

# Governance and Accountability in Extractive Industries: Theory and Practice at the World Bank

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*The efforts of international financial institutions such as the World Bank to support countries in the effective capture and use of revenues from extractive industries have focused increasingly on transparency, notably through the Extractive Industries Transparency Initiative. In this article, we outline the limitations in policy thinking that result from an overemphasis on transparency alone. We develop a theoretical framework for building accountability, emphasising political, legal and economic institutions, social processes, and historical legacies. We then outline how this framework is relevant to practical development challenges, exploring the case of the World Bank's responses to the limitations of traditional extractive industries policy frameworks and its emergent turn to strengthen accountability.*

Extractive industries remain buoyant from a business perspective. Global spending on mining is set to have risen to \$120bn in 2011, surpassing even those levels prior to the global financial crisis.<sup>1</sup> Key commodity prices

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1 Javier Blas, 'Global boom in resource spending', *Financial Times* (London, 15 December 2010) 1.

– from copper to crude oil – recovered fast; gold is among those that have already attained record highs. Mining giant BHP Billiton alone recorded a 60 per cent surge in pre-tax profits, to over \$31bn.<sup>2</sup> The World Economic Forum projects that the demand for mineral resources will continue to increase at least to 2030, correlated with global population growth, urbanisation and poverty abatement. Such scenarios point to a period of high mineral resource intensity even in the context of efforts to address climate change. As a result, non-renewable resource extraction will remain or become crucially important for a growing number of countries over the next two decades, particularly those in regions, such as parts of Sub-Saharan Africa, that have been less explored.

In this context, governments of resource-rich but low-income countries face mounting pressures to manage this resource wealth effectively, and to do so in a manner that meets the often high expectations of a combination of local, national and international stakeholders. To do so will require: effective leadership; appropriate economic, financial, social, environmental and technical capacity; sufficient institutional strength and depth; and effective management of these expectations. However, there is an additional and cross-cutting dimension that has not typically garnered as much attention, but is critical to achieving sustained positive outcomes, namely *accountability* – accountability for the key decisions made in the development of non-renewable resources from the award of licences through to how revenues are distributed, spent and resulting investment is managed and monitored. In this article, we explore the complexities of accountability that have led to its limited role in the policy discourse, and outline some near-term steps, building on the example of the World Bank, to incorporate accountability into the thinking and practice on the governance of extractive industries.

Fostering accountability is no simple process. It requires engagement not just of government and industry, but of the range of stakeholders, including civil society, community representatives, professional associations, think tanks, parliaments and the media. Yet, bringing both the ‘supply’ and ‘demand’ side of governance together can offer the prospect of more stable, sustainable and equitable development.

The exploitation of non-renewable resources, which most countries regard as national assets, relates directly to the concerns of all citizens: the financial flows generated provide the potential to make rapid progress in other sectors, for example increasing the number of teachers in schools, expanding the provision of transport infrastructure and fostering diversified

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<sup>2</sup> Simon Goodley, ‘BHP Billiton makes record profits – but sounds a warning’, *The Guardian* (London, 24 August 2011), [www.guardian.co.uk/business/2011/aug/24/bhp-makes-big-profits-but-sound-a-warning](http://www.guardian.co.uk/business/2011/aug/24/bhp-makes-big-profits-but-sound-a-warning) (accessed 13 January 2012).

industrial development. But this has not always happened in the past, and the development indicators of resource-rich countries have not improved commensurately with the availability of finance. Indeed, there is evidence in the developing world that resource-rich countries grow more slowly, and risk greater conflict.<sup>3</sup> In tackling this resource paradox, donors, both bilateral and multilateral, are increasingly recognising that aid should not focus exclusively on technical or even institutional capacity. Governance issues are becoming increasingly prominent, including 'demand-side' governance measures. Development leaders, including the World Bank Group, have shown increasingly strong support for transparency initiatives and are exploring innovative ways to go beyond transparency to ensure genuine accountability. Yet more focus, resources and learning are needed to guide capacity building in countries for improved accountability, recognising that the model of disseminating 'best' practice that can be effective on purely technical issues is insufficient in successfully addressing 'messy' governance problems and inherently complex country contexts. An emphasis on the integrity of the process then becomes equally important.

In this article the authors briefly review opportunities and concerns around development of petroleum and mineral resources and then look more specifically at governance and accountability dimensions. Suggesting that accountability is crucial to ensuring development outcomes that benefit all in society, especially the poor, the authors then consider the case of World Bank engagement around extractive industries governance to date and opportunities for scaling up support for greater accountability.

### Opportunities and concerns

The presence of extractive wealth in a country provides opportunities and benefits for its political, economic and social future.<sup>4</sup> As an important source of revenue, extractive windfalls provide economic opportunities to the private sector and governments. These windfalls can be used to provide social and economic benefits through, for example, building physical infrastructure or funding education programmes. They can also provide political benefits, such as strengthening a country's global influence or weakening the entrenched political power of certain groups such as large landowners.<sup>5</sup>

3 Most notably Richard Auty, *Sustaining Development in Mineral Economies: The Resource Curse Thesis* (Routledge, 1993).

4 Jeffrey Sachs and Andrew Warner, 'Natural Resource Abundance and Economic Growth' in Gerald Meier and James Rauch (eds), *Leading Issues in Economic Development*, 7th edn (Oxford University Press, 2000); Paul Collier, *The Bottom Billion: Why the poorest countries are failing and what can be done about it* (Oxford University Press, 2008).

5 Jonathan di John, *From Windfall to Curse?: Oil and Industrialization in Venezuela, 1920 to the Present* (Penn State Press, 2009).

However, natural resource wealth can (and often does) generate serious problems or concerns at both national and subnational levels. A significant body of economic and political science research, based on the idea of a 'resource paradox' or 'resource curse', argues that the economy can be harmed through macro-structural factors. These include over-specialisation and exchange rate effects that harm competitiveness in other sectors, revenue volatility (as mineral prices fluctuate) and excessive borrowing against future mineral revenues.<sup>6</sup> The result can be reduced economic diversification and fiscal deficits. Some iterations also argue that the political and social systems in a country can be harmed, as revenue windfalls can undermine accountability and responsiveness from those in power and stimulate corruption, institutionalise rent-seeking behaviour, and, in serious circumstances, provoke and sustain violent conflict, as groups seek to take advantage of and control valuable natural resources.<sup>7</sup> In general, this school of thought argues that there are serious impacts from the (mis)management of resources.

However, the idea of a 'resource curse' has been criticised in three ways. First, some have revisited the economic evidence: Brunnschweiler concludes that resource-rich countries grew faster than resource-poor ones from 1970 to 2000.<sup>8</sup> Secondly, some have argued that the relationship between resource wealth and successful economic performance is not deterministic – some countries such as Malaysia and Botswana have done well with their natural capital (World Bank, 2010).<sup>9</sup> Thirdly, some have produced critiques arguing that the resource curse literature lacks an understanding of vastly different local contexts.<sup>10</sup> The benefits of any one petroleum or mining agreement need to be reviewed in their country context, but the outcomes often manifest themselves in low-income countries with relatively weak institutional fabrics. These institutional fabrics can be weakened owing to the dynamics

6 Auty, *Sustaining Development*; Richard Auty, 'Introduction and Overview' in Richard Auty (ed), *Resource Abundance and Economic Development* (Oxford University Press, 2001); Macartan Humphreys, Jeffrey Sachs and Joseph Stiglitz (eds), *Escaping the Resource Curse* (Columbia University Press, 2007); Simeon Djankov, Jose Montalvo and Marta Reynal-Querol, 'The curse of aid' (2009) 13 *Journal of Economic Growth* 169.

7 Ian Bannon and Paul Collier (eds), *Natural Resources and Violent Conflict: Options and Actions* (World Bank, 2003); Paul Collier and Anke Hoeffler, 'Resource rents, governance, and conflicts' (2005) 49 *Journal of Conflict Resolution* 625.

8 Christa Brunnschweiler, 'Cursing the Blessings? Natural Resource Abundance, Institutions, and Economic Growth' (2008) 36 *World Development* 399.

9 World Bank, *The Changing Wealth of Nations: Measuring Sustainable Development in the New Millennium* (World Bank, 2010).

10 Michael Watts, 'Resource curse? Governmentality, oil and power in the Niger Delta, Nigeria' (2004) 9 *Geopolitics* 50; Sarah Bracking, 'Hiding Conflict over Industry Returns: A Stakeholder Analysis of the Extractive Industries Transparency Initiative', *Brooks World Poverty Institute Working Paper* 91, University of Manchester (May, 2009).

of resource exploitation. In return for access to mineral wealth, resource-rich, low-income countries might tend to build institutional arrangements ‘designed to attend to the needs and demands of [corporations, foreign powers and financial institutions] rather than citizens, and thus lead to an extroverted state with more legitimacy vis-à-vis international interests than national citizens’.<sup>11</sup> Examined in this light, the capture and use of resource revenue are political as well as policy and technical issues.

For example, Hilson and Maconachie<sup>12</sup> and Campbell<sup>13</sup> look at case studies such as Ghana, Guinea, Mali, Tanzania and Zambia to show how African governments’ shares of mining revenues are often negligible when compared to those of companies. For example, just 1.7 per cent of the value of gold mined by companies from 1990 to 2002 went to the Ghanaian treasury via royalties and corporate income taxes, while in Tanzania, the mining sector remained at two per cent of GDP between 1998 and 2000 while the total value of corporate gold exports increased from \$3.34m to \$120.53m.<sup>14</sup> These examples are not used simply to say that government revenues are too high or low; rather, given the complex dynamics around the politics of the extractives sector, investor risk and social impact, the emphasis placed on points of macro-economic policy by international policy-makers ought to be balanced or supplemented by a concern with ensuring that states receive a ‘fair’ share of revenue. Given the length of many extractive industries agreements – often decades long – what may have seemed a reasonable deal at the time of signature may appear far more imbalanced years later when concerns over risks may have diminished and commodity prices may have dramatically increased (or declined). This points to a case for building in flexibility. Otherwise there will be mounting pressure for renegotiation or even reallocation of rights and firms find the stability of their investment undermined.

It is also important to be nuanced when considering the assumptions about human behaviour that these concerns rest on. For example, assuming that increased conflict risk is a result of greed or opportunity-seeking glosses over a broad range of legitimate grievances that may motivate people to action,<sup>15</sup>

11 Anthony Bebbington, Leonith Hinojosa, Denise Humphreys Bebbington, Maria Luisa Burneo and Ximena Warnars, ‘Contention and Ambiguity: Mining and the Possibilities of Development’, *Brooks World Poverty Institute Working Paper 57*, University of Manchester (October, 2008) 7.

12 Gavin Hilson and Roy Maconachie, ‘Good Governance and the Extractive Industries in Sub-Saharan Africa’ (2009) 30 *Mineral Processing and Extractive Metallurgy Review* 50.

13 Bonnie Campbell, ‘Factoring in Governance is not Enough. Mining Codes in Africa, Policy Reform and Corporate Responsibility’ (2003) 18 *Minerals and Energy* 2.

14 Hilson and Maconachie, ‘Good Governance’, 88–90.

15 Karen Ballentine and Jake Sherman (eds), *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (Lynne Rienner Publishers, 2003); Paul Collier, Anke Hoeffler and Dominic Rohner, ‘Beyond Greed and Grievance: Feasibility and Civil War’, *Oxford Economic Papers* 61 (2009).

and may shape policy responses (such as those to do with levels of ‘meaningful consultation’ or consent on the part of communities affected by a mine) in harmful or conflict-prolonging ways.<sup>16</sup> As an example, mining has a significant effect on land and land rights, but a desire to profit from mineral resources may just be one potential trigger for land disputes. Claassens argues that ‘the irrevocable nature of land transfer is an effective alarm clock for latent social tensions’.<sup>17</sup> A legitimate grievance may be down to differing conceptions of land and harm to traditional views or rights; in the case of the tribal Saramaka people of Suriname, for example, conflict arose not because of conflict over resource rents but because they felt their customary rights over land, such as hunting rights, were infringed by a mining concession.<sup>18</sup> Alternatively, conflict may be driven by horizontal inequalities between groups<sup>19</sup> and a concomitant lack of bridging social capital between the groups.<sup>20</sup>

## Governance

The types of opportunities and concerns stemming from extractives revenues show the *central importance of governance to making the most of natural wealth*, not least in helping ensure effective long-term policy thinking regarding the use of resource revenues.<sup>21</sup> It is also essential to managing broader, high-stakes societal issues such as civil conflict.<sup>22</sup> However, as already noted, the extractives sector raises complex issues, not least as it is based on the development of a spot source of income that is linked to difficult questions of politics, land and identity. Competing interests have to be managed by

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16 For a recent detailed study and summary of the literature see Lisa J Laplante and Suzanne A Spears, ‘Out of the Conflict Zone: The Case for Community Consent Processes in the Extractive Sector’ (2008) 11 *Yale Human Rights & Development Law Journal* 69.

17 Aninka Claassens, ‘South African proposals for Tenure Reform: the Draft Land Rights Bill’, in Camilla Toulmin and Julian Quan (eds), *Evolving land rights, policy and tenure in Africa* (International Institute for Environment and Development and Natural Resources Institute, 2000) 254.

18 Inter-American Court of Human Rights, *Case of the Saramaka People v Suriname*, judgment of 28 November 2007 (Ser C) No 172 (2007).

19 Frances Stewart, *Horizontal Inequalities: A Neglected Dimension of Development* (United Nations University, World Institute for Development Economics Research, 2001); Frances Stewart (ed), *Horizontal inequalities and conflict: understanding group violence in multiethnic societies* (Palgrave Macmillan, 2008).

20 Richard Auty, ‘Patterns of Rent-Extraction and Deployment in Developing Countries: Implications for Governance, Economic Policy and Performance’ in G Mavrotas and A Shorrocks (eds), *Advancing Development: Core Themes in Global Economics* (London, 2007).

21 Ben Eifert, Alan Gelb and Nils Borje Tallroth, ‘The Political Economy of Fiscal Policy and Economic Management in Oil Exporting Countries’, *World Bank Policy Research Working Paper Series* 2899 (World Bank, 2002).

22 Bannon and Collier, *Natural Resources* (2003).



a government that can lack capacity or legitimacy among certain groups. Indigenous groups, for example, have particular claims over land that may be at odds with government attempts to sell subsoil rights that it 'owns'. More broadly, in situations of fragility or conflict, sub-groups may challenge the grant of resource rights to a third party/company by a government whose legitimacy is in question and that is seen as unrepresentative. In extreme cases, states and sub-groups may seek to use resources in 'their' land to support campaigns against each other.

As land and identity issues help to illustrate, in considering governance of the extractives sector it is not easy to answer *who* is to be governed, by *whom*, for *whose* benefit and to *whose* standards. While some place the emphasis on 'good governance' in the public sector,<sup>23</sup> others stress that governance of corporations and actions by developed country governments is essential.<sup>24</sup> Further, some types of 'bad governance', understood in developed countries to be corrupt or cronyist, may be rooted in the rich and complex histories of a society. For example, Berman argues that this sort of behaviour in certain African states is rooted in pre-colonial understandings of the importance of being looked after by fathers and families and that the traumas of colonisation firmly embedded that approach into society, making it difficult for practices to shift and change.<sup>25</sup> In this context, such 'bad governance' may actually be an efficient or effective strategy to build coalitions and political support in order to get things done.<sup>26</sup>

Given the importance of context and nuance in understanding the challenges posed by resource revenues, it is clear that governance responses should also be nuanced and contextualised. For example, in a very poor country, what proportion of rents should be ring-fenced for the future? How much should be used for current consumption to alleviate extreme

23 Aderoju Oyefusi, 'Oil and the Probability of Rebel Participation among Youths in the Niger Delta of Nigeria' (2008) 45 *Journal of Peace Research* 539.

24 Kathryn McPhail, 'Sustainable Development in the Mining and Minerals Sector: The Case for Partnership at Local, National and Global Levels', International Council of Mines and Minerals (May 2008); ICMM et al, 'Resource Endowment Toolkit. The Challenge of Mineral Wealth: using resource endowments to foster sustainable development', International Council on Mining & Metals with UNCTAD and the World Bank (September 2008); Bracking, 'Hiding Conflict' (2009).

25 Bruce Berman, 'Ethnicity, Patronage and the African State: The Politics of Uncivil Nationalism' (1998) 97 *African Affairs* 305.

26 David Hall-Mathews, 'Tickling donors and tackling opponents: The anti-corruption campaign in Malawi' in Sarah Bracking (ed), *Corruption and Development: the Anti-Corruption Campaigns* (Palgrave Macmillan, 2007); Mushtaq Khan, 'Markets, States and Democracy: Patron-Client Networks and the Case for Democracy in Developing Countries' (2005) 12 *Democratization* 704; James Robinson, Ragnar Torvik and Thierry Verdier, 'Political Foundations of the Resource Curse' (2006) 79 *Journal of Development Economics* 447.

poverty? Should the rent be managed entirely by a dedicated government investment fund as in Norway, or should part of the rent be redistributed directly to citizens in order to promote private investment, as is done with oil revenues in the US state of Alaska?<sup>27</sup> If the revenues are managed by government, how should government balance investment in public infrastructure, support for domestic private sector development and investment for the highest return even if that means foreign investments? This article offers no one single prescription; rather, it looks at governance as one important dimension in shaping critical policy decisions. The authors point to the need to ensure that *the benefits of resource revenues are based on participatory process, benefiting citizenry as a whole, including the poor and marginalised.*

Owing to the complexity of the idea and practice of governance of extractives, it is important to take a broad definition of governance that doesn't just emphasise the formal use of power by the state.<sup>28</sup> Governance is addressed through:

- incentive structures for appropriate actors: for example incentivising long- or short-term behaviour;<sup>29</sup>
- legal and regulatory frameworks;
- policy, political and institutional frameworks: for example, supporting democratic reform and creating an independent judiciary,<sup>30</sup> or building a redistributive tax regime that increases taxes on resources;<sup>31</sup>
- institutional capacity;
- transparency; and
- accountability.

Much work has been done on the first four aspects of governance listed in terms of technical assistance and consideration of what constitutes good practice, but less focus had been placed on the latter two until recently. Transparency and accountability have been recognised as important

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27 Milan Brahmhatt, Otaviano Canuto and Ekaterina Vostroknutova, 'Natural resources and development strategy after the crisis' in Canuto, Otaviano, and Marcelo Giugale (eds), *The Day After Tomorrow: A Handbook on the Future of Economic Policy in the Developing World* (World Bank, 2010).

28 World Bank, *Strengthening World Bank Group Engagement on Governance and Anticorruption* (World Bank, 2007).

29 Ariel Fiszbein, 'Governance and social service delivery: An agenda for research and action', presentation in Buenos Aires, September 2009.

30 Paul Collier and Anthony Venables, 'Natural resources and state fragility', *Oxcarre Research Paper 31*, Oxford (2009).

31 Bracking, 'Hiding Conflict' (2009).



by many for effective governance of resources,<sup>32</sup> but many analyses use transparency and accountability interchangeably, reflecting a lack of attention to these aspects that has the potential greatly to undermine impacts of broader capacity building efforts. Few studies look beyond simple recognition of transparency and accountability and think about ways of using transparency and participation to strengthen accountability in resource-rich country settings.

### **Building accountability: theoretical frameworks**

Accountability is pursued through the – hopefully equitable – participation of individuals or groups, using transparency of information, to hold private or public decision-makers to account: put simply, transparency plus participation – in decision-making and monitoring processes – should lead to greater accountability. Accountability can come from the grassroots or bottom-up (the ‘demand-side’), and from policy-makers and power-holders responsible for ensuring accountability (the ‘supply-side’). Under this definition, accountability is built on equitable participation and on transparency of information. The recent Natural Resources Charter includes the precept that decisions around exploitation of natural resources ‘should be *transparent* and subject to *informed public oversight*’.<sup>33</sup> Paul Collier, one of the experts shaping the Charter, argues in the same vein that a well-informed society, benefiting from increased access to information relating to the development and use of natural assets, is in a better position to ‘discipline’ leaders that may plunder such assets, assuming the people recognise a common responsibility for custody of natural resources.<sup>34</sup>

*Participation* is usually thought about in terms of its quality: for example, requiring fairness, inclusivity, equity and other procedural standards.<sup>35</sup> *Transparency* has been understood as creating and disseminating information to citizens. Information-gathering can have a direct impact on

32 Philippe le Billon, ‘The political ecology of war: natural resources and armed conflicts’ (2001) 20 *Political Geography* 561; Collier and Venables, ‘Natural Resources’ (2009); Paul Collier, *The Plundered Planet* (Oxford University Press, 2010).

33 The Natural Resource Charter is a set of principles for governments and societies on how best to harness the opportunities created by natural resources for development. Developed by academics and practitioners, it is not intended as a recipe or blueprint for the policies and institutions countries must build, but instead to suggest those ingredients successful countries will require. See [www.naturalresourcecharter.org](http://www.naturalresourcecharter.org).

34 Collier, *Plundered Planet* (2010).

35 Michael Lockwood, Julie Davidson, Allan Curtis, Elaine Stratford and Rod Griffith, ‘Governance Principles for Natural Resource Management’ (2010) 23 *Society and Natural Resources* 1.

practices that affect the poor.<sup>36</sup> Wealth accounting, for example, provides a realistic and accurate picture of the resources available for long-term projects that can invest in poverty reduction.<sup>37</sup> People's expectations can also adapt as a result of information transparency:<sup>38</sup> for example, accurate information about resource revenues may reduce conflict risk by reducing expectations of a windfall.<sup>39</sup> However, information can also have negative effects: it may reduce the ability of political actors to negotiate, build coalitions and act for the benefit of marginalised groups; it could also inflate expectations if the potential windfall is large, exacerbating tensions and conflict risk.

Information and evidence have been referred to as the 'currency of accountability',<sup>40</sup> meaning – to extend the metaphor – that transparency is the minting process. Transparency allows information to be generated, which can then be communicated, used and deployed to place pressure on public and private power-holders or retrospectively hold them to account. However, the process by which information goes from minting into circulation is not straightforward. For example, a country Extractive Industries Transparency Initiative (EITI) report<sup>41</sup> is not an end goal in itself, but only takes on real value if country stakeholders are, for example, able to review the report, highlight discrepancies, compare it to the national budget, and help build an accurate and widespread understanding of the revenues available to government that can inform a debate on how those revenues are spent and to whose benefit.

Strong institutions are of fundamental importance. We do not seek to intervene in debates about the value of institutionalism as a tool of analysis

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36 Cheryl Gray and Daniel Kaufman, 'Corruption and development' (1998) 35 *Finance and Development* 1.

37 World Bank, *Changing Wealth* (2010).

38 Martha Nussbaum, *Women and Human Development: The Capabilities Approach* (Cambridge University Press, 2000).

39 Oyefusi, 'Rebel Participation' (2008).

40 Kenneth Dye and Rick Stapenhurst, *Pillars of Integrity: Importance of Supreme Audit Institutions in Curbing Corruption* (World Bank Institute, 1998). Although Dye and Stapenhurst focused their attention on supply-side accountability – eg, through audit offices and structures of accountability – this article stresses the importance of both supply- and demand-side (or bottom-up) accountability processes.

41 The Extractive Industries Transparency Initiative (EITI) has developed a series of reporting procedures for signatory countries in order to increase transparency of payments by companies to governments, and of extractives revenue earned by governments.

or means of understanding the world.<sup>42</sup> Rather, we suggest that they are important parts of country contexts, shaped by significant political forces including, for current purposes, the politics of participation. Those countries that start off with weak institutions may find that the process of resource exploitation weakens them further. Parliaments, political parties, civil society organisations, think tanks, universities and the media – in other words, actors in the ‘public sphere’ – can use information to build public and private sector accountability, while institutional context, such as free speech laws and courts, provides the framework in which this can take place.

Accountability is not simply about publicly ‘calling functionaries to account’: such a view is based on a developed-world understanding of citizenship, public life and private life that does not reflect reality in many resource-rich countries.<sup>43</sup> In order to improve accountability to society as a whole, including the poor and marginalised, it is *essential to understand the politics and power structures of existing patterns of accountability that they can access or that affect them*. These can be framed around general ideas about and concerns with transparency and the use of information to hold actors accountable. For example, vertical citizen–state relationships and horizontal citizen–citizen relationships are complicated in contexts of resource abundance, particularly when considering the poor and marginalised. The state may not have a visible or effective presence

42 We are informed by several strands in the literature: those that promote an institutional-historical approach (Douglass North, *Institutions, Institutional Change and Economic Performance* (Cambridge University Press, 1990); Douglass North, John Wallis and Barry Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (Cambridge University Press, 2009); Douglass North, John Wallis, Steven Webb and Barry Weingast, ‘Limited Access Orders in the Developing World: A New Approach to the Problems of Development’, *World Bank Policy Research Working Paper Series* 4359, World Bank (2007)), those that transpose such an approach to natural resource questions (eg, Collier and Hoeffler, ‘Resource Rents’ (2005); Collier and Venables, ‘Natural Resources’ (2009)), and those that seek to emphasise the politics and historical contingency of institutions (Jonathan di John and James Putzel, *Political Settlements: Issues Paper*, Governance and Social Development Resource Centre (June 2009); Mushtaq Khan, ‘State failure in weak states: a critique of new institutionalist explanations’, in John Harriss, Janet Hunter and Colin M Lewis (eds), *The New Institutional Economics and Third World Development* (Routledge, 1995); Adrian Lefwich and Kunal Sen, *Beyond Institutions: Institutions and Organizations in the Politics of Economics and Growth and Poverty Reduction – A Thematic Synthesis of Research Evidence* (Improving Institutions for Pro-Poor Growth, 2010); Christopher Bayly, Vijayendra Rao, Simon Szreter and Michael Woolcock (eds), *History, Historians and Development Policy: A Necessary Dialogue* (Manchester University Press, 2011)) and their social construction (Varun Gauri, Michael Woolcock and Deval Desai, ‘Intersubjective Meaning And Collective Action In “Fragile” Societies: Theory, Evidence And Policy Implications’, *World Bank Policy Research Working Paper Series* 5707, World Bank (2011)).

43 Tim Kelsall, ‘Going with the Grain in African Development?’ (2008) 26 *Development Policy Review*, 627.

in many peoples' lives. People may identify themselves with a range of shifting local or sub-national groups (such as ethnic or tribal groups) rather than simply as citizens.<sup>44</sup> Those responsible for resource revenues may be part of the power structure of those groups and may have influence over people's private lives or be part of the private company exploiting those resources. In resource-rich countries, existing patterns of accountability can give rise to serious concerns about those who are not able to participate in these groups. The poor and marginalised may be left behind as the gathering, analysis and use of information require a level of literacy, while applying political pressure needs organisation. Thus the participation of actors in the 'public sphere'<sup>45</sup> at the national and local levels can act as conduits for information and facilitators of accountability processes.

Such actors in any 'well-informed' society include civil society, the media and academia or think tanks, all of whom can move information between different levels of society and use it to build coalitions for change. These coalitions include the active participation of the poor and marginalised<sup>46</sup> and represent 'demand-side' accountability as opposed to the 'supply-side' accountability of policy-makers and power-holders responsible for ensuring accountability.<sup>47</sup> For example, Jenkins and Goetz study grassroots movements in rural India based around access to information.<sup>48</sup> They show how these movements represent poor groups; are driven by local residents and external activists; engage with accountability institutions (such as ombudsmen); and use information, protests and the media to lower local corruption and bad governance. In general, the public sphere can be seen as a way of meshing supply of and demand for accountability to create safe spaces for all the poor and disadvantaged to have access to it.

It is important to note that the use of the public sphere to ensure accountability is no panacea. The public sphere is not neat, as can be seen in four ways:

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44 E Wayne Nafziger and Juha Auvinen, 'Economic Development, Inequality, War, and State Violence' (2002) 30 *World Development* 153.

45 Jurgen Habermas, *The Structural Transformation of the Public Sphere: An Inquiry into a Category of Bourgeois Society* (Trans T L F Burger, MIT Press, 1989); Jurgen Habermas, 'Further Reflections on the Public Sphere' in C Calhoun (ed), *Habermas and the Public Sphere* (MIT Press, 1992).

46 Leonardo Avritzer, *Democracy and the Public Space in Latin America* (Princeton University Press, 2002).

47 Institute of Development Studies, 'Making Space for Citizens: Broadening the "New Democratic Spaces" for Citizen Participation', IDS Policy Briefing No 27, (March 2006).

48 Rob Jenkins and Anne-Marie Goetz, 'Accounts and accountability: theoretical implications of the right to information movement in India' (1999) 20 *Third World Quarterly* 603.

1. The public sphere is not a single, unified area in which information is disseminated and discussed. It can be *fractured*,<sup>49</sup> with individuals fundamentally unable to communicate, talk, discuss or debate outside their own group. There can also be a variety of public spheres that operate at different levels and in very different languages, power dynamics and political contexts (eg, tribal, local and national). This makes it essential to understand the context of the different types and methods of communication of the poor and marginalised.<sup>50</sup> Without doing so, organisations and bodies looking to act and campaign on their behalf may struggle to represent their wishes.
2. Participation in the public sphere can also be limited by the exercise of power. The state may limit the effectiveness of the public sphere through, for example, legal<sup>51</sup> and ‘non-legal’ restrictions (through, for example, coercion and human rights abuses) on free speech and citizen participation in policy- or decision-making regarding mining wealth. Thus, Myanmar’s oil, gas and mining wealth is earned against the backdrop of laws limiting speech and a history of state abuse of political freedoms.<sup>52</sup>
3. The quality of analysis and debate in the public sphere that stimulates accountability can also often be questionable, as it relies on a high level of knowledge and engagement among citizens and communities.<sup>53</sup> Information is only as valuable as the capacity to understand and use it. In the case of often-complex extractive industries agreements, one argument used by both companies and governments to refrain from disclosure of contracts is that the terms will be misinterpreted as there is not the technical understanding on the part of civil society to ‘unpack’ and contextualise the deal effectively. This points to a need to build that understanding, for example through local think tanks.
4. Actors are not always altruistic. Thus middle groups of actors who can obtain and analyse information, and organise social movements, are useful. However, they may have limitations or agendas; the well funded

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49 Maria Luisa Pesante, ‘An Impartial Actor: The Private and Public Sphere in Adam Smith’s *Theory of Moral Sentiments*’ in Dario Castiglione and Lesley Sharpe (eds), *Shifting the Boundaries: Transformation of the Languages of Public and Private in the Eighteenth Century* (Exeter University Press, 1995).

50 Archon Fung, ‘Recipes for Public Spheres: Eight Institutional Design Choices and Their Consequences’ (2003) 11 *Journal of Political Philosophy* 338.

51 LogoLink, ‘Legal Frameworks for Citizen Participation: Synthesis Report’, Research Report Series (April 2003).

52 David Kinley, *Civilising Globalisation: Human Rights and the Global Economy* (Cambridge University Press, 2009).

53 Fung, ‘Recipes’ (2003).

may capture or fill public space.<sup>54</sup> This is particularly true in situations where disseminating information and organising around it is costly and labour-intensive, for example when literacy, radio ownership, TV ownership and/or internet access levels are very low.

### **Building accountability: frameworks for action**

Given the complexity of the extractive industries sector, an analysis of power-holders and accountability for decisions might begin with the decision as to whether or not – or how quickly – to promote/sponsor exploration and then extract in the first place, as pressures to harness resources for immediate development can be balanced against physical, human, social and institutional capacity to absorb the investment and revenues.<sup>55</sup> It is then helpful to consider any one intervention in the context of the whole system. To this end, the World Bank and a number of development partners use an outline of the full extractive industries ‘value chain’ encompassing all the key decision points from the award of licences and contracts, through regulation and monitoring of operations, collection of taxes and royalties, distribution of revenues and use of those revenues to support sustainable development policies and projects (see Figure 1).

**Figure 1: The extractive industries value chain**



The concept of a value chain for the sector promotes understanding of the individual ‘links’ in the extractive industries development and management process and helps convey that the chain leading to development impact is only as strong as its weakest link. Further, strengthening one link in the chain may push undesirable behaviour to other parts of it, necessitating a holistic policy approach. Hence, a well-functioning revenue distribution system is of limited value if the initial contract is not balanced and does

<sup>54</sup> Ann Hudock, ‘Hearing the Voices of the Poor: Encouraging Good Governance and Poverty Reduction through Media Sector Support’, World Learning for International Development (2003); Benjamin Page, *Who Deliberates?: Mass Media in Modern Democracy* (University of Chicago Press, 1996).

<sup>55</sup> Thorvaldur Gylfason, ‘Natural Resources and Economic Growth: from Dependence to Diversification’, *CEPR Discussion Paper* 4804 (2004).



not allow the government to capture sufficient taxes and royalties, or if the revenue collection system is weak, as is the case in many countries, such as Sierra Leone and Ghana.<sup>56</sup> Alternatively, a country might be excellent at negotiating a petroleum or mining deal, but then lack capacity at other points up and down the chain to turn the resources from that deal into concrete investments that deliver broad-based current and future prosperity, as one might argue is the case in Angola.

### **World Bank and extractive industries: adapting to the governance agenda**

In this context the role of multilateral development agencies is not a simple one. The World Bank has been most active, leveraging internal technical expertise on the sector together with a global presence and financing options. Accordingly, the case of the World Bank is instructive in illustrating the opportunities and constraints facing the international donor community in strengthening good governance around oil, gas and mining.

For the World Bank, issues around natural resource development and management are inextricably linked to the institution's overriding objective of poverty reduction. The challenge is to assist in developing effective, contextualised governance processes and finding ways to increase opportunities for informed decision-making along the value chain.

In terms of investment in the sector, the World Bank is now a relatively small player, particularly given the dramatic rise in private investment and investment from emerging market economies. This prompts moderated expectations of its influence. That said, the World Bank as a multilateral development agency does have attributes that allow it to contribute to resource-rich, low-income countries through support of macroeconomic policy, microeconomic policy and broader governance and systemic issues. It can lend, convene, push for higher international standards and offer global and sectoral expertise. It can do so along the value chain: for example, from support for geological surveying, to public financial management, to environmental impact mitigation, to local private sector development, to fiscal policy, to stolen asset recovery. Such attributes offer a strong basis for assistance to client countries.

Over the course of the past decade, the World Bank Group's engagement has been increasingly framed in terms of the recommendations of the

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<sup>56</sup> United Nations Economic Commission for Africa, *Assessing Public Financial Management and Accountability in the Context of Budget Transparency in Africa*, UN Doc ECA/DPMD/AEGM/TP/05/2 (November 2005).

Extractive Industries Review (EIR) – Striking A Better Balance (January 2004).<sup>57</sup> The review was launched in 2000 in response to mounting criticism regarding the sustainable impacts of the sector and World Bank extractives projects, including the level of social and environmental standards applied, the quality of impact assessments and stakeholder engagement. The EIR final report and management response recommended that the Bank focus on promoting ‘pro-poor public and corporate governance’ of extractives.<sup>58</sup> One of the pillars on which this is to be achieved is through engagement with civil society, raising it up so that it is ‘... balanced in the triangle of partnership between governments, business, and civil society’.<sup>59</sup> The Bank perceives benefits from partnership with civil society as it can ‘draw attention to the inequalities in the playing field within countries... in which most of the people affected by the costs associated with extractive industries have no voice to negotiate benefits from such projects’.<sup>60</sup>

The EIR process helped prompt reflection and then greater engagement around governance in the sector on the part of the World Bank. This has translated into greater support for transparency initiatives, global standards and country-level processes for improved accountability, although this is not to suggest that there are not still gaps in knowledge and potential action on this agenda. The following sections detail the efforts to date and conclude with discussion of what more might be done, and possible lessons for other agencies.

### *Global action – supporting the good governance agenda*

At the global level, the World Bank Group continues to play a role in terms of standards setting and both clarifying and promoting good practice. The Bank has a long track record of supporting safeguards on environmental and social issues, and on governance dimensions in more recent times. On the private sector side, this includes the impact of the World Bank Group’s private sector arm – the International Finance Corporation (IFC) – and its Policy and Performance Standards on Social

57 The World Bank Group announced in 2000 that it would conduct a comprehensive review of its activities in the extractive industries sector – the Extractive Industries Review (EIR) – in response to concerns expressed by a variety of stakeholders, primarily environmental and human rights organisations. The review involved a wide-ranging process that included multiple in-depth, independent technical reviews (see links below), project site visits and a series of conferences around the globe to solicit the views of stakeholders in government, industry, civil society and local communities. For more information, see [www.ifc.org/eir](http://www.ifc.org/eir).

58 Extractive Industries Review, *Striking a Better Balance Volume I: The World Bank Group and Extractive Industries* (Extractive Industries Review, 2003), vii.

59 *Ibid* v.

60 *Ibid* 7.

and Environmental Sustainability.<sup>61</sup> Introduced in 2006, they apply to all investment projects, including those in the extractives sector. Based on a 2009 review conducted by the IFC, the Performance Standards have made a positive contribution to the global convergence of environmental and social risk management practices.<sup>62</sup> These standards include important transparency requirements, for example, requiring disclosure of payments, and now, under updated rules that came into effect on 1 January 2012, also disclosure of contracts in the extractives sector.

The IFC is also fulfilling both leadership and support roles in developing standards that go beyond their client companies and are highly relevant to the extractives sector. Examples include the Voluntary Principles on Security and Human Rights, which provide practical guidance to strengthen human rights safeguards in company security arrangements in the extractive sector. IFC standards help provide a global benchmark, best illustrated by the success of the Equator Principles. These voluntary principles provide a credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions and are applied where total project capital costs exceed US\$10m. They are based on the IFC Performance Standards together with World Bank Group Environmental, Health, and Safety Guidelines. They have now been adopted by 73 financial institutions in 27 countries representing over 70 per cent of international project finance debt in emerging markets.<sup>63</sup>

There remains, of course, more to be done normatively (eg, ensuring that a full range of rights are considered, as evinced by the recent changes to Performance Standard 7 on indigenous peoples<sup>64</sup>), operationally (such as ensuring compliance) and in terms of process (making sure that a broad and representative range of voices appears around the table). This is particularly true of government policy (as opposed to the investor policy emphasis of the work done by the IFC).

One modality of increased engagement with government policy on the part of the World Bank Group is its increasing commitment to improved transparency in oil, gas and mining. Even preceding the EIR's

61 The International Finance Corporation, a member of the World Bank Group, is the largest global development institution focused on the private sector in developing countries. It supports development through firm-level interventions (direct investments, advisory services and the IFC Asset Management Company); standard-setting; and business enabling environment work. It coordinates its activities with the other institutions of the World Bank Group but is legally and financially independent. See [www.ifc.org](http://www.ifc.org).

62 See [www.ifc.org/ifcext/policyreview.nsf/AttachmentsByTitle/ReportFirstThreeYears/\\$FILE/IFC\\_PPSThreeYearApplication.pdf](http://www.ifc.org/ifcext/policyreview.nsf/AttachmentsByTitle/ReportFirstThreeYears/$FILE/IFC_PPSThreeYearApplication.pdf).

63 See [www.equator-principles.com/index.php/about-the-equator-principles](http://www.equator-principles.com/index.php/about-the-equator-principles).

64 See [www.ifc.org/ifcext/policyreview.nsf/Content/PerformanceStandard7](http://www.ifc.org/ifcext/policyreview.nsf/Content/PerformanceStandard7).

recommendation that it should ‘vigorously pursue countrywide and industry-wide disclosure of government revenues from extractive industries’, the World Bank Group had been an active supporter of the EITI since its launch in 2002. Building on the success of the Publish What You Pay campaign led by civil society, the EITI provides an institutional mechanism for reconciling and validating company declarations of payments made to government with the payments reported as received by governments.<sup>65</sup>

The EITI process is built around a multi-stakeholder model bringing together governments, extractive companies and civil society in each country. It is voluntary – countries must apply for candidate status and meet certain preconditions. To retain membership there is a process of validation, which reviews EITI implementation with domestic stakeholders to ensure that the EITI standards are upheld. As of November 2011, 12 countries have been formally validated as EITI compliant countries and another 23 have candidacy status, the bulk of which have been granted extensions on achieving validation.<sup>66</sup>

Developments globally – in terms of expanding global initiatives, government commitments and the reach of legislation – point to the likely emergence of a de facto global standard for revenue disclosure transparency in extractives, building off the momentum created by EITI. In addition to the IFC requirements for disclosure, the IMF is in favour of both revenue and contract disclosure. Meanwhile, legislation in OECD countries has potentially far-reaching implications. The Cardin-Lugar transparency provision enacted within the Dodd-Frank Act in the United States<sup>67</sup> requires extractive companies listed on US stock exchanges to disclose, in their SEC filings, payments made to all governments for oil, gas and mining (not just governments that have signed up to EITI).<sup>68</sup> Draft EU legislation would go even further than those under US law, in requiring companies listed on EU exchanges to disclose information down to the project level within each

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65 Publish What You Pay is a global network of civil society organisations that call for oil, gas and mining revenues to form the basis for development and improve the lives of citizens in resource-rich countries. Publish What You Pay has led a long-standing campaign to achieve disclosure of information about extractive industry revenues and now also contracts. For more information see [www.publishwhatyoupay.org](http://www.publishwhatyoupay.org).

66 For a full listing of member countries and their status, see the EITI website: [www.eiti.org](http://www.eiti.org).

67 Section 1504 of the Dodd-Frank Wall Street Reform and Consumer Protection Act 2010.

68 We note arguments regarding the limitations of the provision, which fall into two categories: the difficulty of enforcement (particularly down the supply chain) and the suggestion that it does not target issues of corruption and ‘getting a fair deal’ that sit at the heart of many critical political analyses of the resource curse literature. See note 11, above; see also Daniel M Firger, ‘Transparency and the Natural Resource Curse: Examining the New Extraterritorial Information Forcing Rules in the Dodd-Frank Wall Street Reform Act of 2010’ (2010) 41 *Georgetown Journal of International Law* 1043.

country of origin.<sup>69</sup> Similar rules are being considered in other financing hubs for the industry, including measures for newly listed companies on the Hong Kong Stock Exchange. The heads of government of the world's leading economies are increasingly engaged on this agenda, notably through discussion at the G8. The May 2011 G8 Deauville Declaration welcomed 'complementary efforts to increase revenue transparency, and commit[ted] to setting in place transparency laws and regulations or to promoting voluntary standards that require or encourage oil, gas, and mining companies to disclose the payments they make to governments'.<sup>70</sup> Several of those countries joining the Open Governance Partnership,<sup>71</sup> launched in September 2011, have committed to extractive industries-related disclosure requirements, including the United States' commitment formally to apply to join EITI. More countries are starting to mandate revenue disclosure and even contract disclosure, including countries such as Liberia and the Democratic Republic of Congo.<sup>72</sup>

Donor agencies have the opportunity to reinforce this trend. Through its participation in international forums and processes, such as working groups of the G20 and the Open Governance Partnership, the World Bank can contribute to greater comprehensiveness and effectiveness of such emerging standards. Reputational concerns are core drivers for country and industry participation in such 'good governance' initiatives, and relevant organisations can build on those motivations further to encourage better governance in practice and to facilitate dialogue around contentious issues.<sup>73</sup> This also requires leading by example. The World Bank's new access to information and data access policies are both positive steps in this regard, making more

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69 These are proposed amendments to the existing Directive on transparency requirements for listed companies and to the Directives on accounting rules for annual accounts and consolidated accounts. They propose inter alia to introduce country-by-country reporting, as part of a Responsible Business Initiative package of measures. For more details see the EU press release: <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/734&format=HTML&aged=0&language=EN&amp;guiLanguage=en>.

70 See [www.g20-g8.com/g8-g20/g8/english/live/news/renewed-commitment-for-freedom-and-democracy.1314.html](http://www.g20-g8.com/g8-g20/g8/english/live/news/renewed-commitment-for-freedom-and-democracy.1314.html) (see para 62).

71 The Open Government Partnership is a 'multilateral initiative that aims to secure concrete commitments from governments to promote transparency', taking in middle-income and high-income countries alike. See [www.opengovpartnership.org/about](http://www.opengovpartnership.org/about).

72 For more details on countries requiring contract disclosure, see Revenue Watch, *Contracts Confidential: Ending Secret Deals in the Extractive Industries* (Revenue Watch Institute, 2009).

73 For further discussion of the bank's role in terms of the emergence of oil sector transparency see Alexandra Gillies, 'The World Bank, Reputational Concerns and the Emergence of Oil Sector Transparency as an International Norm' (2010) 54 *International Studies Quarterly* 103.

information available to the public – information about projects under preparation, projects under implementation, analytic and advisory activities and board proceedings.<sup>74</sup>

Of course, despite encouraging instances, increased transparency, such as that promoted through EITI, does not necessarily translate into greater accountability – often the information in EITI reports, or under other disclosure processes, is not presented in a user-friendly format. Too often such disclosures are little accessed and utilised in practice. Disclosure does not in itself guarantee greater scrutiny or better governance of the sector. Multilateral development agencies such as the World Bank, bilateral donors such as the UK Department for International Development and think tanks or foundations such as the Open Society Foundations are among those now concerned as to how to complement improved transparency with building the tools for associated greater accountability.

*Beyond revenue disclosure to accountability along the full value chain*

Participation in EITI prompted a more comprehensive review within the World Bank of points of engagement, recognising that disclosure of revenues does not convey whether countries are receiving a fair share of rents or spending or investing revenues for development outcomes. World Bank management recognised that the entire value chain of managing extractive industry resources is important. This resulted in the issue being framed as the Extractive Industries Transparency Initiative Plus Plus (EITI++), announced in April 2008. As World Bank President Robert Zoellick stated, ‘Revenue windfalls from high commodity prices must translate into tangible improvements in the lives of poor people living on the fringes of the global economy. The EITI++ [approach] will help client countries to build capacities to draw sustainable benefits from their natural’.<sup>75</sup>

This recognises that accountability can extend both upstream – for example, to the award of licences and contracts – and downstream to processes for the sharing of revenues across levels of government and how those funds are spent, as well as holding the companies accountable for how they deliver on specified commitments in terms of the social, environmental and economic impacts of their extraction operations.

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74 For recently released data related to extractive industries, see: <http://data.worldbank.org/topic/energy-and-mining>. For details of the new Access to Information policy of the World Bank, see <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTANDOPERATIONS/EXTINFODISCLOSURE/0,,menuPK:64864911~pagePK:4749265~piPK:4749256~theSitePK:5033734,00.html>.

75 *World Bank Group and Partners Launch EITI++ Turning commodity price windfalls into benefits for poor people* Press Release No 2008/269/AFR, World Bank.



Better internal coordination is enabling creation of a menu of options for developing national capability to handle natural resource management, and for channelling the growing revenue streams into fighting poverty, hunger, malnutrition, illiteracy and disease. The three main areas of engagement promote:

- appropriate policy frameworks and sound technical arrangements for management of the sector;
- institutional capacity to implement policies effectively; and
- accountability of decision-makers to their stakeholders, including, ultimately and most importantly, accountability of government to the citizenry of the country.

While the World Bank's primary interaction is typically with client governments, there is growing recognition that the bank can and must do more to engage non-state actors and strengthen demand-side accountability for the management of extractives revenues. Decisions do and must rest with national policy-makers: it is all the more important that decision-makers can make well-informed choices and that citizens and communities are sufficiently well-informed in turn to critique those choices and hold decision-makers to account. World Bank President Zoellick has committed that the World Bank 'will work with our developing country clients and other partners to expand the transparency and good governance concepts of the EITI both upstream and downstream... We can advance inclusive and sustainable globalization by broadening the beneficiaries of resource development.'

The broadened approach to opportunities for improved transparency and accountability along the full value chain prompted in turn a review of where knowledge gaps existed in terms of clarifying good practice globally. For example, the World Bank as yet lacks a clear policy on whether governments should disclose extractives agreements with investors, pointing to the need to build consensus on what would be appropriate levels of disclosure and the need to document international experiences and potential costs/benefits of disclosure requirements. Such needs have prompted greater coordination across units in the World Bank Group, now reflected in a formalised Extractive Industries Task Group and a commitment to build a stronger knowledge platform for the sector with external partners from industry, civil society and academia that would include a strong focus on governance issues and related policies.<sup>76</sup>

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<sup>76</sup> See [www.eisourcebook.org/753\\_ExtractivesforDevelopment.html](http://www.eisourcebook.org/753_ExtractivesforDevelopment.html).

*Fostering country-level accountability*

Initiatives at the global and international institutional levels cannot be separated from the paramount need to build capacity effectively to understand and use information at country level. The experiences of EITI and the Kimberley Process (an international governmental certification scheme that was set up to prevent the trade in diamonds that fund conflict) have highlighted the value and need for capacity building so that information released can be used and critiqued from an informed position. They also point to the importance of bringing together stakeholders around a sustained need – not simply as palliatives to counter today’s newspaper headlines – and with a context-sensitive supporting institutional framework.

Collier has noted the prevalence in many resource-rich countries of practices that serve short-term interests and fail adequately to take account of the needs of the poor and marginalised or balance the needs of the present with those of future generations.<sup>77</sup> In response, the World Bank and development partners recognise the need to support reforms aimed at building transparent processes and accountable institutions in both the public and private sectors. This includes empowerment of civil society, development of oversight capabilities of parliaments and the media, building capacity for independent local sectoral analysis (eg, through think tanks dedicated to natural resource management issues) and improved knowledge-sharing across stakeholder groups that face similar hurdles.

That said, given the complexity of the extractives sector and the political, social and economic contexts in which resource extraction takes place, fostering accountability is not an easy process. There are many points to push for transparency of information – from publication of contracts, through to revenues paid/received, to how revenues are shared, to how they are invested or spent and to evaluations of their impact. There is no shortage of stakeholders to engage, including government, industry, civil society, communities bordering production sites, labour, lenders, insurers and consumers. These stakeholders represent multiple interests. To give just two examples, teachers’ unions have an interest in effective management of extracted resources given that the level of revenues collected will have a direct impact on future education budgets, while chambers of commerce have an interest to ensure that resources are managed with consideration of the needs of the national private sector.

Given this multiplicity of interests with a potential stake in extractive resource development, clear messaging is critical. The success of the global coalition of non-governmental organisations that pushed hard for disclosure

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<sup>77</sup> Collier, *Plundered Planet* (2010).

of oil, gas and mining revenues, and was instrumental in the creation of EITI, was in large part due to its very simple and powerful campaign message – Publish What You Pay. It is easily comprehensible to all, readily translatable to the local level and a message that resonated with a variety of constituencies of interest. The challenge, as yet unmet, when going beyond revenue disclosure to push for greater transparency and participation on other stages of the value chain, such as award of contracts and on spending, is to find similarly effective messages that capture the issue at stake and facilitate the building of coalitions.

In this context, and given the complexities noted above of understanding opportunities and concerns up and down the value chain as well as in the public sphere, the need for high-quality political economy analysis becomes even more important.<sup>78</sup> Such studies are critical to increase the relevance and value of World Bank advice and assistance, informing project design and avoiding recourse to generic responses.<sup>79</sup> Sound political economy analysis is increasingly being combined with a package of support on technical, institutional and accountability dimensions that is supportive of better governance along the value chain. One challenge is to ensure that such a range of instruments can be employed more comprehensively by donor agencies, particularly for countries with new resource discoveries and dramatic potential increases in revenues to follow.

However, even with a good understanding of the political economy, the accountability agenda is typically difficult for multilateral institutions to move forward quickly. Along with the inherent complexity of engaging with complex country contexts, finding ways to build accountability effectively requires adjusting existing instruments of institutions such as the World Bank or finding new ones. Typical of large organisations there is also the challenge of ensuring easy coordination across multiple departments (an agenda potentially ‘owned’ by all but running the risk of being owned by none), as well as between field-based staff and headquarters.

One attempt by the World Bank to address this problem is the creation of the internal Extractive Industries Task Group, bringing together representation from staff working on different aspects related to the sector. It aims to improve knowledge sharing and coordination, including with regard to transparency and accountability components. Although neither

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78 Nazneen H Barma, Kai Kaiser, Tuan Minh Le and Lorena Vinuela, *Rents to Riches?: The Political Economy of Natural Resource-Led Development* (World Bank, 2012), 217–236.

79 For an example of such analysis in an operationally driven context, see Barbara Nunberg, Naazneen Barma, Mark Abdollahian, Amanda Green and Deborah Perlman, ‘At the Frontier of Practical Political Economy: Operationalizing an Agent-Based Stakeholder Model in the World Bank’s East Asia and Pacific Region’, *World Bank Policy Research Working Paper Series* 5176, World Bank (2010).

sufficiently numerous nor proven to date to be considered standard practice, there is a growing set of examples of governance aspects being built into donor projects designed together with client countries. As one example, World Bank support to strengthen the EITI process at country level can be a strong entry point to encourage debate and advocate for stronger development outcomes from the extractives sector. Support for capacity building of national EITI processes, including the strengthening of civil society participation, points to the growing value of the multi-stakeholder dialogue process forged around EITI. This is starting to have spill-over impacts whereby EITI multi-stakeholder groups begin to discuss governance issues pertinent to the sector that go beyond revenue transparency, and consider other disclosure and accountability options. One such case is the Liberia Extractive Industries Transparency Initiative, which already requires contract disclosure in addition to disclosure of payments and covers forestry and commercial agriculture in addition to oil, gas and mining.<sup>80</sup> The World Bank recently released a report on emerging experience of implementing EITI down to the subnational level, together with a suggested framework for application. This represents another logical step in deepening the connection between data disclosure and an audience with an interest to use that data given local realities.<sup>81</sup>

There are a growing number of examples of more comprehensive treatment of the extractives sector by the World Bank working in concert with other donors, which offer a possible model for all new extractive industries lending. For example, in both Ghana and Mongolia, the World Bank has developed a broad portfolio of lending, technical assistance and capacity building to support growth and development from the mining sector, and, in the case of Ghana, expansion to oil production. In both countries, the World Bank has proven an ability to work not just with the range of relevant ministries, but with the range of key stakeholders, including industry, civil society and parliamentarians. This has contributed to constructive strengthening of the debate around policy decisions and scrutiny of implementation, including actively promoting both transparency and accountability, not least as conditionalities for lending assistance as with the Ghana Development Policy Loan that had disclosure of agreements as one trigger for disbursement.<sup>82</sup> In a further example, in the Democratic Republic of Congo, a new mining

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80 For more information on the Liberia Extractive Industries Transparency Initiative, see [www.leiti.org.lr](http://www.leiti.org.lr).

81 Javier Aguilar, Georg Caspary and Verena Seiler, 'Implementing EITI at the Subnational Level: Emerging Experience and Operational Framework', *Extractive Industries for Development Series 23*, World Bank (2011).

82 See <http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=351952&menuPK=351984&Projectid=P120005>.

project with the government includes support for establishment of a multi-stakeholder accountability platform to promote dialogue and monitoring of mining-related issues.<sup>83</sup> This approach is already being considered for projects in other countries and reflects a greater emphasis on governance – both in terms of risk management and as opportunity to push for more equitable outcomes – within the design of World Bank operations.

Multi-stakeholder approaches are useful in tackling governance problems in the sector that often reflect collective action failures. This is why sound political economy analysis, kept practically focused, can be an important asset in designing processes to: (i) identify and engage with the range of relevant stakeholders; (ii) mobilise them into coalitions of actors who can have more impact as collective than as individual agents of change; and (iii) avoid as far as possible unintended consequences of reform efforts. The World Bank is among those exploring how best to support effective reform through such approaches. It was in line with this ethos that the World Bank Institute's Governance of Extractive Industries programme was launched jointly with the World Bank Africa Region in 2009, explicitly to promote accountable and transparent use of extractive industries resources through collective action. In recognition of the complexity around extractives development, it seeks to connect and empower the mix of key extractives industries stakeholders to identify jointly, prioritise and implement actions that can lead to a more accountable extractives sector. This approach is being piloted in West and East Africa in partnership with a global network of organisations through facilitation of emerging multi-stakeholder coalitions to monitor the award and implementation of extractives contracts.

To date, monitoring of licensing processes and contracts has been sporadic or limited in scope and impact, reflecting constraints in opportunity and capacity. Projects have just been launched targeting access to relevant contract information and its dissemination to the public and affected communities in easily understood formats. Such information enables those affected to know whom to hold to account for what terms, and is the first step to building capacity more effectively to monitor the implementation of those terms, complementing existing government regulatory functions. For example, the emerging coalition in Uganda will analyse an oil contract and train ten civil society organisations in monitoring techniques for social and environmental compliance. In Ghana the coalition will focus on artisanal mining and

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83 See announcement of project at <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22636466~menuPK:34463~pagePK:34370~piPK:34424~theSitePK:4607,00.html>. See project details at <http://web.worldbank.org/external/projects/main?Projectid=P106982&theSitePK=40941&piPK=73230&pagePK=64283627&menuPK=228424>.

monitor the operations of mines in one specific sub-region. Liberia's group is building understanding among relevant stakeholders of oil contracts that are still in the exploratory phase.

While still in its early stages of development, the approach, coordinated with other critical forms of World Bank and donor support for management of natural resources, reinforces the potential for more sustainable and equitable extractives deals. Bringing together the range of core stakeholders to identify problems and seek solutions is not easy: we continue to emphasise, from both theory and practice, that the design of an equitable multi-stakeholder process – a fair public sphere – is difficult, requires a thorough understanding of context and a significant investment to make sure voices are heard. Yet we maintain that such an approach can bring dividends. This can apply to contexts where parliaments have failed to address compliance issues, governments lack the will, funds or capacity to monitor compliance or track impacts adequately and civil society may lack the necessary access to information, training or public channels of communication. A multi-stakeholder process can help delineate ways to fill gaps in government capacity, strengthen oversight of the award and implementation of contracts. In one small example, one set of activities of the contract monitoring group in Ghana has led to the parliamentary Public Accounts Committee adding contract monitoring to its remit and convincing the Auditor General to review extractives contracts.

Technology can greatly facilitate greater participation and hence accountability of actions if leveraged appropriately within country and community contexts. Within the example of contract monitoring, technology offers communities opportunities to better track compliance and highlight deficiencies, through such tools as GIS mapping and SMS, which can facilitate citizen reporting.<sup>84</sup> The World Bank is among those organisations investigating the potential for technology within the context of extractive industries governance. In one example, a pilot GIS map has been developed for Ghana where users have access to all publicly available information related to extractive industries (such as locations, production and revenues and contractual details), including that from World Bank projects, in combination with other social, environmental and economic data down to district level.<sup>85</sup>

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84 GIS refers to any geographical information system that integrates, stores, edits, analyses, shares and displays geographical information for informing decision-making. SMS refers to short message service – a text messaging service component of phone, web or mobile communication systems, using standardised communications protocols that allow the exchange of short text messages between fixed line or mobile phone devices. The term SMS is used as a synonym for all types of short text messaging as well as the user activity itself in many parts of the world.

85 See <http://maps.worldbank.org/extractives/afr/ghana>.



This becomes a useful tool for planning and advocacy around the sector – accessible to all stakeholders alike. Also, in Ghana, the World Bank is supporting development of a platform for citizen interactive feedback on oil operations, such as the ability for fishermen to report any spills, or for communities to report on social impacts in those communities closest to the offshore production. The lessons learned from such approaches can also be shared more broadly with support from technology. Such approaches, particularly those that help enable citizen-led accountability, hold real potential, recognising that there remain clear limitations to technology-driven solutions to governance challenges in the sector, not least issues of bandwidth and access, and the capacity and incentives to use the technology if available.

## **Conclusions**

For resource-rich countries, avoiding pitfalls associated with extractives wealth is a pressing challenge. It needs to be at the forefront of country development planning and poverty reduction strategies. It is clear that context is paramount, from textured political economy and historical analyses, to systemic context of the extractives value chain, to understanding the nuances of the public sphere and existing systems of accountability. Understanding that context is essential to inform effective decision-making, and militates against the transplantation of imported ‘best practices’.

The next step is proactively to facilitate the participation of society, and the transparency of information and processes that enables effective participation, including of the poor and marginalised. Despite increased attention to governance issues in the sector, too often the focus has been on transparency without empowering use of transparent information to ensure accountability for actions taken. There is a role for international donor agencies, not least the World Bank Group, to convene, build capacity and advocate for the range of stakeholders to push for such accountability. The World Bank Group has been active in the extractives sector since its inception, but new and complex trends and challenges at the local, regional, national and global levels require adaptation and innovation in approach. Support for multi-stakeholder initiatives, for enforcement of industry standards, for coalition building to promote social accountability and for funding innovations that will allow for more direct support to non-governmental actors are all positive signals. Development is trending towards broader engagement of citizens, making good use of facilitating technology, and the extractives sector is ripe for such approaches that can help break cycles of

decision-making that too often serve the interests of a few to the detriment of the many, not least the poor and marginalised.

As the importance of natural resources within the economy increases in many countries, further neglect of governance dimensions will have a very real cost. Good legal and regulatory frameworks, technical capacity, institutional capacity on the part of government *and* accountability along the value chain are all essential to ensure that such resources truly prove their worth for current and future generations.