market forces which in the long run create barriers to any necessary readjustments (Karl 1997).

Oil price volatility

The global markets for commodities have a tendency to be volatile, and oil it is argued to be one of the world's most volatile commodities. The volatile nature of prices in the extractive sector can make it difficult to enforce fiscal discipline in budgets and expenditures, and it affects income distribution and efforts to reduce poverty (Keblusek 2010).

Humphreys et al (2007a) claims that the volatility of income comes from three sources: a) the variation over the time in rates of extraction; b) the variability in the timing of payments by corporations to states; and c) fluctuations in the value of the natural resource produced.

Consequences and difficulties that come along with a highly volatile income include difficulties in longer term planning due to the uncertainty over future finance, as result of fluctuations in the value of the commodity. This can result in high levels of expenditure in good years and deep cuts in bad years. Additionally, countries tend to borrow money from international lenders during good years and then having to rearrange its expenditures in order to repay such loans in bad years. This phenomenon affects oil and non-oil states but resource-rich countries are more vulnerable to this dynamic (Humphreys et al 2007a).

Weak institutions and governance

Karl (1997) argues that economists often look at the share of mineral rents, the type of links that are formed with other economic activities, or the Dutch disease as a strictly economic phenomena, they often overlook the presence of deep social and political roots. She claims that commodities are not creative or destructive forces by themselves, and that all economic activities, including mineral resources, are all embedded in a web of social institutions, customs, beliefs, and attitudes and derive their economic significance from the social and political relations that are result of their usage.

The high rents that are obtained from natural resources give space, even in democracies, to a political system that is based on patronage, which contributes to provide support to particular groups, leaving large sections of the population with little or no gain from their country's resources. Revenues from extractives can also be used to pay off voters to continue in power, instead of investing in long term benefits for the country, such as health, education and long-term economic investments. However, this 'development trap' does not occur in all resource rich countries, particularly in those with strong institutions, rule of law, an active civil society, a strong middle class, an independent judiciary system and a free press. All of which have been already existent and strengthened prior the discovery and exploitation of significant levels of extractive resources (Keblusek 2010). However, for those developing countries that gained their independence at the same time that they began earning revenues from extractive

resources, the opportunity to develop good governance and strong institutions has been very difficult and instead, has led to patronage politics (Collier 2007 in Keblusek 2010).

Karl's (1997) argument is that when a country or society depends mainly on a particular export commodity, this commodity shapes not only social classes, regime types but also state institutions, frameworks for decision-making and influences the decisions of policy makers. Moreover, Karl (1997:7) claims 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”.

Dependence on mineral rents affects *mining states*, making it difficult to leave behind old patterns and do not have the capacity to promote new patterns. Organized interests and state bureaucrats tend to try to maintain the status quo and to prevent any adjustments that could change the existing operating procedures. Karl (1997) argues, that although this situation is characteristic of institutions, mining states are an extreme case, due to a more rigid framework of decision-making that *“contains strong incentives for maintaining the existing mineral-based development model as well as disincentives for changing it.”* (Karl 1997:15).

Karl (1997) claims that the previous framework is reinforced by the existing link between power and abundance of resources in mineral states. These states become the primary object of rent-seeking, because they own the center of accumulation, extract and receive windfall revenues from international arenas, and provide the means for the rents to access the economy.

Other ways in which the resource curse might be manifesting its negative impacts include (Keblusek 2010):

Negative impact on skills and education: The oil industry, in particular, is a highly technological industry, creating fewer jobs as well as highly skilled jobs often performed by foreigners due to low educational levels in developing countries. Thus, resource-rich countries do not learning the know-how of the industry.

Environmental damage and livelihood reduction: Impacts on the environment caused from the resource extraction particularly affect the area where the extraction process takes place, changing the traditional livelihoods for indigenous people of those areas. Such as the Niger Delta area in Nigeria, where 50 years of onshore and offshore oil drilling have left indigenous communities drinking and cooking with polluted water, skin problems from pollutants, etc.

Horizontal Inequality

Ross et al (2012:251) defines horizontal inequality in the following way:

High-value resources such as oil and minerals are often unequally distributed within countries. When the distribution happens to coincide with ethnic, religious, or other divisions between groups, real or perceived inequality—known as horizontal inequality—may result, creating potential grounds for grievances.

Stewart (2010:1) defines horizontal inequality(ies) as “*HIs are 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*”. He describes four types of horizontal inequalities (Stewart 2010:2) and claims that these horizontal inequalities are extremely important to address when elaborating development policies:

Economic: inequalities in access to and ownership of financial, human, natural resource-based and social assets; inequalities in income levels and employment opportunities, dependable on assets and general conditions of the economy.

Social: inequalities in access to education, healthcare and housing services.

Political: inequalities in the distribution of political opportunities and power among groups - control over the army, the cabinet, local and regional governments, parliamentary assemblies, the police and the presidency-; inequalities in people’s capabilities to participate politically and express their needs.

Cultural status: disparities in the recognition of different groups' language, religion, customs, norms and practices.

A global trend for alleviating and preventing horizontal inequality is decentralisation of natural resources. According to Ross et al (2012), decentralisation has also gained momentum in peace building processes as a politically feasible way that facilitates to manage regional grievances. Ross et al (2012:252) also claim that if the producing areas are onshore and concentrated in one or few parts of the country, the geographical distribution of the income might be affected. The extent of this effect will depend on three factors: a) Initial incomes in the extractive region; b) the strength of the connections between the resource sector and other economic activities; c) the ability of the subnational government to capture income from the resource sector.

The revenues obtained from the extraction of minerals in the producing region can contribute to close or reduce any existing poverty gaps between the rest of the country and the region. When the regional government does not have taxing authority over the extraction facilities, because these operate as enclaves, then a growing resource sector may have little or no impact on the living standards of the region. However, when the extractive sector is strongly connected to the local economy, as well as to a strong local government with the direct or indirect capacity to tax revenues on the extraction of resources, then the wealth derived from such resources can promote regional employment and increase local revenues (Ross et al 2012).

The ways in which subnational governments can receive decentralised mineral revenues are: a) Collecting taxes directly to the resource industry; b) through direct transfers from the central government -a defined percentage of the revenues that are generated in the region; c) through indirect transfers as preferential treatment for producing regions -based on population, equity needs, national interest, etc. (Ross et al 2012).

In addition to decentralization, Ross et al (2012) argue that governments may use other means to reduce the gap between actual and expected incomes in resource-rich countries. Such means include creating incentives to employ local workers, restricting the migration of workers to extractive regions, investing in local development, mediating between local

communities and extractive industries through nongovernmental organizations, and distributing revenues directly to the population.

Ross et al (2012) argue that the decentralization system should be designed to minimize the volatility of subnational revenues and should be stable over time. In addition, they suggest that revenues should be accompanied by expenditure responsibilities, and that the revenue flows should be publicly announced, completely transparent, and regularly audited to reduce opportunities for corruption. The main challenge is to ensure that the agreed amounts are transferred and that the receiving local government can be held accountable for their use. In order to tackle this challenge, all stakeholders should play a role in areas of transparency and trust building. These stakeholders include national and international NGOs -acting as monitors, pressure groups and independent data sources-, extractive companies -by publishing transparently their payments to the government-, and the local government -building trust by addressing concerns to local stakeholders like mining communities. They also suggest that all stakeholders should be compensated for social and environmental costs from the extraction of minerals. Additionally, they advise that local and indigenous peoples living near the extraction site should be taken into consideration and to be fully recognized as stakeholders.

Misallocation of revenues and the risk of conflict

According to Lujala and Rustad (2012), high-value natural resources have been associated with several armed conflicts, leading to an exponential amount of deaths and millions of deaths, and the failure of ongoing peace processes. They also argue that evidence supports that natural resources play an important role in provoking armed civil conflicts. According to Lujala and Rustad (2012:6), the risk of conflict is increased by three main causes: “*resource capture, resource-related grievances, and adverse effects on the economy and institutions*”. The first occurs when belligerent movements are motivated or financed by the access of revenues from high-value natural resources. The second cause is related to the increase of the risk of conflict by grievances that arise from unmet expectations or inequalities in the distribution of revenues, jobs and other benefits, or by negative side effects of resource exploitation. Finally, an indirect cause for risk of conflict is when resource sectors undermine economic performance of institutions.

Ross et al (2012) suggest that addressing horizontal inequality, whether it is real or perceived, is essential for the prevention of outbreaks of conflict, in particular when the distribution of natural resource revenues have contributed to previous conflicts. They suggest that a strategy to tackle or minimize existing inequality is to decentralise resource revenues.

3.2 Theory of Change

The idea of the theory of change approach first emerged in the United States in the 1990s. The aim of the approach was to improve the evaluation theory and practice in the field of community initiatives. However, the approached evolution currently focus on evaluation and informed social practice, two currents of development and social programme practice. From the evaluation approach, the theory of change can be considered a part of the programme theory. Moreover, the theory of change grew out of the tradition of logic planning models within the development field, such as the logical framework approach, which appeared in the 1970s. James (2011:2) claims that “development organisations and practitioners are all, consciously or unconsciously, development theorists, drawing on macro theories of development as frameworks of action.”

Currently, theory of change approaches have become mainstream in the international development field, due to demands from key donors and funders. The approach seems to have become an increase want for organisations to have a more complex and systemic understanding for exploring and representing changes within the development sector (Stein and Valters 2012). Furthermore, practitioners of the theory of change use other terms to describe it, such as programme theory, pathways mapping, programme logic, etc. (James 2011).

There is no consensus on a definition for the theory of change. In its early stages, one of the proponents of the theory, Carol Weiss, defined it as “a theory of how and why and initiative works.” (Stein and Valters 2012). James (2011:2) defines the theory of change as:

An ongoing process of reflection to explore change and how it happens – and what that means for the part organisations play in a particular context, sector and/or group of people.

- *It locates a programme or project within a wider analysis of how change comes about.*
- *It draws on external learning about development.*
- *It articulates organisations' understanding of change –but also challenges them to explore it further.*
- *It acknowledges the complexity of change: the wider systems and actors that influence it.*
- *It is often presented in diagrammatic form with an accompanying narrative summary.*

For this thesis, I will use the definition given by Stein and Valters (2012:2), which refers to the theory of change as “an articulation of how and why a given intervention will lead to specific change.”

According to James (2011:3), the theory of change can bring several benefits:

- *Developing a common understanding of the work and surfacing any differences.*
- *Strengthening the clarity, effectiveness and focus of programmes.*
- *Providing a framework for monitoring, evaluation and learning throughout a programme cycle.*
- *Improving partnership by identifying strategic partners and supporting open conversations.*
- *Supporting organizational development in line with core focus and priorities.*
- *Using theory of change to communicate work clearly to others and as a reporting framework.*
- *Empowering people to become more active and involved in programmes.*

Stein and Valters (2012) identify four main purposes of the theory of change:

1. **Strategic planning:** the theory of change helps organisations to map the change process and expected outcomes and facilitates project implementation. For this purpose, it is often used with logframe approaches.
2. **Monitoring and evaluation:** The expected processes and outcomes can be reviewed over time, allowing organisations to assess their contribution to change and to revise their theory of change approach.
3. **Description:** The theory of change approach allows organisations to communicate their chosen change process to internal and external partners.
4. **Learning:** The approach helps people to clarify and develop the theory behind their organization or programme.

The four purposes identified by Stein and Valters (2012) often overlap in practice. To understand the purpose of the theories of change, some authors (James 2011 in Stein and Valters 2012) have created typologies: evaluation or formative, explanatory or exploratory and linear or complex. For the purposes of this thesis, I will not go in detail in these typologies.

There are several potential levels of analysis regarding the practices of social change. These levels go from the organizational to the societal, and from conceptualization to implementation. Some of these levels include: macro theories of change (development perspectives and thinking with influence); sector or target group theories of change; organizational theories of change; and project or programme theories of change (James 2011 in Stein and Valters 2012).

However, a problem with the many level possibilities for the theories of change, it is unclear and difficult to decide which *level* is appropriate for organisations to focus on, or if the theories of change should be done on all levels. In order to implement a theory of change that can be done at all levels would need the creation of a unifying theory that takes into account all aspects of change that are linked to an intervention. This task seems nearly impossible and too ambitious. But the option to limit the theories to one level can also be claimed as one-dimensional (Stein and Valters 2012).

In order to understand the concept of levels in the theory of change, the focus should be made on the actors and targets of the intended change process. Usually, practitioners of the theory of change target a specific actor level as the starting point. These actor-level targets often include:

1. *Individuals*: These programmes often involve strategies that shift attitudes and perceptions, behaviours and motivations of the participants in a determined intervention.
2. *Relationships*: Programmes that focus on changing relationships suggest that new networks, coalitions and alliances between members of conflicting groups can change individuals directly involved, and at the same time can be a powerful force for promoting social changes that can help in resolving conflicts. Their aim is to effect individuals and social structures.
3. *Structural, institutional and systemic*: These targets are the main focus for some conflict intervention programmes. Usually, these programmes target a legislative, electoral and judicial reform, establishing new mediating mechanisms within society, and infrastructure support for basic human needs (Stein and Valters 2012:9).

Theories of change can also be understood through dimensions of conflict: personal, relational, structural and cultural. By identifying these dimensions of change, organisations can focus and clarify a targeted kind of change (Stein and Valters 2012).

According to James (2011), the theory of change brings its own challenges when put into practice. The main problem that theory of change practitioners face is that they do not manage to reconcile it with other organizational processes and tools. Another challenge is that organisations find it hard to represent their theory effectively. Stein and Valters (2012) claim that there is a basic problem in regards to the way in which the theory of change term is used across different organisations. The lack of a consensus on what the theory of change approach is defined can lead to a failure of a tangible meaning. This can lead to organisations and proponents of the theory to make unrealistic promises basing their arguments on such theory.

3.3 Transparency as a global norm and a catalyst for change

As mentioned above, during the last two decades, academics, advocacy and policy actors have been studying the particular challenges of the resource-rich countries. Many claim that transparency as the main recommendation for policies in this area. For the purposes of this thesis, transparency will be defined as the “*public disclosure of information in accessible formats.*” (Gillies and Heuty 2011:28).

The proponents of transparency in the extractive sector argue that if extractive companies disclose publicly payments to governments, then, citizens will be able to hold governments and companies accountable. The global promotion of this trend is nowadays widely accepted as a solution to weak governance in resource-rich countries (Haufler 2010). Proponents of this strategy argue that it will improve the management of natural resources, reduce corruption and mitigate conflict, which then will be extended further in other sectors and that will empower citizens of resource-rich countries to demand a more equitable and sustainable development (Haufler 2010). “Transparency has emerged as the most broadly recommended policy response to the poor governance records in resource-rich states and their damaging developmental effects.” (Gillies and Heuty 2011).

The aforementioned beliefs and strategies are represented in the Extractive Industries Transparency Initiative (EITI), which started out as a unilateral foreign policy effort made by the United Kingdom under Tony Blair’s mandate, which eventually became a global program (Haufler 2010), with 51 member countries by July 2016.

Academics are now discussing why is it that transparency has become the new ‘procedural’ go-to solution global political affairs. This procedural turn towards the management of natural resources as reflect of how transparency plays a central role in many networks. The belief that corporate transparency is the solution to several problems, including environmental pollution and financial efficiency, is promoted by many policymakers and activists (Haufler 2010).

Those who advocate for transparency argue that it “*makes markets work more efficiently; enhances trust and cooperation; strengthens institutions; reduces corruption and mismanagement; enables people to hold others accountable for their actions; and increases the legitimacy of decisions and institutions*” (Haufler 2010:55). Transparency should benefit the society as a whole, making governments and corporations more accountable. In general, transparency is viewed as a positive value (Haufler 2010). Nonetheless, the implementation of transparency might not be as successful as it is in theory.

Several academics argue against transparency, such as Fenster (2005-06:885 in Haufler 2010:55), indicating that transparency is a “simplistic model of linear communication that assumes that information, once set free from the state that creates it, will produce and inform, engaged public that will hold officials accountable”. Other more recent analysis show that information disclosure programmes have different effects and that having access to more information can have less positive effects. Examples go from the Bretton Woods institutions working more efficiently with more flexibility, dangers to national interests regarding security affairs and others (Finel and Lord 1999, Gupta 2006 in Haufler 2010).

Why transparency has become the default alternative for solving a wide range of problems is something that needs to be studied and explored. Dobbins et al. (2007 in Haufler 2010) suggest the idea of transparency as solution to many problems within the development sector is due to a model of policy diffusion. These models are confined within four categories: a) competition, b) coercion, c) constructivism and d) learning. Moreover, they suggest that the way in which the *idea* of transparency is applied to resource management can be understood as a result from a) how it complement the broader global norms, b) the entrepreneurship of particular actors, and c) the intersection of different agendas and transnational networks (Haufler 2010).

The existing global normative environment nowadays includes ideas about corporate social responsibility, market efficiency and democracy. These ideas “support and facilitate the adoption of policies of information disclosure by corporations as a means of achieving public benefits.” (Haufler 2010:56). According to Haufler (2010), policy ideas are learnt from other actors promoting through social networks where knowledge is diffused, such as conferences and meetings where NGO’s, governments or international organizations share information

and expertise in the form of analyses, reports, the internet and press releases, becoming familiar with policy ideas through learning about other's experiences.

The promotion of revenue transparency in the extractive sector followed a trial of this idea in other areas, such as financial reporting in order to enhance market performance. In addition, contrasting experiences of success and failure also fuel the idea, such as the contrast between the resource management in Norway and Nigeria. Norway is characterized for high accountability and freedom of information in the governing institutions, whilst in Nigeria the opposite is a characteristic of their resource management governance (Haufler 2010).

Haufler (2010) argues that transparency as a model policy has been spread mainly in the Northern countries, where consumers and investors are located. These consumers and investors can change calculations of cost and benefits for host governments and companies. Usually, the transparency model has been promoted by certain NGOs, by creating coalitions at the international level and setting the international agenda for policy in the extractive sector. These actors also promote transparency with citizens, activists and policy experts in the North, who usually give legitimacy to particular policies and delegitimize other policy types.

Nonetheless, the transparency policy model is not usually welcome by companies and host governments. Although trend for transparency in the extractive sector is heading towards a more widespread adoption, many companies from the extractive sector remain still somewhat opaque. Companies main concern is the competition over access to new sources of oil, gas and minerals. Meanwhile, those host governments that are considered corrupt and inefficient, are reluctant to open up their most valuable source of revenue to the scrutiny of the public (Haufler 2010).

Those who propose transparency in the extractive sector argue that companies and governments should disclose publicly information about details of bidding process for natural resources exploration and development contracts; contents and terms of the contracts; payments made by companies to the host government; prior informed consent to communities affected; and government budgets for the distribution of the resource rents (Haufler 2010).

According to Haufler (2010), transparency in the management of natural resources can lead to achieving two types of goals. The first type of goals are substantive ones and refer to the better management of income derived from high-value resources. In this regard, transparency should lead to less corruption, equal distribution of revenues, more economic development and less conflict. The second type of goal refers to procedures and norms. Such process include the mobilization and empowerment of civil society, to keep governments and companies accountable. The goal of transparency in the extractive sector goes beyond the resource management but also to impact and improve governance in a general way (Haufler 2010).

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.”* (Gillies and Heuty 2011).

According to a literature review on monitoring and impact of transparency and accountability initiatives, from the Institute of Development Studies, lists the expected –and assumed– impacts of the transparency initiatives as follows (IDS 2010 in Gillies and Heuty 2011:28):

- Improved public services
- Re-direction of resources to poor neighborhoods
- Creation of new civic associations
- Reducing clientelism
- Enhanced democratic representation
- Less leakage in public expenditure
- Public participation
- Trust
- Improved decision making
- Better public understanding of decision making
- Fulfillment of socioeconomic rights, like access to water
- Less corruption
- Improved public financial management
- Improved business environment
- Empower the public
- Empower reformers
- Empower local voices
- Better budget utilization and better delivery of services
- Increased state or institutional responsiveness
- New democratic spaces for citizen engagement.

Critique of transparency as a measurable and effective policy tool

Gillies and Heuty (2011) argue that, although the expectations derived from transparency as a relevant tool for policymaking, there is very little measured and tangible impact on the implementation of transparency initiatives on the development and governance records of resource rich countries. They suggest that the efforts to assess and evaluate such impacts throw inconclusive results or expressions of disappointments with meeting expectations from the transparency initiatives. These initiatives often link or match up transparency with accountability. However, accountability is far more complex to measure and analyse.

Some of the methodological challenges for measuring transparency are the confusion that can exist between measuring the *effectiveness* of transparency initiatives and their *impact* (IDS 2010 in Gillies and Heuty 2011). Thus, the initiative can be effectively implemented in a country and the information can be publicly available, but it is rather difficult to measure the impacts of such initiative in a broader sense, such as governance, redistribution, allocation, etc.

Another methodological challenge is related to sampling. This refers that countries that participate in the transparency initiatives cannot be compared with those that do not participate. Gillies and Heuty (2011) claim that countries that chose to participate in the EITI value the reputational gains that accompanies it, such as relying on foreign aid from EITI's main donors.

The third methodological challenge suggested by Gillies and Heuty (2011) refers to the time inconsistency problems. They claim that transparency is unlikely to directly impact country ranking on indices and indicator compilations, such as the Corruption Perception Index, Human Development Indicators, etc. In case that the transparency initiatives could have impacts on such rankings, it would take some time since such indices do not use the most recent data.

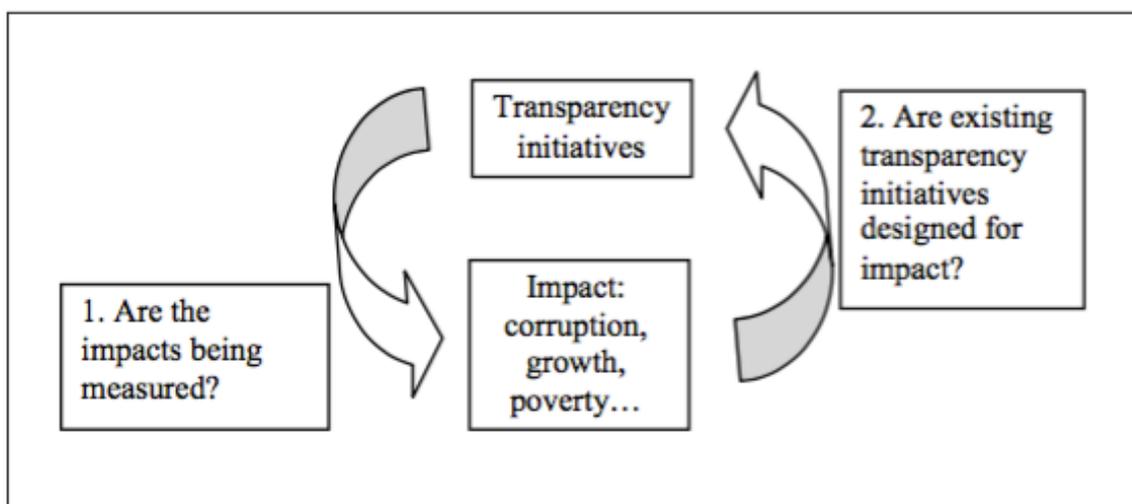
Finally, attribution is one of the most difficult measuring challenges. Since transparency often brings alongside other reforms, which in themselves can be able to represent potential

impacts or other possible variables that can explain such impacts, how to demonstrate or measure which is the cause for improvement? (Gilles and Heuty 2011).

Furthermore, the critique towards transparency is that it cannot by directly affect the social and economic wellbeing of a country's population or impact its governance by itself.

Transparency initiatives can be improved by a more complete understanding of the causal relation between transparency, governance, economic and development outcomes (Gillies and Heuty 2011).

Gillies and Heuty (2011) argue that the shortcomings in impact from the transparency can have two explanations: a) The impact of transparency is difficult to measure; b) the limitations in the design of the existing transparency initiatives hamper a transformative impact on development outcomes. They argue that the transparency initiatives are usually driven by external actors, affecting the intent and character of their implementation. Additionally, such initiatives target transparency too narrowly, that is just one sector or industry, thus missing opportunities to make sure that the information can be translated into larger domestic social accountability.



The transparency-impact conundrum. Source: Gillies and Heuty 2011:27

Gillies and Heuty (2011:38) suggest that, in order to have a greater impact, transparency initiatives in resource-rich countries should focus on five areas:

1. Develop more inclusive agendas which empower the more vulnerable and marginalized groups of the population.
2. Develop more complex models of change that recognize the need to internalize demand and use of the information within the extractive sector, through the building of innovative coalitions and strengthening partnerships between the different actors.
3. The impact of transparency initiatives in natural resource governance would increase if voluntary mechanisms became mandatory.
4. Transparency in the extractive sector should be extended beyond revenues and include licensing, contracting, revenue management, planning and budgeting.
5. Transparency and accountability initiatives need to be decentralized and implemented at the local level to systematically link natural resource governance to public service delivery for citizens and communities in resource-rich areas.
6. Citizens of resource-rich economies should be placed at the center of transparency initiatives to ensure that they will lead to sustainable changes in the behaviours of governments and companies that directly affect citizen's wellbeing.

3.4 The Extractive Industries Transparency Initiative

Some of the main global NGOs and actors that promote transparency as a *miraculous* tool are Global Witness, Humans Rights Watch, who started a campaign to encourage companies and governments to reveal the oil and mining data in the late 1990s. In 2002, these groups joined other NGOs and civil society actors and formed a coalition called Published What you Pay, which has over 600 member organizations in 30 countries. Additionally, the World Bank and the International Monetary Fund (IMF) have also contributed to the transparency agenda (Gillies and Heuty 2011).

What is known now as the EITI was a proposal launched by Tony Blair in 2002 at the World Summit on Sustainable Development. The initiative proposes that companies working within the extractive sector should disclose publicly all taxes and fees paid to governments, as well as governments should publish their income from resource revenue taxation. These reports are audited by an third and independent party and become publicly available, thus allowing the citizens of the country to examine in detail what are the sources of income that flow into the country's treasure. These reports would show if there are any discrepancies, which will

discourage misappropriation of funds. The initiative promotes and requires action by governments, companies and the civil society in an active multi-stakeholder group (Haufler 2010). The EITI is regulated by 12 principles (EITI 2016a):

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 for 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.

The EITI Standard of 2016 (EITI 2016a) lists eight requirements in order for a country to be compliant:

1. Oversight by the multi-stakeholder group.
2. Legal and institutional framework, including allocation of contracts and licenses.
3. Exploration and production.
4. Revenue collection.
5. Revenue allocations
6. Social and economic spending
7. Outcomes and impact
8. Compliance and deadlines for implementing countries

For the present thesis, I will deepen on the requirement number five and six. The requirement number five, regarding revenue allocations establishes that (EITI 2016a:26):

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. The EITI Requirements related to revenue allocations include: (5.1) distribution of revenues; (5.2) subnational transfers; and (5.3) revenue management and expenditures.

The requirement number six: Social and economic spending, establishes that (EITI 2016a:28):

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. The EITI Requirements related to social and economic spending include: (6.1) social expenditures by companies; (6.2) SOE [state-owned enterprises] quasi-fiscal expenditures; and (6.3) and overview of the contribution of the extractive sector to the economy.

Particularly, the most relevant sub-requirement for this thesis are 5.3 revenue management and expenditures (EITI 2016a:27):

The multi-stakeholder group is encouraged to disclose further information on revenue management and expenditures, including:

- a) A description of any extractive revenues earmarked for specific programmes or geographic regions. This should include a description of the methods for ensuring accountability and efficiently in their use.*
- b) A description of the country's budget and audit processes and links to the publicly available information on budgeting, expenditures and audit reports.*
- c) Timely information from the government that will further public understanding and debate around issues of revenue sustainability and resource dependence. This may include the assumptions underpinning forthcoming years in the budget cycle and relating to projected production, commodity prices and revenue forecasts arising from the extractive industries and the proportion of future fiscal revenues expected to come from the extractive sector.*

As well as sub-requirement 6.3 the contribution of the extractive sector to the economy:

Implementing countries must disclose, when available, information about the contribution of the extractive industries to the economy for the fiscal year covered by the EITI Report.

It is required that this information includes:

- a) The size of the extractive industries in absolute terms and as a percentage of Gross Domestic Product as well as an estimate of informal sector activity, including but not necessarily limited to artisanal and small scale mining.*
- b) Total government revenues generated by the extractive industries (including taxes, royalties, bonuses, fees, and other payments) in absolute terms and as a percentage of total government revenues.*
- c) Exports from the extractive industries in absolute terms and as a percentage of total exports.*
- d) Employment in the extractive industries in absolute terms and as a percentage of the total employment.*
- e) Key regions/areas where production is concentrated.*

The other related requirement for this study is requirement number seven, however I will not discuss it since it goes beyond the scope of this study. Nonetheless, I consider it important to mention it (EITI 2016a):

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. The EITI Requirements related to outcomes and impact seek to ensure that stakeholders are engaged in dialogue about natural resource revenue management. EITI Reports lead to the fulfillment of the EITI Principles by contributing to wider public debate. It is also vital that lessons learnt during implementation are acted upon, that discrepancies identified in EITI Reports are explained and, if necessary, addressed, and that EITI implementation is on a stable, sustainable footing.

According to Andrews (2016:63), the expectation of the EITI is that “by opening the books would build trust between different stakeholders of the extractives sector, and also promote accountability between governments and corporations on the one hand and society on the other—thereby advancing the general public interest”. He argues that the expectation is there because corruption is considered as a primary cause of the resource curse as well as a symptom.

Furthermore, Andrews (2016:76) argues that, “the voluntary nature of the norm is by far its greatest weakness”. However, he claims that the EITI “is possibly more useful than other ‘soft’ norms such as the UN Global Compact.”

4. Transparency and redistribution of revenues from the extractive sector in Ghana

In this section, I aim to link the theory presented above with the information available regarding transparency in the extractive sector in Ghana and the redistribution of the revenues to a more local level. I aim to explore and answer the research question: To what extent transparency actions and public disclosure of revenues from the extractive sector in Ghana, have led to a more comprehensive distribution and allocation of such revenues?

From the information gathered, it is clear that there are advances made by the government in terms of transparency and efficiency around the mining and oil revenue use. However, according to an NRGi report (NRGI 2015), there are important issues that remain in terms of legislation, institutional capacity building, revenue management, contract disclosures and accountability. The same report indicates that despite the existence of references in the constitution, legislation and other key documents to an overall strategy, the government does not have a coordinated long-term strategy that links the decision making process of extracting natural resources and the investments in social, economic and human development objectives (NRGI 2015).

The report from NRGi (2015) also indicates that the decision-making process of the government is mainly influenced as reactions to the extractive industry trends and therefore does not coincide with the country's long-term objectives. The report also argues that the lack of long-term national planning does not contribute to an adequate direction for spending and investment decisions from extractive revenues. There is not a coherent collaboration amongst the public institutions in charge of creating and following up on policies. These institutions – Petroleum Commission, National Petroleum Authority, Energy Commission, Ministry of Energy, etc.) are working on similar objectives at the same time, thus overlapping efforts and contributing to an inefficient management. This makes it more difficult to demand accountability for decisions made, since there is not a clear definition of responsible parties for specific actions (NRGI 2015).

In terms of public participation, the NRGi report (NRGI 2015) suggests that there are existing mechanisms for public participation in the extractives sector, however the real participation of the public in an overall extractives strategy and in key decision-making is very limited, in particular those communities directly affected by local offshore oil and gas development.

Regarding transparency per se and the adoption of the EITI by Ghana, the government became a candidate country for the EITI in 2003 and received its compliant status in 2010. Ghana has published reports covering eight fiscal years up to 2011, however, a report from NRGi (2015) suggests that the government are only partially transparent. In that sense, an EITI bill has been prepared and it is at the parliamentary process in order to make the GHEITI a more relevant national platform in terms of transparency reforms, and include other topics such as contract disclosure or beneficial ownership reporting (NRGI 2015). Additionally, as mentioned before, Ghana passed the Petroleum Revenue Management Act in 2011, which requires transparency related to revenues and expenditures.

Regarding the methodological challenges of measuring the *effectiveness* and *impacts* of the EITI in Ghana, it can be mentioned that there has been a large successful effort by the Ghanaian civil society in order to secure strong transparency provisions within the 2011 Natural Resource Revenue Management legislation. This effort show the effectiveness of including legislation on transparency, however the *impacts* are yet unknown. The disclosure of revenue information demonstrates the effectiveness of the initiative rather than the impacts on other development aspects in Ghana (Gillies and Heuty 2011).

Revenue distribution and allocation

Ghana adopted state of the art legislation to manage petroleum revenues in 2011, at the same time that the first shipment of oil from the Jubilee field was exported. This legislation's purpose is to ensure that the revenues from petroleum are prioritized for investment in growth-promoting sectors, saving, stabilization and developing the oil sector. According to the NRGi report (2015), there has been a lack of compliance with the recommended methodology for revenue estimates, which has led to over-projections and failure to publish calculation methodologies.

In addition, it is required in the Petroleum Revenue Management Act 815 that the government allocates its distribution of oil revenues keeping in mind a ‘benchmark revenue’ formula, which is based on a seven-year average of oil prices, with the purpose of smoothing the allocation of volatile oil revenues over a multi-year period (NRGI 2015).

The information available to the public regarding the decision-making on detailed allocation of petroleum revenues to priority areas of the government budget is very limited. In addition, there is no legislation that regulates expenditure decisions regarding revenues from the mining sector. The only guide available is a formula that leads the distribution of a percentage of royalty revenues (NRGI 2015).

The information available indicates that mineral royalties in Ghana are distributed in the following way: 80 percent to the Consolidated Fund (the general State account); 10 percent to the Minerals Development Fund (MDF), 1 percent to the Administrator of Stool Lands for administrative purposes; and 9 percent are allocated to the local districts that provide the minerals (Nguyen-Thanh and Schneel 2009 Andrews 2016).

Recent EITI reports have noted the inefficiencies in mineral revenue utilization at the subnational level, showcasing that about 20 percent of mineral revenues are allocated to subnational districts, local chiefs and traditional stool lands (NRGI 2015). Nonetheless, an effective framework for tracking the use of revenues and ensure accountability at the subnational level is inexistent (NRGI 2015).

A report from the Open Society Foundations (2012) points out that the mechanisms to track the distribution of revenues from the central government to communities are non-existing. It also highlights that the local mining communities in Ghana are entitle to a proportion of royalties paid to the central government. Nonetheless, there are no real mechanisms that can track if the right payments were carried out to the specific communities through the appropriate channels, mainly when in relation to the tracking of revenues from upstream (Open Society Foundations (2012)).

Data publication

As mentioned previously, contracts in the oil, gas and mining industry is very limited. Moreover, any data related to corporate social responsibility or local content is not available (Arregui 2015). Arregui (2015) also suggests that there is good-quality, high-level research that is being carried out but this does not reach the local communities that are directly affected by projects carried out by the extractive sector. In addition, there is not a high involvement of women for the research done. Arregui suggests that much more data sharing is needed, particularly by government and companies, in order for a space where all relevant actors from the government, civil society and the private sector, can have a dialogue based on equal access to information.

Arregui (2015) argues that, the relevant government committees have a reasonable level of understanding concerning the oil and gas industry's regulations but, due to the legal framework, they lack the authority and independence to follow-up on their actions. Arregui also argues that, although Ghana is compliant with the EITI, contract development and contract signing is not transparent, including oil contracts not being reviewed by any civil society agency before signing them.

The EITI reports also highlight that the government has not taken adequate advantage of local content in mining areas to create added value and increase job creation (NRGI 2015).

4.2 Concluding Remarks

From the resource curse point of view, and as I have mentioned before, Ghana seems to have escaped the curse due to its stable democracy and growing economy. While the country had focused only on the extraction of minerals, mainly gold, it seems that it has opened the doors to foreign investments and the economy does not depend solely on the production and extraction of minerals.

However, it is important to note that, after the discovery of oil, Ghana can fall in the trap of the resource curse if the government does not take the adequate measures to avoid this happening. Data and information available to this date is not sufficient to predict whether the country is putting too much value in the oil and gas sector. Although, some preliminary information suggests, as mentioned before, that the government has increased its expenditure since the discovery of oil. Something that Ghana should be careful about, considering the volatility of the oil prices and how low the prices of commodities has affect in the past two years the global economy.

Regarding the main question that this thesis is aiming to answer: To what extent transparency actions and public disclosure of revenues from the extractive sector in Ghana, have led to a more comprehensive distribution and allocation of such revenues? It is important first, to discuss how much transparency actually influences the allocation of the revenues and if the proposed transparency initiatives as theories and catalysts of change have an actual positive effect and impact in the governance and redistribution of revenues from the extractive industries.

Throughout this thesis, I have explored the concept of transparency and how it is used as a global norm to promote change when it comes to natural resource governance. However, I have also explore the critiques towards the initiatives that promote transparency and claim that it will impact other aspects of the governance of a country. The main transparency initiative discussed here is the EITI, which promotes public disclosure of revenues from the extractive industries from both companies and governments. In that way, they claim, citizens and an organized civil society will be able to hold governments and companies accountable for the royalties they make from extracting their natural resources.

As discussed above, Gillies and Heuty (2011) suggest that transparency initiatives such as the EITI present methodological shortcomings of timing, sampling, and attribution which are insufficient. Additionally, they claim that EITI underemphasizes the political economy stages through which EITI can have an impact on broader economic and governance outcomes.

Thus, my main conclusion is that although the voluntary adoption of Ghana of the EITI and the official revenues have been publicly disclosed, there is no real way of measuring how much of those revenues is actually distributed and allocated towards programmes that will

benefit and impact positively the economic and social wellbeing of the population. Therefore, transparency will only be a useful tool for development and a catalyst of change, if it is used beyond the public disclosure of the revenues, and if transparency is linked in a more binding way to keep the government accountable for the allocation and redistribution of revenues, in order to avoid the horizontal inequalities mentioned above.

Additionally, the adoption of the EITI is very recent, and therefore it is too soon to see if it can actually become a catalyst of change in the governance of natural resources. In that sense, more studies should be made in the years to come, but it is important to open the discussion about how much can transparency as a global norm influence and impact natural resource global governance.

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