

The Resource Curse and Transparency

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Abstract

Transparency-based policies are currently the principal approach to mitigating the resource curse in developing countries, particularly with respect to corruption and conflict. Policymaking often reflects conventional assumptions about the nature of the problem: the traditional financial opacity of the extractive industries enables illicit appropriation of resource rents, while correlations between natural resource dependency and intrastate conflict are explained through reference to combatant financing mechanisms. Accordingly, transparency has been widely adopted as an integral policy component, whether through financial regulation, commodity

tracking, or resource interdiction. Policymaking has also been influenced by political and economic interests among states, international organizations, and transnational corporations. The available evidence suggests there is sufficient reason to critically re-examine the assumption that increased economic transparency necessarily translates into enhanced political accountability in developing countries. The mixed track record of transparency based policies suggests alternative and complementary approaches to escape the resource curse should also be considered.

Keywords: transparency, accountability, resource curse, corruption, conflict

Introduction

This chapter critically examines policy responses to corruption and conflict in natural resource-dependent developing countries, including conceptual linkages made between the *resource curse* and *transparency*. The first section explores these concepts, while the ensuing discussion summarizes their institutional manifestation in terms of transparency-based initiatives, advocacy campaigns, laws, and policies intended to reduce corruption and resolve conflict related to the extractive industries: UN commodity sanctions regimes, the Kimberley Process, Publish What You Pay (PWYP) and Extractive Industries Transparency Initiative (EITI), World Bank and International Monetary Fund (IMF) programs, and the Dodd-Frank Act of the United States. The third section analyzes transparency-oriented approaches to the resource curse in comparative context: how underlying assumptions about the efficacy of transparency and the nature of corruption and conflict have translated into policy; and the political economy of participation, implementation, and enforcement. In conclusion, the chapter reconsiders the use of transparency as a tool to address corruption and conflict in the extractive industries from the perspective of recent trends in international development. Ultimately, the available evidence suggests there is sufficient reason to question the core assumption shaping international policies

toward natural resource-related corruption and conflict: that increased economic transparency necessarily translates into enhanced political accountability.

The concepts

The following overview of the resource curse concentrates principally on the political and social (rather than economic) dimensions of the problem, particularly connections between natural resource dependence, conflict, and corruption; while the discussion of transparency traces the origins of the concept in Western political philosophy and its diffusion as a norm of governance and development. Both are useful as a precursor to subsequent analyses regarding how these two concepts intersect at the level of international policy responses to conflict and corruption.

The resource curse

The “resource curse” refers to negative development consequences associated with natural resource abundance or natural resource dependence. The contemporary use of the term can be traced to Richard M. Auty’s book, *Sustaining Development in Mineral Economies: The Resource*

Curse Thesis (1993). Another similar oft-cited phrase is “the paradox of plenty,” which derives from Terry Lynn Karl’s book, *The Paradox of Plenty: Oil Booms and Petro-States* (1997). Numerous other economists and political scientists have also been concerned with explaining correlations between natural resource abundance or dependence and a wide range of negative development outcomes, including poor economic performance, the absence of democracy, low societal welfare, conflict, and corruption (see, for example, Sachs and Warner 1995; Leite and Weidmann 1999; Bannon and Collier 2003; Humphreys, Sachs, and Stiglitz 2007; Ross 2012; and Le Billon 2012). Although the specific causal mechanisms for these different aspects of the resource curse remain a subject of considerable debate between and within academic disciplines, the risks associated with resource dependence are widely accepted. Extrapolated to their logical extreme, resource curse theories would even seem to suggest the highly counter-intuitive conclusion that it might actually be preferable for certain developing countries to *leave oil and mineral deposits in the ground*, rather than suffer the negative effects associated with their extraction, exploitation, and export (Ross 2001). On the other hand, not all developing countries dependent upon primary commodity exports have experienced a “resource curse”. Notable recent counter-examples—such as Chile, Botswana, and Malaysia—would seem to suggest that the typical adverse impacts on development can be mitigated, particularly through improved governance at the national level.

Popular discourse, media coverage, and non-governmental organization (NGO) advocacy reports referencing “blood diamonds,” “conflict commodities”, and “oil-fuelled war” reflect commonly held assumptions regarding a relationship between natural resources and armed conflict.¹

Paul Collier, while serving as Director of the Development Research Group at the World Bank, made the influential claim that the incidence of civil war correlates with levels of natural resource dependence and that this could be explained by a “rebel greed” hypothesis based on assumptions regarding the rational pursuit of economic self-interest by insurgents (Collier 2000). Collier’s theory resonated with policy-makers—including those who implemented UN sanctions regimes on diamond exports by rebel groups from Angola and Sierra Leone—to such an extent that it became the dominant paradigm for assessing “resource wars.” In subsequent versions of Collier’s work, the “rebel greed” hypothesis was replaced with a less controversial approach emphasizing the *opportunity* (i.e., availability of lootable commodities and lack of state deterrence capacity) rather than *motive* for insurgency (Collier with Hoeffler 2011). Shifting the analytical emphasis to state actors, William Reno and David Keen have explained how extensive resource-based patronage networks can undermine state institutions and thus increase the risk of civil war, while noting that state political and military elites also frequently engage in war profiteering, thus creating incentives for conflict perpetuation (Reno 2000; Keen 2001). Lastly,

Michael Ross and Philippe Le Billon have developed theories regarding how various properties of natural resources (e.g., point vs. diffused, labor-intensive vs. capital-intensive, distant vs. proximate, and lootable vs. non-lootable) have differential impacts on intrastate conflict (Ross 2003; Le Billon 2005).

Corruption is another conspicuous symptom of the resource curse. Although accurately quantifying levels of corruption is very difficult, the available evidence suggests a probable correlation between natural resource dependence and corruption. For example, nearly two-thirds of the twenty-five lowest ranked countries on Transparency International's Corruption Perception Index are dependent upon oil and/or mineral exports, compared with just a fifth of the twenty-five highest ranked countries (Transparency International 2011).² The capture and distribution of natural resource rents—defined as returns in excess of costs including normal returns to capital—are common mechanisms for corruption. Corruption can be centralized in the form of patronage networks and decentralized in the form of rent-seeking (Kolstad and Wiig 2009). Both forms are prevalent in countries with significant revenues from oil and mineral exports, especially if they are controlled by the public sector or a small number of firms. But why should one care about corruption associated with the extractive industries? Some would even argue that corruption can actually have economic benefits as it functions to “grease the

wheels” of capitalism, particularly within a weak institutional environment (Méon and Weill 2008). However, the mainstream consensus is that corruption has a negative impact on development outcomes: it reduces growth, reduces foreign direct investment, increases income inequality, and deters foreign aid. Finally, the facilitation of corruption by international commercial banks and the “supply side” role of transnational resource corporations have been underemphasized within the academic literature but have become areas of increasing focus for policy-makers.

A few points require clarification before proceeding. First, there is a lack of uniformity within the literature regarding what is meant by natural resource dependence or abundance. In general, most resource curse dynamics require an exportable surplus from which rents can be appropriated. Using broad criteria for categorization, IMF data show there are more than fifty countries in Africa, Asia, South America, and the Middle East that are either “hydrocarbon rich” or “mineral rich,” defined as at least 25% of fiscal revenue or 25% of total exports (International Monetary Fund 2007: Tables 1 and 2). This would suggest that the resource curse could have significant implications for development processes in much of the global South. Second, not all natural resources have the same impact on development trajectories; the resource curse is significantly more pronounced with high-value, point, and non-renewable commodities (e.g.,

diamonds, oil, and minerals) than with low-value, diffuse, or renewable commodities (e.g., coal, agriculture, and timber). Accordingly, international policy making thus far has focused principally on the extractive industries (as will the analysis in this chapter). Third, although correlations between primary commodity dependence and negative forms of economic and political development are well documented, there remains a wide range of competing explanations regarding the underlying causal mechanisms for various outcomes (e.g., Dutch Disease, price volatility, rentier state, and declining terms of trade). This lack of consensus among political scientists and economists regarding the nature of the problem does not bode well for policy-makers in search of solutions.

Transparency

The origins of the concept of transparency in Western political philosophy can be traced back to the ancient Greeks and the writings of notable late eighteenth-century thinkers such as Jean-Jacques Rousseau and Immanuel Kant, but it is the English philosopher Jeremy Bentham who is perhaps most closely identified with the idea. Bentham believed in a multifaceted approach to promote accountability and provide “securities against misrule”: open and transparent government, or what he referred to as the “Panopticon” principle, a free and vigorous

press, and the centrality and power of public opinion, which he termed the “Public Opinion Tribunal” (Odugbemi 2009). In *Writings on the Poor Laws*, a collection of initially unpublished manuscripts from the 1790s, Bentham claimed, “I do really take it for an indisputable truth, and a truth that is one of the corner-stones of political science—the more strictly we are watched, the better we behave.” (Bentham 2001: 277) For Bentham, accountability was not necessarily to be found in checks and balances or other similar internal institutional arrangements, but rather through the external weight of informed public opinion. Other thinkers, such as Adam Smith, were primarily concerned with the consistency and transparency of government administration, particularly with respect to the payment and collection of taxes. Foreshadowing current debates regarding financial disclosure requirements for the extractive industries, Smith wrote in *The Wealth of Nations* that taxes “ought be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear to the contributor and to every other person.” (Smith 1776)

In terms of the diffusion of transparency as a contemporary norm of national governance, the United States played a central role throughout the twentieth century. Louis Brandeis, who subsequently became a highly prominent and influential U.S. Supreme Court Justice, notably commented in an article for *Harper’s Weekly* in 1913, “Publicity is justly commended as a

remedy for social and industrial diseases. Sunlight is said to be the best of disinfectants; electric light the most efficient policeman.” (Brandeis 1913) Following the defeat of the Axis powers in World War II, the United States served as a reference point for open, liberal democracy.

Significant institutional reforms promoting transparency included the Administrative Procedures Act of 1946, the Freedom of Information Act (FOIA) of 1966, and the Government in the Sunshine Act of 1976 (Hood 2006). The FOIA seems to have been a particularly important model, as nearly seventy countries had adopted similar legislation as of 2006; more than a quarter of these are developing countries in Africa, Asia, and the Americas, while more than a third are countries in Eastern Europe or the former Soviet Republics (Privacy International 2006). However, in the wake of the September 11, 2001 attacks on the World Trade Center and the Pentagon, the world’s traditional proponent of transparency took a substantial step backward as secrecy became the new *modus operandi*, from confidential Energy Policy Task Force meetings to clandestine CIA prisons abroad. Interestingly, a contrary trend concurrently gained momentum globally as other states increasingly adopted transparency as a norm of governance and development.

The contemporary international ascendancy of transparency—as a norm and as a policy tool—can also be observed through various forms of global governance: international law, voluntary

codes of conduct and corporate social responsibility (CSR) initiatives, and the policies of intergovernmental organizations. The General Assembly adopted the *UN Convention Against Corruption*, which mentions the term “transparency” no fewer than ten times, in 2003. Similarly, the *OECD Guidelines for Multinational Enterprises*, which were first drafted in 1976, underwent substantial revisions in 2000, including updated provisions for corporate disclosure and a new section on anti-corruption measures. Meanwhile, the international financial institutions (IFIs) have also introduced transparency stipulations into their operating procedures and lending requirements. For example, each of the multilateral development banks now has formal policies on access to internal documentation. These reforms may have been prompted by a few different reasons: escalating pressure from civil society, such as public protest at the World Trade Organization (WTO) meeting in Seattle in 1999; a realization that allowing increased transparency could mitigate demands for more substantive organizational reforms, including the democratization of decision making; and an awareness that transparency also complemented the prevailing “Washington Consensus” agenda regarding good governance for World Bank and IMF recipient countries (Blanton 2007).

Two NGOs have also been particularly important for the contemporary diffusion of transparency as a norm of governance and development: the Open Society Institute (OSI) and Transparency

International (TI). OSI, founded in 1984 by the Hungarian-born billionaire philanthropist George Soros in order to support countries making a transition from communism, now works on a broader range of issues, including corruption and freedom of information. In terms of his world view, Soros was heavily influenced by his former mentor at the London School of Economics, Karl Popper, whose two-volume *The Open Society and its Enemies* was first published in the immediate aftermath of World War II. Popper strongly argued against teleological approaches to the social sciences (i.e., the idea that human events can be predicted and will follow a predetermined path according to certain rules), which he saw as the intellectual basis for authoritarianism, whether in the form of fascism or communism. Soros seized upon Popper's indictment of closed systems of thought, and advocated for the principles of liberal democracy through OSI, including facilitating the widespread adoption of freedom of information laws in Eastern Europe and among the former Soviet Republics. Transparency International, an anti-corruption NGO headquartered in Berlin, was founded in 1993. TI's "branding" of the term "transparency", substantial membership base through more than one hundred national chapters, and highly publicized corruption indices have also been influential with respect to processes of global norm diffusion. Both OSI and TI have been instrumental in promoting transparency as a policy tool, including in relation to the extractive industries.

Institutional history

The following discussion traces how concepts and theories about the resource curse and transparency have translated into advocacy campaigns by NGOs, policies of intergovernmental organizations, multi-stakeholder initiatives, and national laws: UN sanctions regimes, the Kimberley Process, Publish What You Pay and the Extractive Industries Transparency Initiative, World Bank and IMF programs, and the Dodd-Frank Act. Each shares an underlying assumption that natural resource revenue facilitates conflict and/or corruption and that the solution involves some element of transparency.

UN sanctions regimes

War economies interrelated with the exploitation of natural resources in the post-Cold War era have posed a significant problem for UN mediation and peacekeeping. Faced with an intractable intrastate conflict, the UN Security Council has typically imposed targeted sanctions with the goal of reducing the income that insurgencies derive from resource exports, such as in the cases of Angola (diamonds), Cambodia (timber), Côte d'Ivoire (diamonds), Liberia (timber,

diamonds), and Sierra Leone (diamonds). This is largely consistent with Collier's initial theoretical formulation identifying rebel economic self-interest as a cause for civil war (although in the case of Liberia, the target was technically Charles Taylor's government for its backing of rebels in Sierra Leone); however, the UN's focus on constraining rebel income fails to address state war economies, including the adverse effects of war profiteering by political and military elites. In practice, the imposition of UN sanctions on the export of natural resources from rebel-held territory may also include the creation of a certification scheme to enable the continued legal export of the commodity. Thus, rather than being perceived as a solution to intrastate conflict per se, in this context transparency is expected to function as a precursor for the facilitation of legal exports and the interdiction of illicit exports. More recently, the UN's Group of Experts on the Democratic Republic of the Congo (DRC) issued industry guidelines for due diligence outlining steps corporations should take to avoid trading in conflict minerals, such as ensuring independent third-party audits and publicly disclosing information regarding their supply chain (UNSC 2011). However, the guidelines are reliant upon voluntary implementation by member states (i.e., are not legally binding). This approach has yielded negligible results thus far in the DRC.

One could perhaps conclude from the preceding discussion that the UN should assume more control over revenue from the extractive sector in conflict situations; however, as the Oil-for-Food program in Iraq demonstrates, there can also be risks associated with UN administration of natural resource finances. As allowed by UN Security Council Resolution 986 of April 1995, Iraq resumed the sale of oil on the international market in order to finance the purchase of humanitarian goods. The purpose of the Oil-for-Food program was to alleviate the widespread suffering of civilian populations caused by the comprehensive sanctions regime imposed on Iraq after the first Gulf War, while at the same time limiting the Iraqi government's capacity to finance further military expenditures through oil exports. However, according to the final report of the Independent Inquiry Committee, chaired by former U.S. Federal Reserve Chairman Paul Volcker, the Iraqi government of Saddam Hussein benefited from more than \$1.8 billion in illicit payments through the Oil-for-Food program. There were at least \$229 million in illegal surcharges paid by 139 companies buying oil, and more than \$1.55 billion in kickbacks by 2,253 companies selling humanitarian goods. An estimated \$11 billion in oil exports were also smuggled by the Iraqi regime outside the UN-administered program (Independent Inquiry Committee into the United Nations Oil-for-Food Programme 2005a). While senior UN management were largely cleared of corruption allegations, Volcker nonetheless concluded that "the gatekeepers of the Programme, the Secretariat, the Security Council and UN contractors

failed most grievously in their responsibilities to monitor the integrity of the Programme.”

(Independent Inquiry Committee into the United Nations Oil-for-Food Programme 2005b)

The Kimberley Process

The Kimberley Process Certification Scheme (KPCS), a multi-stakeholder commodity tracking regime to prevent diamonds mined by rebel groups from reaching the world market, came into effect in January 2003. The KPCS was a response to the limits of UN Security Council regulation on a case-by-case basis and the need for a sustained global approach, and also built upon technical innovations by UN sanctions regimes, such as monitoring mechanisms and national certification schemes. As with the preceding UN sanctions regimes on primary commodities, the KPCS is based on an assumption that through increased transparency the income that rebel groups derive from natural resources can be reduced or eliminated, thus preventing and resolving conflict; and although the KPCS is technically a commodity tracking regime, it is designed to function as a sanctions regime since participants are only allowed to conduct business with other participants, thus essentially excluding non-participants from the global diamond trade. The Kimberley Process was initiated by South Africa in May 2000 in response to media coverage of “blood diamonds” and “conflict diamonds” threatening the

industry's viability. Other producing countries (e.g., Russia, Namibia, Botswana, Canada, and Australia), centers of sorting and transshipment (e.g., the UK, Belgium, and Switzerland), countries that cut and polish (e.g., Israel, India, and China), and consumer countries (e.g., the U.S. and Japan) also had industries to protect. For transnational diamond corporations, the incentive for joining the Kimberley Process was clear: insulate their business from consumer backlash against the taint of diamond-financed civil wars. NGOs, such as Global Witness and Partnership Africa Canada, have also participated as stakeholders.

Answers to questions regarding the effectiveness of the Kimberley Process will undoubtedly vary according to whom you ask. For corporations involved in mining and marketing diamonds, the KPCS has usefully deflected bad publicity from civil wars in places such as Angola and Sierra Leone, thus protecting the image of diamonds for retailers and consumers of the luxury good. Notably, the diamond industry no longer suffers from the reputational problems it once did, even though there are still actual linkages between diamonds and war economies in the DRC and Côte d'Ivoire. However, the NGOs who saw their role as advocating for a rigorous oversight mechanism and guaranteeing the integrity of the Kimberley Process have a very different perspective. In December 2011, Global Witness quit the KPCS, protesting that about \$2 billion worth of rough diamonds from Zimbabwe had been allowed to access the global market.

According to Human Rights Watch, these diamonds were mined from the Marange fields following the torture and killing of about 200 artisanal miners by 800 Zimbabwean troops backed with helicopter gunships (Human Rights Watch 2009). Human rights groups—as well as the U.S., Canada, and the EU—objected to KPCS approval for the sale of the diamonds; on the other hand, accounting for the linkages between diamond mining and human rights violations by *state* militaries was never actually part of the Kimberley Process mandate. This was not an accidental oversight by the negotiating parties who drafted the KPCS, but rather an integral aspect of its initial design which solely targeted rebel groups. There is undoubtedly more transparency in the diamond trade, but it is doubtful to what extent the Kimberley Process has prevented or resolved armed conflict.

PWYP and EITI

Non-governmental organizations—particularly U.S.-based OSI and its spin-off Revenue Watch Institute (RWI), UK-based Global Witness, and the Publish What You Pay (PWYP) coalition—have been highly influential in advocating for anti-corruption measures within the extractive industries. PWYP includes more than six hundred member organizations worldwide, many of which are based in resource-rich developing countries. In an effort to promote transparency,

PWYP calls for full disclosure in three areas: payments by resource corporations to the countries where they operate, revenues earned by governments from the extractive industries, and licensing arrangements and contracts. The underlying assumption is that publicly available information regarding precisely how much governments earn from oil/gas and mining will then reduce corruption (i.e., more fiscal transparency will yield better political accountability). PWYP also recognizes the importance of civil society in resource-dependent countries as part of the potential equation for better accountability of governments. National coalitions have been formed by PWYP members in at least thirty countries for this purpose, but it is debatable to what extent these have been effective in practice. Perhaps most importantly thus far, the PWYP advocacy campaign was the principal catalyst for the Extractive Industries Transparency Initiative (EITI). Overall, PWYP is more comprehensive in its advocacy for disclosure by corporations and governments than EITI (they differ regarding contracts and licensing arrangements). EITI consequently has more backing from both corporations and governments than PWYP. Corporations typically consider the details of contracts to be proprietary information, the disclosure of which may put them at a competitive disadvantage in relation to other firms; while numerous governments for various reasons (e.g., protecting sovereignty, maintaining negotiating leverage, or concealing corruption) have also resisted disclosing contractual information such as concession agreements and signing bonuses.

Initially launched by the UK in 2002, the Extractive Industries Transparency Initiative now includes thirty-five countries in various stages of implementation (eleven countries are EITI “compliant” and twenty-four are EITI “candidates”). EITI utilizes a multi-stakeholder format that also includes participation by more than fifty of the world’s largest oil and mining companies; the PWYP coalition and other civil society organizations; and the World Bank, the IMF, and regional development banks, which also supply financing and technical assistance to EITI. At first glance, EITI’s approach appears to be straightforward: companies disclose what they pay to governments, governments disclose what they receive from companies, and the two sets of data are independently verified, with oversight by a multi-stakeholder group. However, there are several weaknesses within EITI that detract from its potential as an anti-corruption mechanism. First, numerous countries and corporations remain outside the EITI framework, including national oil companies (NOCs) from countries such as Russia, China, India, Malaysia, Saudi Arabia, and Angola.³ Second, participation in and compliance with EITI are voluntary rather than mandatory. Third, it remains questionable whether civil society organization participation has functioned as an adequate oversight mechanism for corporations and governments (Bracking 2009). Lastly, EITI does not cover a broader range of financial information such as concession contracts and government expenditures, which are equally

important as aggregate revenue data for promoting transparency and mitigating corruption. Arguably, it may be precisely some of these drawbacks for EITI—narrow scope, voluntary implementation, and limited oversight—that are a source of its appeal for corporations and governments.

World Bank and IMF

Following decades of institutional indifference to corruption, the World Bank has become a prominent advocate for transparency within the extractive industries. The World Bank published an exhaustive, multi-volume *Extractive Industries Review* (EIR) in 2003. The report identifies governance as a key challenge and advocates increased transparency in areas such as revenue flows, project documents, and budget processes. The EIR also notes the fundamental importance of developing governmental capacity for natural resource management and industry regulation (World Bank 2003). Among the key reforms is the International Finance Corporation (IFC)’s requirement for project contract transparency, such as with the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. The World Bank also initiated EITI++ in 2008, which is designed to promote better governance, including regarding contracts and budgets. However, EITI++ relies upon the voluntary participation of governments, which has constrained implementation. For example, an

NGO assessment found that while the World Bank promoted extractive industry transparency in nearly two-thirds of the resource-rich countries where it engaged, it specifically addressed contract disclosure in fewer than 10% of these countries (Bank Information Center and Global Witness 2008: 15–16). The World Bank Group’s involvement in the Chad-Cameroon oil pipeline project further suggests limits to reform. In 2002, the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) agreed to provide nearly \$100 million in financing for the governments of Chad and Cameroon, but with conditions applying to the former: the establishment of a dedicated offshore escrow account, financial oversight by an independent panel, and a revenue management plan committed to poverty reduction. In 2008, the IBRD and IDA withdrew from the project because of repeated diversions of oil revenue from social programs toward military spending by the government of Chad (World Bank 2008).

The IMF has also incorporated aspects of transparency into its work with resource-rich developing countries, including the use of staff monitoring programs (SMPs) and the publication of a report identifying best practices related to the natural resource extraction industries. First released in 2005 and revised in 2007, the IMF’s *Guide on Resource Revenue Transparency* identifies four key “pillars” for promoting transparency and accountability: clarity of roles and

responsibilities, open budget processes, public availability of information, and assurances of integrity (International Monetary Fund 2007). Although the report advocates extensive policy prescriptions in fundamental areas such as legal frameworks and fiscal regimes, implementation has been sporadic, particularly since this has not been required by the IMF (Bank Information Center and Global Witness 2008: 9–10). SMPs, which function as part of the organization’s surveillance mandate, are a precursor to potential formal arrangements between the IMF and low-income member states. The IMF’s staff monitoring program in Angola offers some insight into chronic mismanagement of natural resource revenue and the limits for IFIs to impose reforms. According to IMF reports, nearly 30% of Angolan government expenditures from 1997 to 2002—\$8.3 billion of \$27.9 billion—either went inexplicably missing or were spent on extra-budgetary items and then inadequately accounted for after the fact (International Monetary Fund 2003, International Monetary Fund 2002). As a point of comparison, total social expenditures (i.e., education, health, social security, welfare, and housing) averaged merely 13% of government spending. Meanwhile, President Jose Eduardo dos Santos publicly criticized the “police action of the IMF” and stated that the Angolan government would not be pressured into disclosing oil sector data (Hodges 2004: 121).

The Dodd-Frank Act

The U.S. *Dodd-Frank Wall Street and Consumer Protection Act* of July 2010 includes unprecedented provisions regarding tracking conflict minerals from the DRC (Section 1502) and reporting requirements for oil and mining corporations listed on U.S. exchanges (Section 1504). The underlying assumption of Section 1504 is that mandatory public disclosure of detailed financial data regarding what oil and mining corporations pay to the states where they operate will promote transparency and therefore mitigate corruption. The Dodd-Frank Act has faced significant opposition from corporations claiming that Section 1504 puts U.S.-based corporations at a competitive disadvantage, that the reporting requirements will impose unreasonable compliance costs on firms, and that disclosure will violate contractual terms of confidentiality with host countries. Unsurprisingly, the private sector has lobbied the U.S. Securities and Exchange Commission (SEC) to weaken the implementing rules that were belatedly released in August 2012, but corporate objections are overstated (Kaufmann and Penciakova 2011). The Dodd-Frank Act will apply to all U.S.-listed firms, which includes nearly all of the largest internationally operating oil and mining companies in the world, and studies indicate that disclosure is not incompatible with most existing contracts (Revenue Watch Institute 2011).⁴ The SEC estimates industry compliance costs for Section 1504 at \$1 billion, with recurring annual

costs of \$200 million to \$400 million (Viswanatha and Stephenson 2012). Section 1504 represents a major victory for advocacy organizations such as Global Witness and RWI that have been campaigning for transparency. However, the polarized public debate between advocacy NGOs and transnational corporations may have obscured an even more fundamental underlying question: will the Dodd-Frank Act actually work? At best, corporate disclosure of state resource revenue is a necessary but insufficient measure to combat corruption.

Of the two parts of the Dodd-Frank Act dealing with the extractive industries, Section 1502 regarding conflict minerals in the DRC has perhaps been more controversial. Based in part on the guidelines for due diligence submitted by the UN Group of Experts, corporations listed on U.S. stock exchanges will be required to publicly declare whether or not their products contain conflict minerals, which are defined as coltan, gold, cassiterite, wolframite, and other minerals mined in areas controlled by armed groups in the DRC or adjoining countries. In situations where a corporation is unable to certify their products are “DRC conflict free,” they are obligated to report to the SEC the measures they have taken toward compliance with Section 1502, including details of independent audits of their supply chain. Essentially, the approach is based on using “naming and shaming” as a deterrent for purchasing conflict minerals from the DRC; however, in practice the result has been a de facto embargo on sourcing coltan from the region

by manufacturers of laptops, mobile phones, and other consumer electronics. Unsurprisingly, Section 1502 has also faced strong opposition from U.S. corporations. The National Association of Manufacturers estimates compliance costs at \$9 billion to \$16 billion, while the SEC's own estimates are an initial \$3 billion to \$4 billion, with recurring annual costs of \$200 million to \$600 million (Ayogu 2011, Viswanatha and Stephenson 2012). While it remains to be seen how Section 1502 will impact U.S.-listed corporations, the unintended consequences at ground level in the DRC from what has been termed "Obama's Law" may already be apparent. Reportedly, the law has caused massive unemployment among miners in the eastern DRC as Western firms seek to reduce reputational risk by sourcing minerals outside the region; and while the trade in conflict minerals has diminished, militia leaders and corrupt military commanders still smuggle minerals across borders, and security has not yet demonstrably improved for local populations (Seay 2012; *The Economist* 2011).

Analysis

The diffusion of ideas can be explained partially at the level of concepts and theory and partially at the level of material interests. This section assesses the institutional history outlined above

through reference to a two-part framework: first, the analysis explores how assumptions about corruption, conflict, and transparency have translated into various international policies; and second, these policies are re-evaluated from a political economy perspective in order to understand the incentive structures among actors and their influence on policy making and implementation.

From theory to policy

The responses to natural resource-related corruption outlined in the previous section—PWYP and EITI, policies of the World Bank and IMF, and Section 1504 of the Dodd-Frank Act—share a common underlying assumption that increased economic transparency will lead to improved political accountability and less corruption. The problem has been characterized as follows: the extractive industries generate resource rents that are highly susceptible to illicit appropriation by domestic political elites, this theft has been facilitated by the traditional financial opacity of the sector, and there are highly negative consequences for political and economic development. Accordingly, international policy solutions have been conceived in terms of increasing the level of transparency in the extractive industries, particularly regarding the amounts paid by transnational corporations and the amounts received by states. While this approach makes sense

at a theoretical level, in practice the precise causal linkage intended between transparency and accountability remains ambiguous. Virtually by definition, most developing countries lack the conditions required to translate information about government finances into consequences for corruption: the rule of law, independent media, educated citizenry, and democratic processes. EITI attempts to compensate for these missing elements through the inclusion of domestic NGOs within a multi-stakeholder format, but this has been insufficient. Furthermore, EITI and the Dodd-Frank Act's exclusive focus on state revenue covers only half the equation, while IMF and World Bank attempts to monitor state expenditure have often proven problematic.

While the responses to natural resource-related conflict covered in the previous section—UN commodity sanctions, the Kimberley Process, and Section 1502 of the Dodd-Frank Act—share core assumptions regarding the nature of the problem (i.e., natural resources financing conflict) and the solution (i.e., tracking and/or interdiction), there are also differences between these approaches that are worth noting. The KPCS and UN sanctions regimes in countries such as Cambodia, Angola, and Sierra Leone specifically targeted the exploitation of resources by rebel groups, while Section 1502 of the Dodd-Frank Act focuses on “armed groups” defined as “perpetrators of serious human rights violations,” and UN sanctions regimes in countries such as Iraq, Liberia, and Côte d’Ivoire have broadened the scope to include the state. These mechanisms

also vary in terms of the degree of intervention, but the assumed role for transparency in terms of resolving and preventing conflict has been similar: as a precursor to interdiction (e.g., UN sanctions) or as a component of commodity tracking and industry regulation (e.g., KPCS and the Dodd-Frank Act). However, assumptions regarding the role of transparency as a solution can only be as valid as the preceding analyses of conflict associated with natural resources. For example, if one conceives of “resource wars” as principally a function of lootable commodities and the finances they generate for combatants, then sanctions may be an appropriate policy; but if one assesses these conflicts from a perspective conceptually incorporating state institutional weakness associated with natural resource-based development trajectories, then the need to consider broader approaches to state-building and peace-building becomes readily apparent.

Political economy

The degree to which different transparency policies have been adopted as the preferred solution to corruption associated with the extractive industries can be explained partially through reference to political and economic interests among the principal actors. In general, transparency-based approaches are a low-cost and unobtrusive form of regulation for states and industry, which is part of their appeal. But there are also important differences between various

initiatives, such as EITI and Section 1504 of the Dodd-Frank Act, which largely explains the seemingly contradictory positions taken by corporations publicly claiming to be proponents of transparency in one context but opposing implementation of transparency legislation in another context. With voluntary participation and no independent oversight, EITI remains popular within the extractive industries, while virtually without exception, these same corporations have strongly opposed the mandatory financial disclosure requirements of the Dodd-Frank Act. Surprisingly, the SEC's belated issuance of rules indicates corporations managed to delay Dodd-Frank's implementation but failed to water down this modest reform effort. In addition to state-corporation relations, state-intergovernmental organization (IGO) relations are another useful dimension of analysis for assessing the political economy of transparency policies. As IMF staff monitoring programs in Angola and the World Bank's involvement with the Chad-Cameroon pipeline suggest, resource-rich developing countries may be resistant to external monitoring of state expenditures and financially insulated from the exertion of pressure by the IFIs as well. This could be perceived as desirable from the perspective of maintaining the sovereignty of developing countries, but that may also be small consolation for civilian populations coping with kleptocratic regimes.

Transparency-oriented approaches to natural resource-related conflict have also been heavily influenced by political and economic interests among powerful states, intergovernmental organizations, and transnational resource corporations. With respect to UN commodity sanctions, policy making by the Security Council has often been shaped by the national interests of the permanent five (P5) members. This manifests itself in different ways, but in general the P5 have been more willing to impose sanctions on commodities that are not of strategic value (e.g., diamonds and timber) against rebel groups or states they do not back (e.g., Cambodia, Angola, Liberia, and Sierra Leone), while at the same time unwilling to impose sanctions on strategic commodities exploited by client states (e.g., China and oil in Sudan). The choice of sanctions may also reflect economic constraints within the United Nations, as they are a much less costly option than complex peacekeeping operations. The Kimberley Process is another example where the main proponent of a transparency-oriented policy mechanism, South Africa, had significant economic interests at stake in terms of protecting its domestic diamond industry, while transnational diamond corporations benefited from the good publicity associated with participation as they simultaneously opposed NGO proposals to strengthen the KPCS. Lastly, Section 1502 of the Dodd-Frank Act regarding conflict minerals in the DRC has been strongly opposed by mining corporations claiming unreasonable compliance costs, but this transparency-based due diligence scheme is actually a moderate form of regulation compared to interdiction.

Consistent with long-standing American concerns regarding access to strategic minerals in the DRC, Section 1502 also contains a clause allowing the U.S. President to waive its provisions on the grounds of “national security.”

Conclusion

The future prospects of natural resource-dependent developing countries and international transparency-based policy responses to corruption and conflict could take divergent paths, as the success or failure of one may not be predicated upon the other. On the one hand, it would appear that solving the dual problems of corruption and conflict remains the principal challenge for developing countries suffering from the resource curse, and transparency initiatives could play a useful role. On the other hand, developing countries such as Botswana, Malaysia, and Chile have already emerged as contemporary success stories, each suggesting that national governance may be the decisive variable for escaping the resource curse. However, these cases don’t constitute evidence for the success of limited, sector-specific, transparency-based reforms; if anything, they suggest that considerably larger state-building projects are required, something that international actors have not proven very adept at thus far. It remains to be seen whether the transparency

approaches reviewed in this chapter (or perhaps other international initiatives such as the Open Government Partnership) will prove effective in reducing corruption and resolving conflict in natural resource-dependent states. In other words, can mechanisms be facilitated so that citizenry can hold their own governments accountable? The evidence to date indicates that predominant assumptions regarding how increased economic transparency translates into improved political accountability may be overstated, although this does not mean that one should therefore take corporate claims about the efficacy of industry self-regulation at face value (as private profit motive and societal good frequently diverge) and oppose modest reforms such as the Dodd-Frank Act. But the mixed track record of transparency-based policies does imply that practitioners should be realistic about the limitations of existing mechanisms so that they do not preclude further policy innovation.

To a certain extent, development processes in natural resource exporting developing countries will also be contingent on the evolution of relations with natural resource importing countries, particularly the emerging economies of China and India. Currently, China and India are the second and fourth largest consumers and net importers of oil in the world, with future consumption and imports projected to increase. Despite the principle of co-development that dates back to the Bandung Conference of 1955, the reality is that the benefits of increased South-

South trade have essentially accrued disproportionately to the emerging countries importing natural resources more than to the developing countries exporting natural resources. The lack of engagement by Chinese and Indian firms with Western-initiated, transparency-based programs has been criticized, but it is precisely this “no-strings” approach—including with respect to associated soft loans and other development projects—that many governments in developing countries find particularly appealing. Of course, as China and India have found with respect to conflict associated with the oil industry in Sudan and South Sudan, there are also inevitable limits to the principle of non-intervention, as increased investment also compels deeper political engagement. How the risks of operating in natural resource exporting countries affected by corruption and conflict are negotiated by the governments and firms of natural resource importing countries—both developed and emerging—will have a strong bearing on whether the former manage to escape the resource curse. Whether or not future risk mitigation by states and corporations integrally incorporates aspects of transparency or alternative approaches emerge instead remains to be seen.

¹ Interestingly, some of the most influential initial research was facilitated by states and NGOs. Canada and the UK financed a conference in London in 1998, which resulted in the publication of Berdal and Malone (eds.), *Greed and Grievance: Economic Agendas in Civil Wars* under the aegis of the International Peace Academy (IPA) in New York. IPA remained at the forefront of this evolving body of research and also continually engaged with the UN Security Council. This was a clear (if perhaps rare) example of scholarly enquiry influencing policy responses.

² Among those ranked the least corrupt are Canada (5), Australia (8), Norway (10), Qatar (19), and Chile (21); among those ranked the most corrupt are Central African Republic (154), Congo-Brazzaville (154), Papua New Guinea (154), Russia (154), Democratic Republic of the Congo (164), Kyrgyzstan (164), Venezuela (164), Angola (168), Equatorial Guinea (168), Chad (171), Sudan (172), Turkmenistan (172), Uzbekistan (172), Iraq (175), Afghanistan (176), and Myanmar (176).

³ These include Gazprom, Rosneft, PetroChina, Chinese National Offshore Oil Corporation (CNOOC), China National Petroleum Corporation (CNPC), Sinopec, Oil and Natural Gas Corporation (ONGC), Petronas, Saudi Aramco, and Sonangol. Notable exceptions include EITI participants Petrobras (Brazil), Pemex (Mexico), Statoil (Norway), and QatarPet (Qatar).

⁴ U.S. exchanges account for 57% of global market capitalization for oil and mining companies, including national oil companies such as CNPC (China), Petrobras (Brazil), Sinopec (China), ENI (Italy), and CNOOC (China); foreign oil firms such as Royal Dutch/Shell (Netherlands/UK) and BP (UK); and foreign mining firms such as Vale (Brazil), BHP Billiton (UK/Australia), Rio Tinto (UK/Australia), and Barrick Gold (Canada). Revenue Watch Institute, “Oil and Mining Companies on Global Stock Exchanges,” online: <http://data.revenuwatch.org/listings>.

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