Governance, Transparency & Corruption Matters: *An Evidence-Based Approach at the Global and National Level*

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Natural Resource Governance Institute (NRGI)
www.resourcegovernance.org

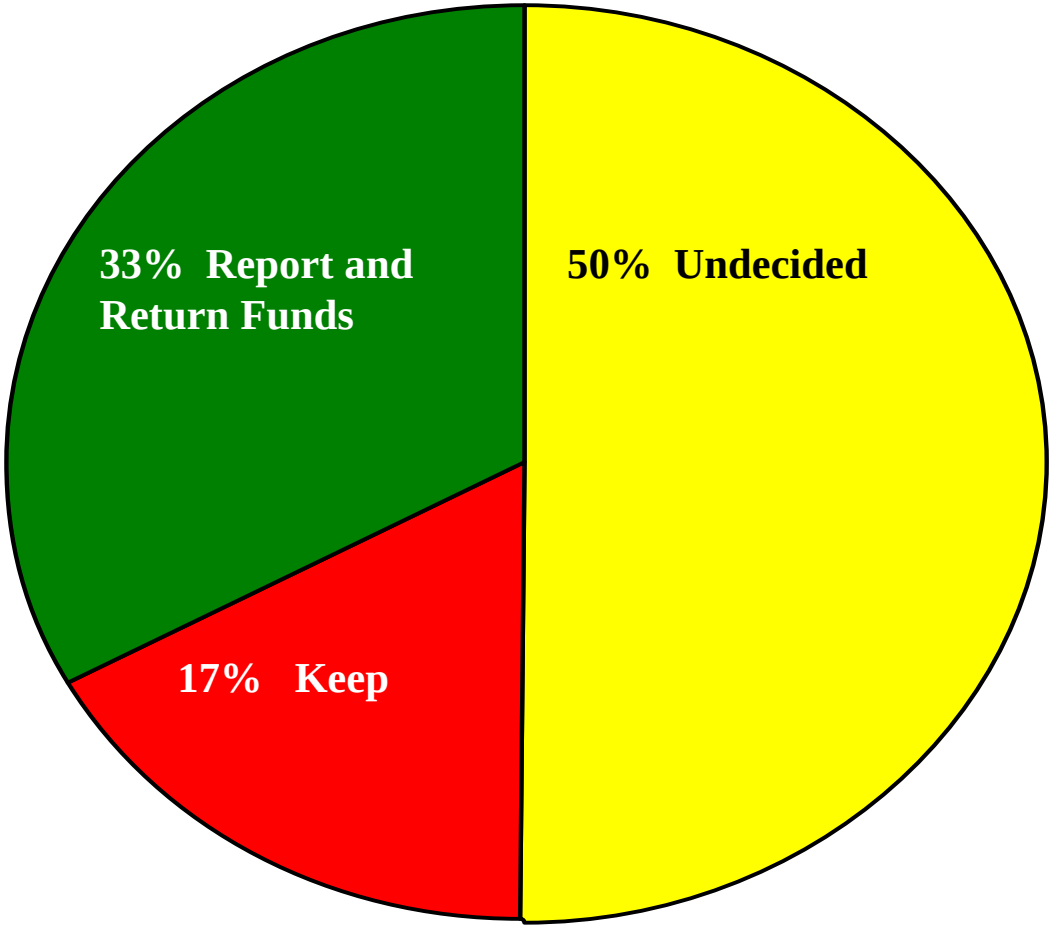
Public Lecture at UI in the 'Corruption & World Order' series, at the Swedish Institute of International Affairs, Stockholm, Sweden, February 15th, 2018

A ‘Live’ Test:
‘Culture’, Information and Incentives:

- You are approaching your car in the empty and unattended garage late at night
- You see an envelope on the floor, and you pick it up
- It contains 20 bills of 100 euros each.
- If no possibility that anyone would know: No cameras, no monitoring, no reporting
- What would you do with such envelope full of cash?

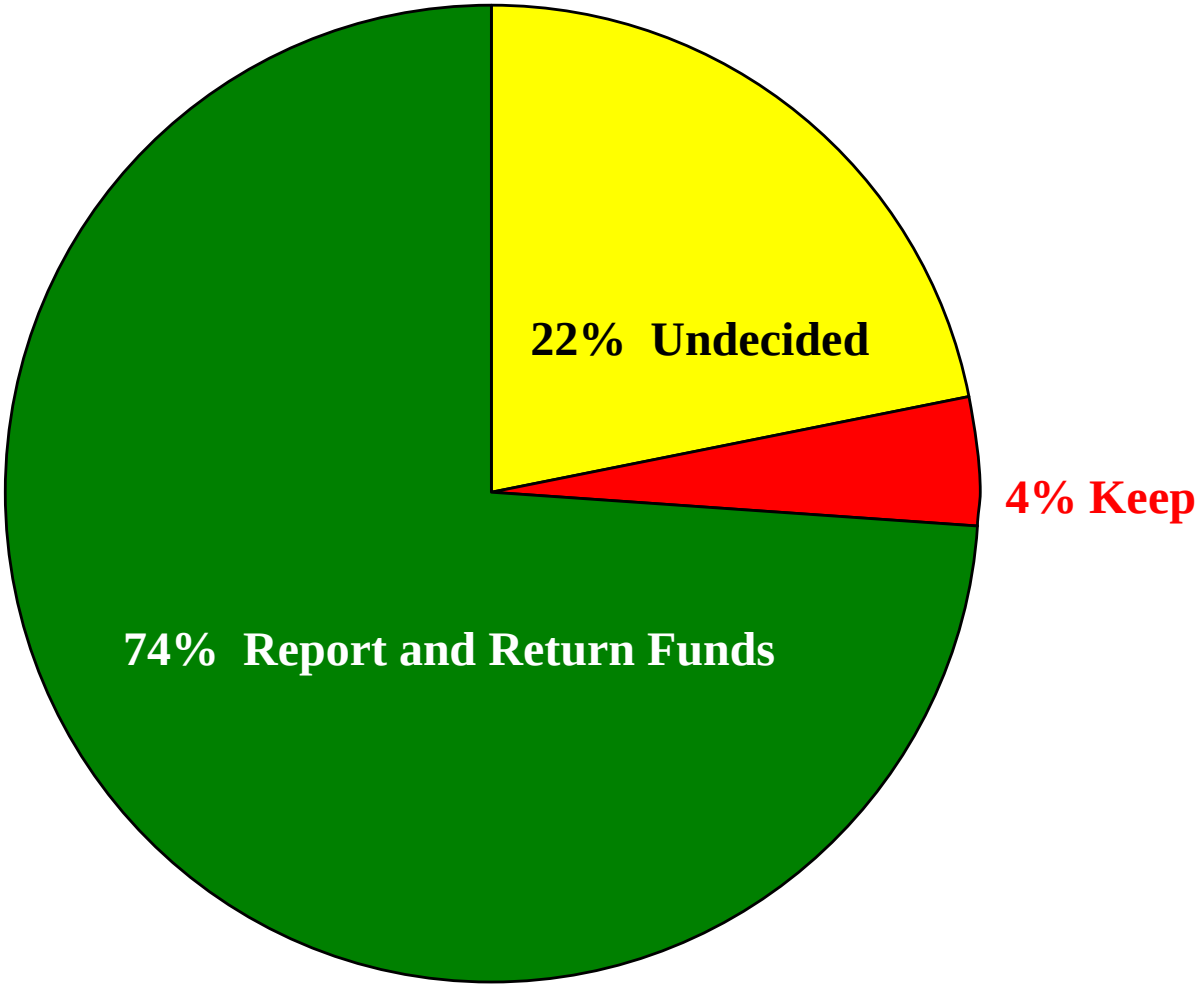
A. If no possibility that anyone would know:

You are alone, there is no monitoring, cameras, or possibility of resporting



Option Finder Results: Various Audiences

B. If *30%* probability that information is shared
(e.g. 30% that camera recording info which may be reviewed)



Governance & Corruption:
Analytical & Empirical Rigor Matters – Main Topics

- **Empirics: The Power of Data & Diagnostic Tools**
- **Governance can be measured, and it matters**
- **Corruption: very costly symptom of institutional weakness, or governance failure – *'one doesn't fight corruption by fighting corruption'***
- **Game changer: Legal Corruption & State Capture**
- **Governance & Corruption Vulnerabilities in Resource Dependent Countries**
- **Some Implications**

WGI: Six Dimensions of Governance

Governance as the set of traditions and institutions by which authority in a country is exercised-- specifically:

- **The process by which those in authority are selected and replaced**
  - **VOICE AND ACCOUNTABILITY**
  - **POLITICAL STABILITY & ABSENCE OF VIOLENCE/TERRORISM**
- **The capacity of government to formulate and implement policies**
  - **GOVERNMENT EFFECTIVENESS**
  - **REGULATORY QUALITY**
- **The respect of citizens and state for institutions that govern interactions among them**
  - **RULE OF LAW**
  - **CONTROL OF CORRUPTION**

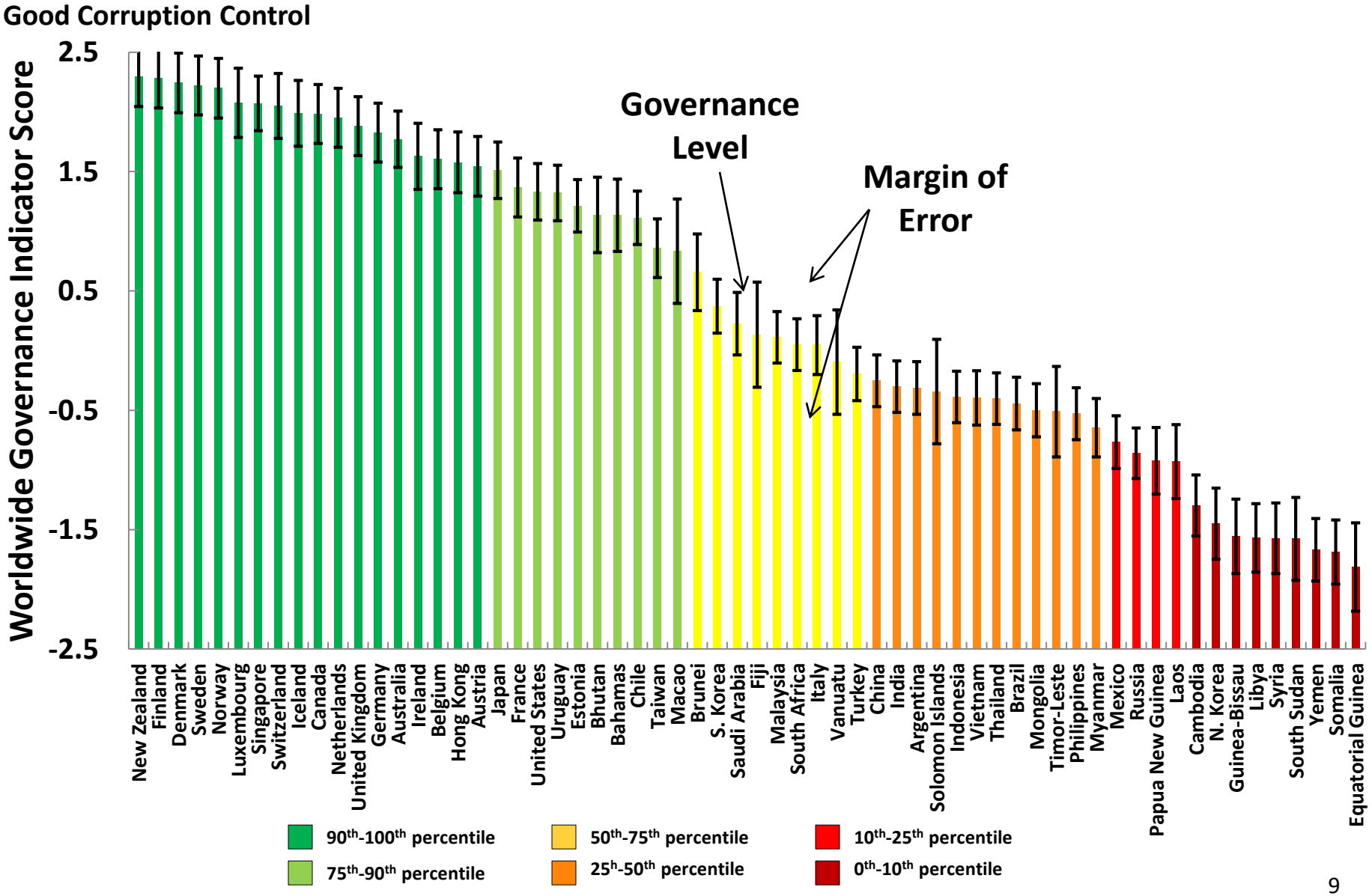
Worldwide Governance Indicators

- Data on six dimensions of governance covering well over 200 countries from 1996 until the present
- Synthesis of hundreds of underlying indicators taken from about 30 different data sources
- Aggregate and individual indicators available at www.govindicators.org, about largest publicly-available governance database in the world
- Result of longstanding research project, featuring the "Governance Matters" series

Individual sources for constructing the WGI

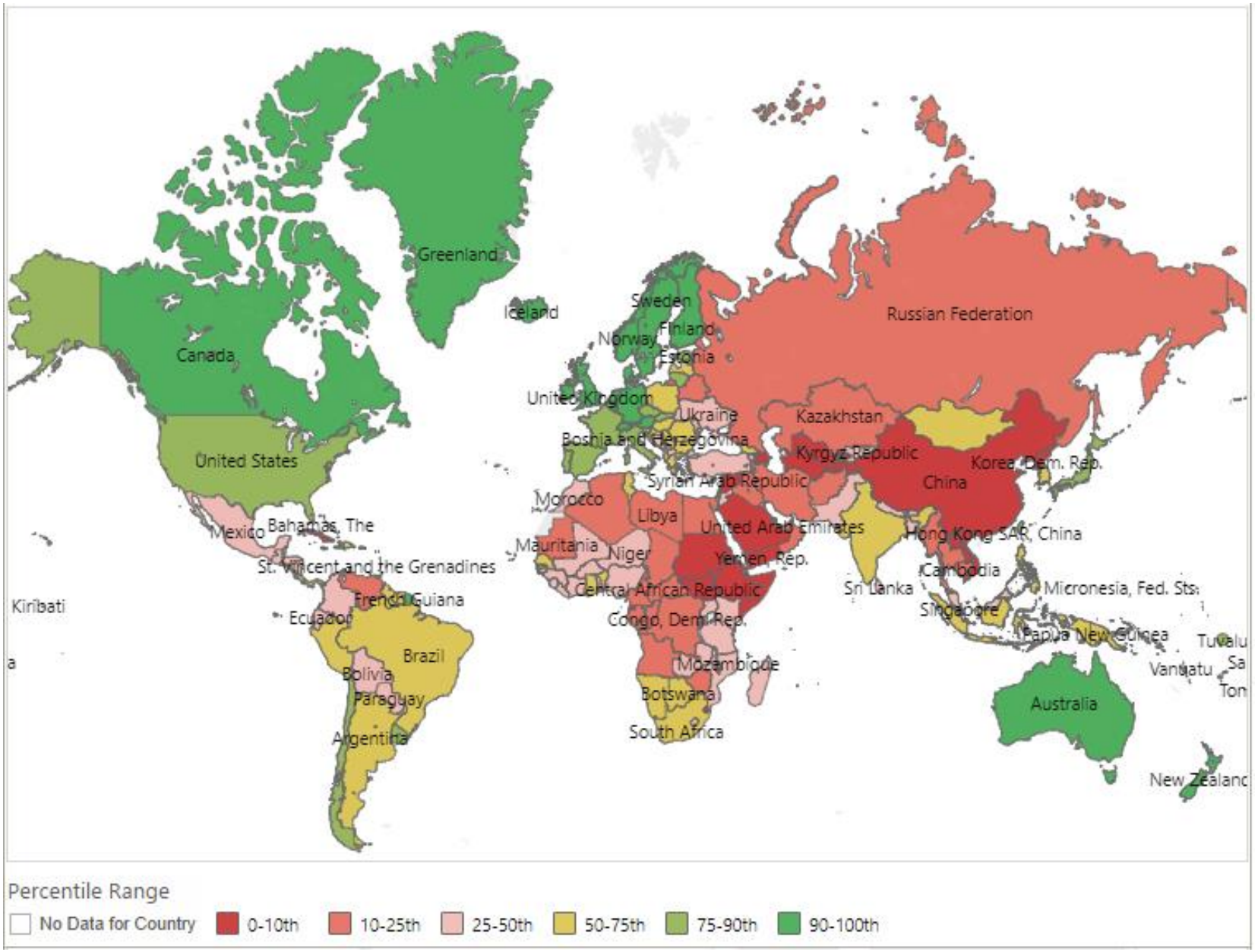
- ***Cross-Country Surveys of Firms:*** **Global Competitiveness Survey, World Competitiveness Yearbook, BEEPS**
- ***Cross-Country Surveys of Individuals:*** **Gallup World Poll, Global Corruption Barometer, Latinobarometro, Afrobarometer**
- ***Expert Assessments from Commercial Risk Rating Agencies:*** **Global Insight, Political Risk Services, BERI, Economist Intelligence Unit, Merchant International Group, IJET Travel Consultancy, Asia Risk Consultancy**
- ***Expert Assessments from NGOs, Think Tanks:*** **Reporters Without Borders, Heritage Foundation, Freedom House, Bertelsmann Foundation, Amnesty International, IREX, Global Integrity, Binghamton University, International Budget Project**
- ***Expert Assessments from Governments, Multilaterals*:** **World Bank CPIA, EBRD, *AFDB, ADB,* State Department, OECD, IFAD**

WGI Control of Corruption: Select Countries, 2016



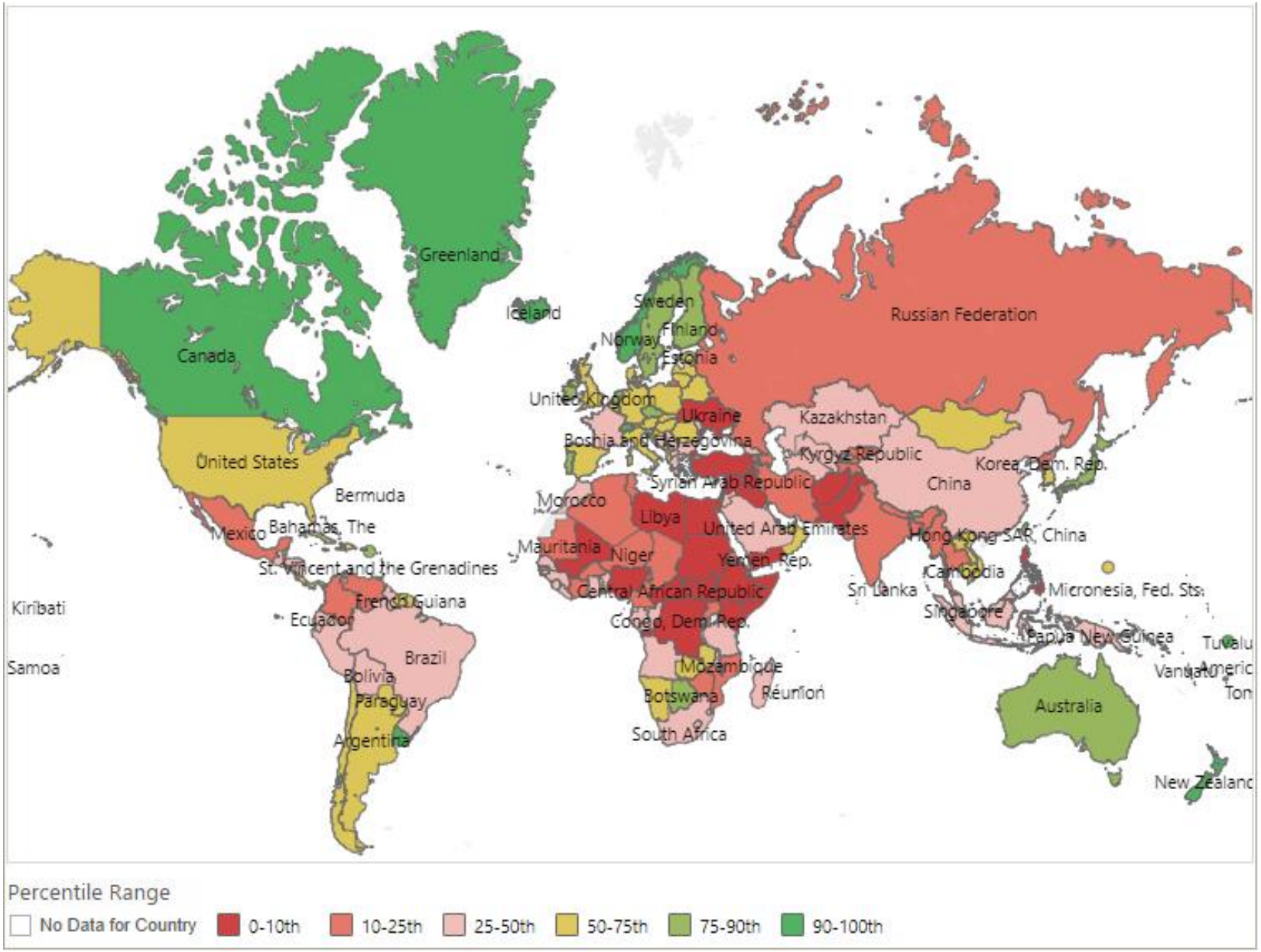
Source: Kaufmann, Daniel, Kraay, Aart and Mastruzzi, Massimo, The Worldwide Governance Indicators: Methodology and Analytical Issues (September 2010). World Bank Policy Research Working Paper No. 5430. Available at SSRN: http://ssrn.com/abstract=1682130

2016 Voice & Accountability



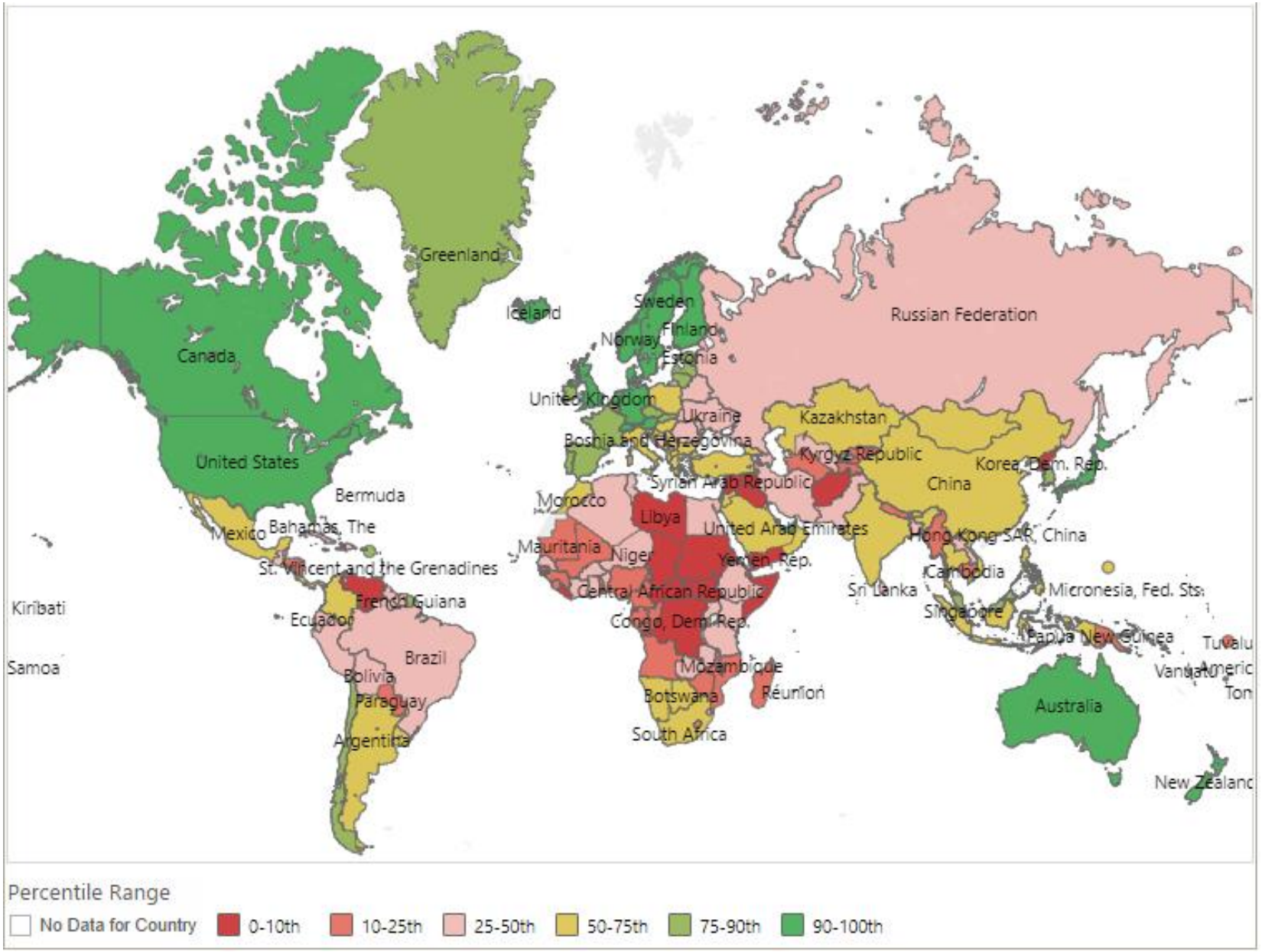
Source: Worldwide Governance Indicators (www.govindicators.org)

2016 Political Stability & Absence of Violence/Terrorism



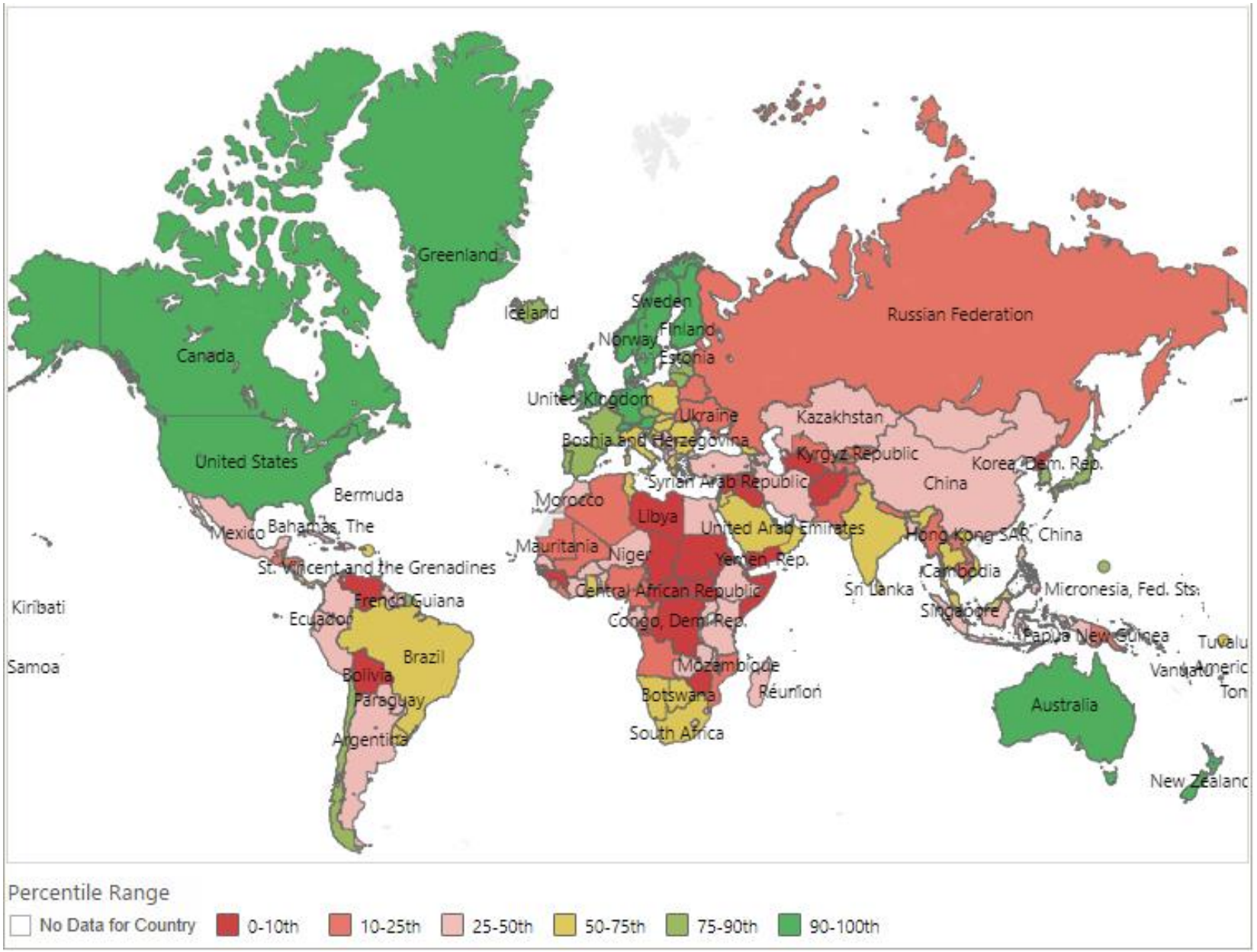
Source: Worldwide Governance Indicators (www.govindicators.org)

2016 Government Effectiveness



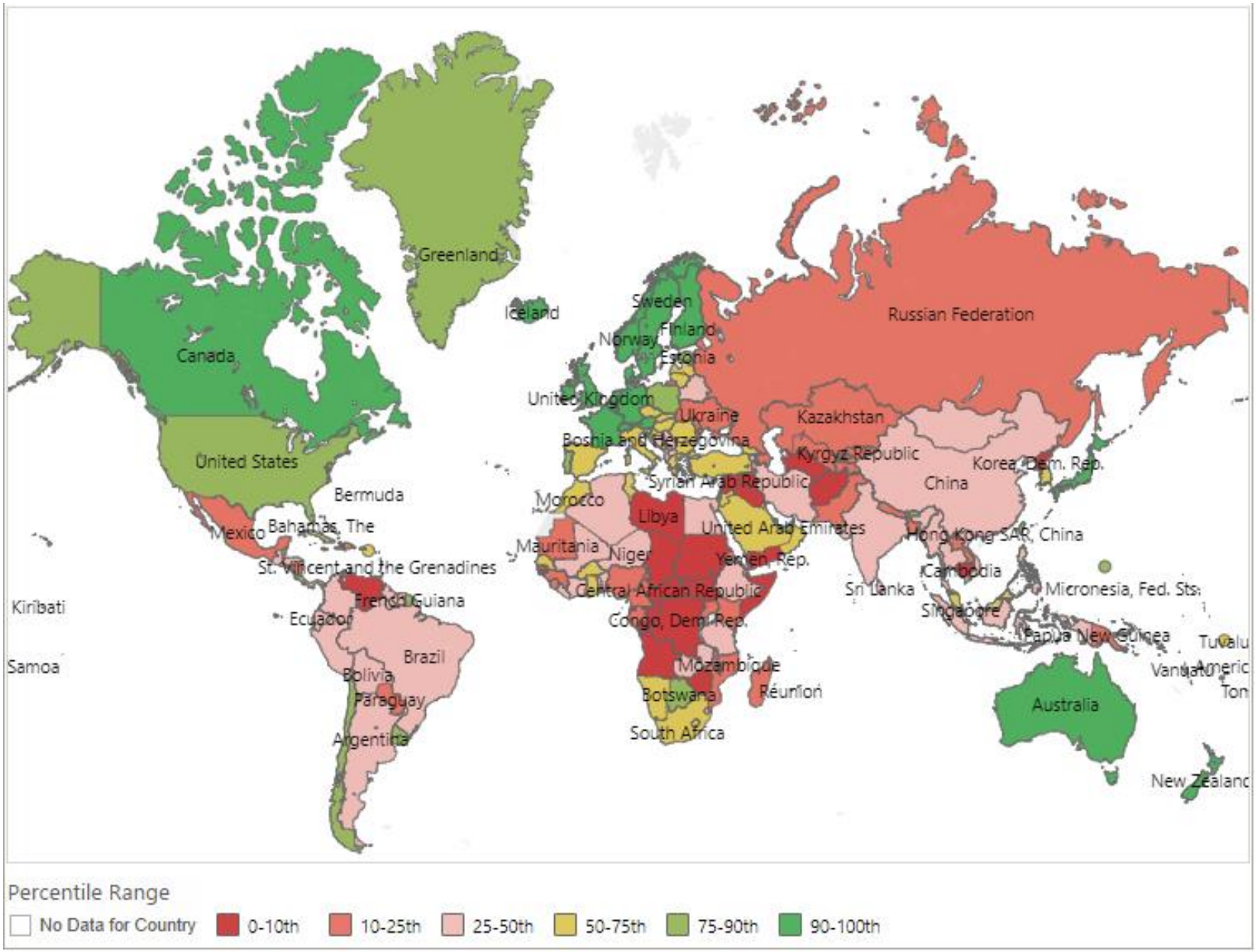
Source: Worldwide Governance Indicators (www.govindicators.org)

2016 Rule of Law



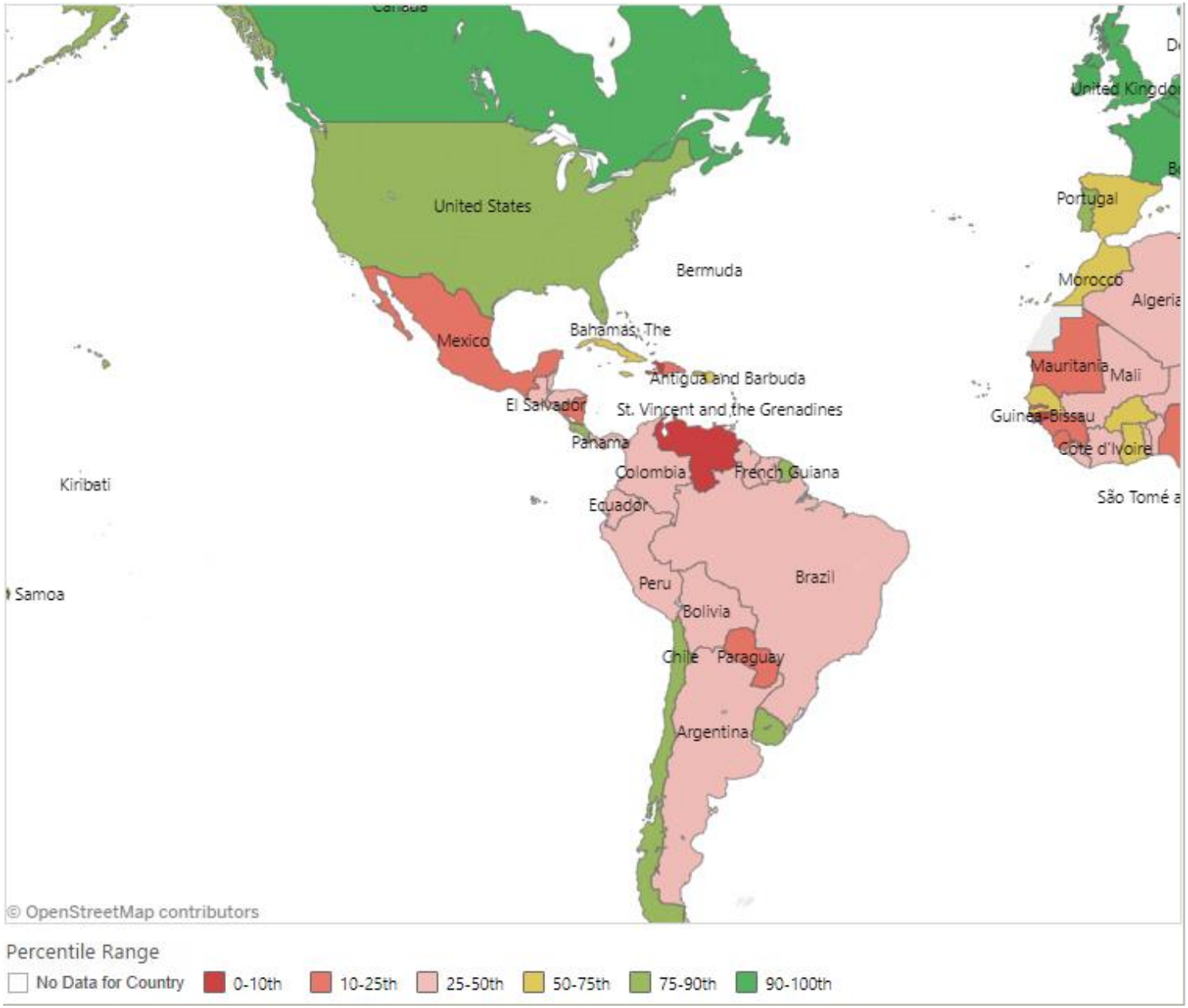
Source: Worldwide Governance Indicators (www.govindicators.org)

2016 Control of Corruption



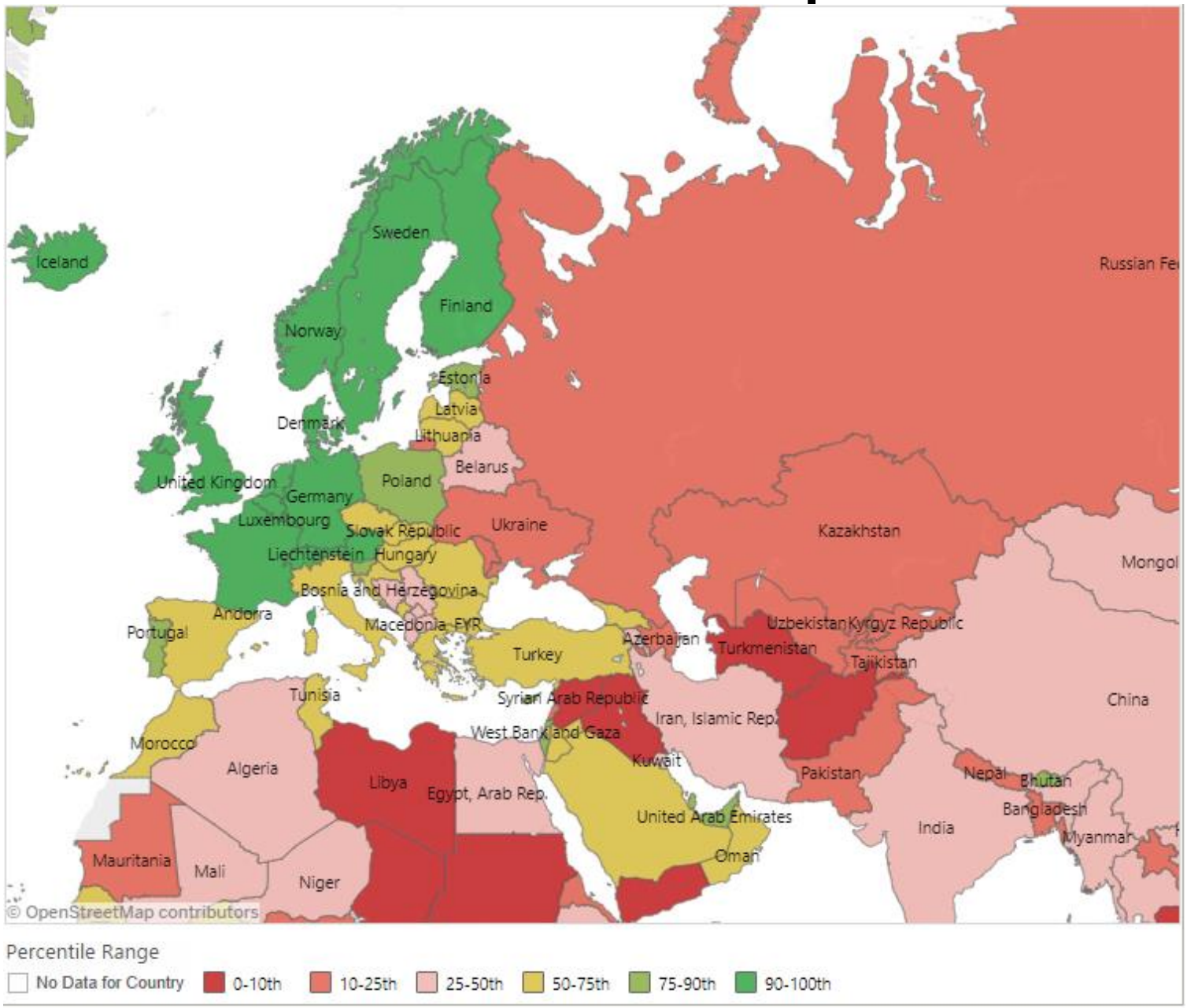
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2016 Control of Corruption



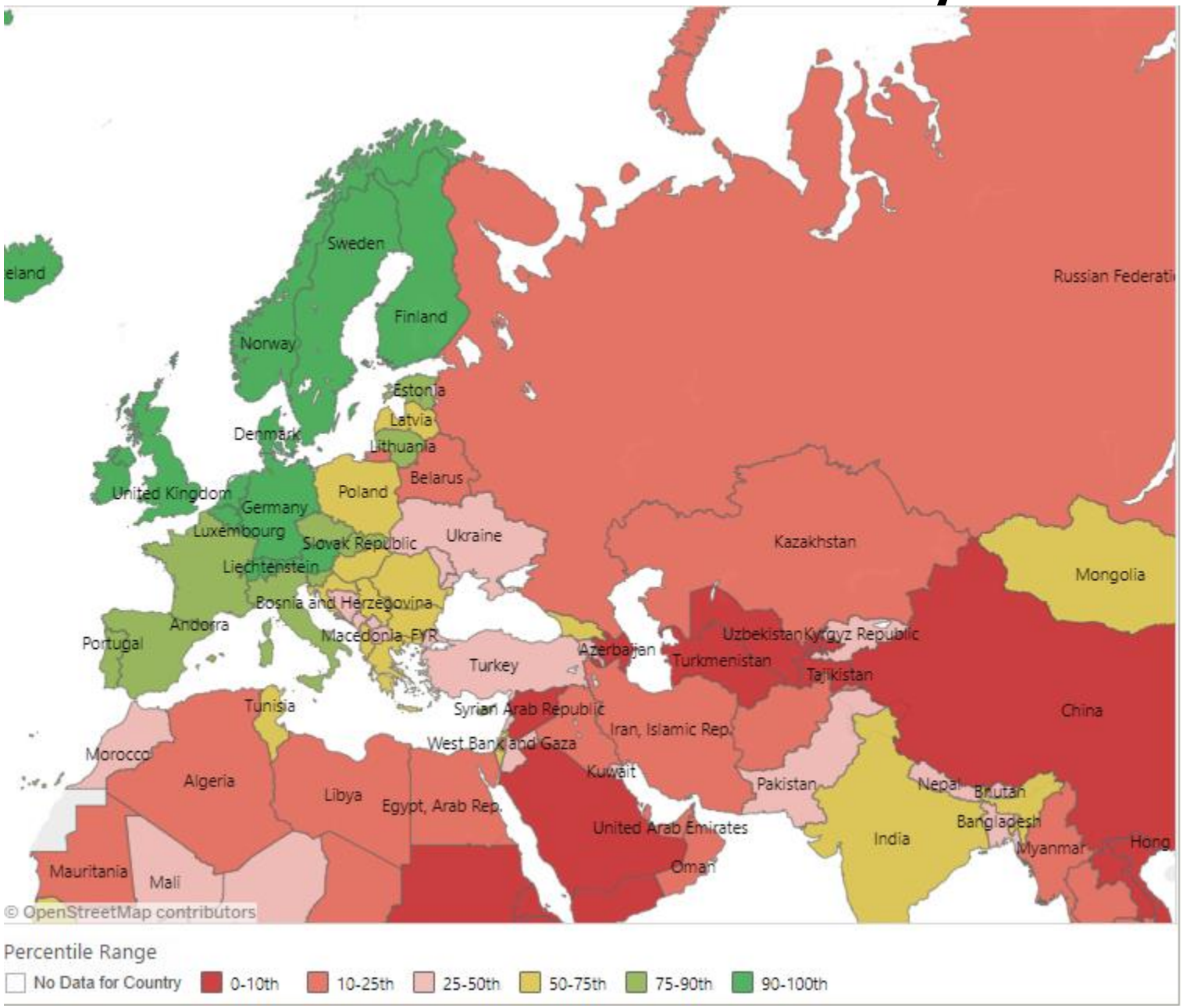
Source: Worldwide Governance Indicators (www.govindicators.org)

2016 Control of Corruption



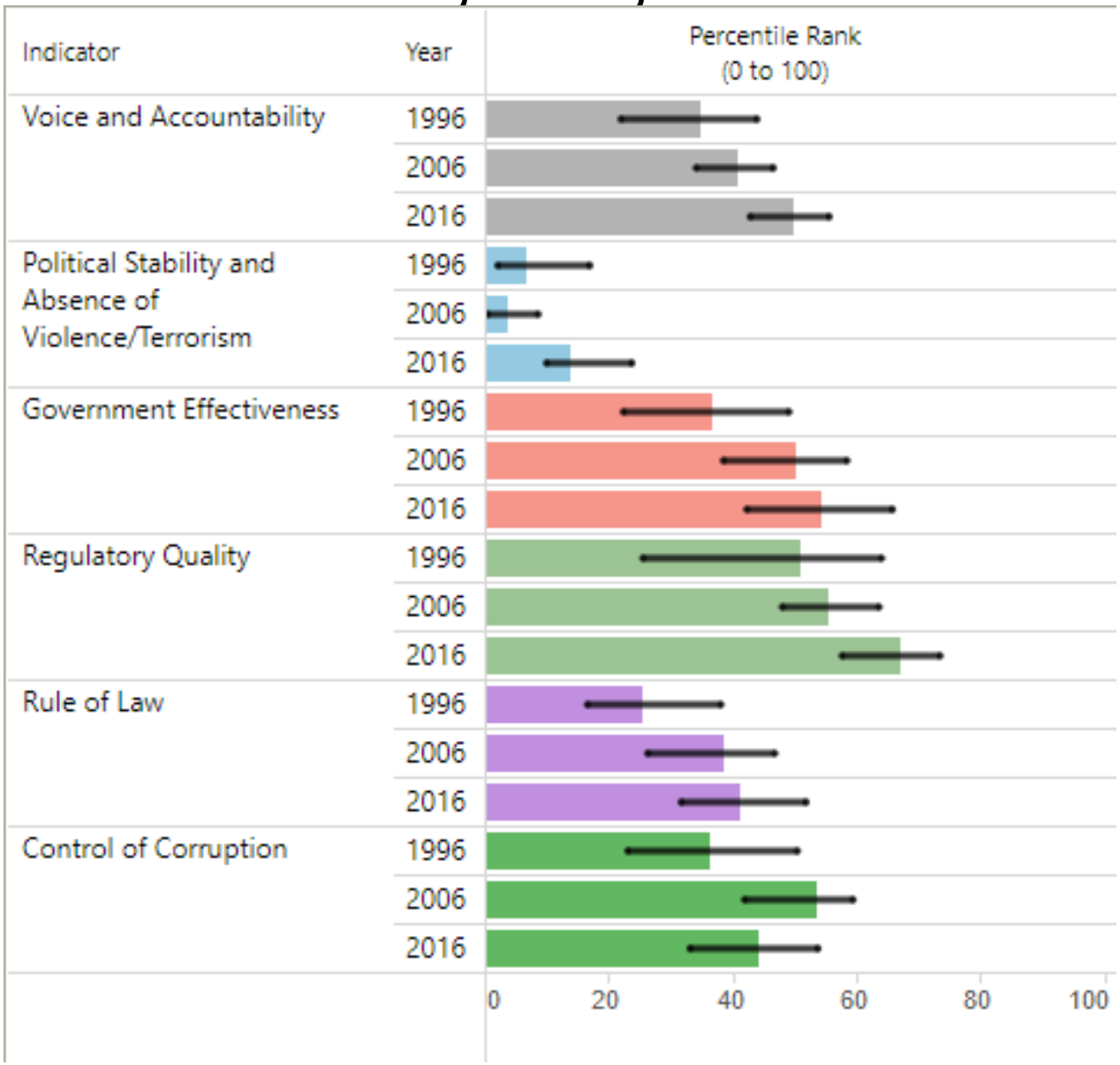
Source: Worldwide Governance Indicators (www.govindicators.org)

2016 Voice & Accountability



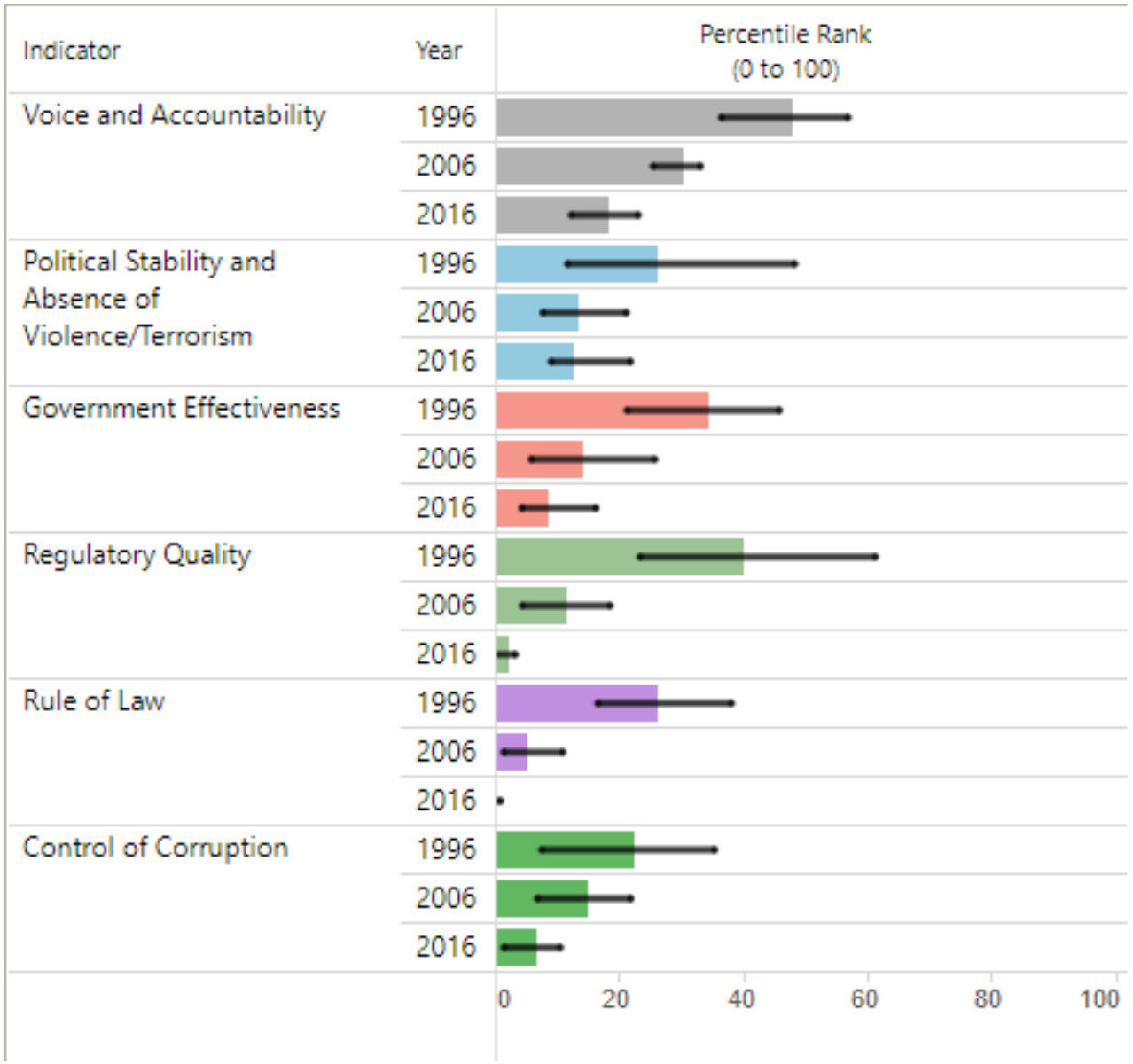
Source: Worldwide Governance Indicators (www.govindicators.org)

Worldwide Governance Indicators for Colombia: 1996, 2006, 2016



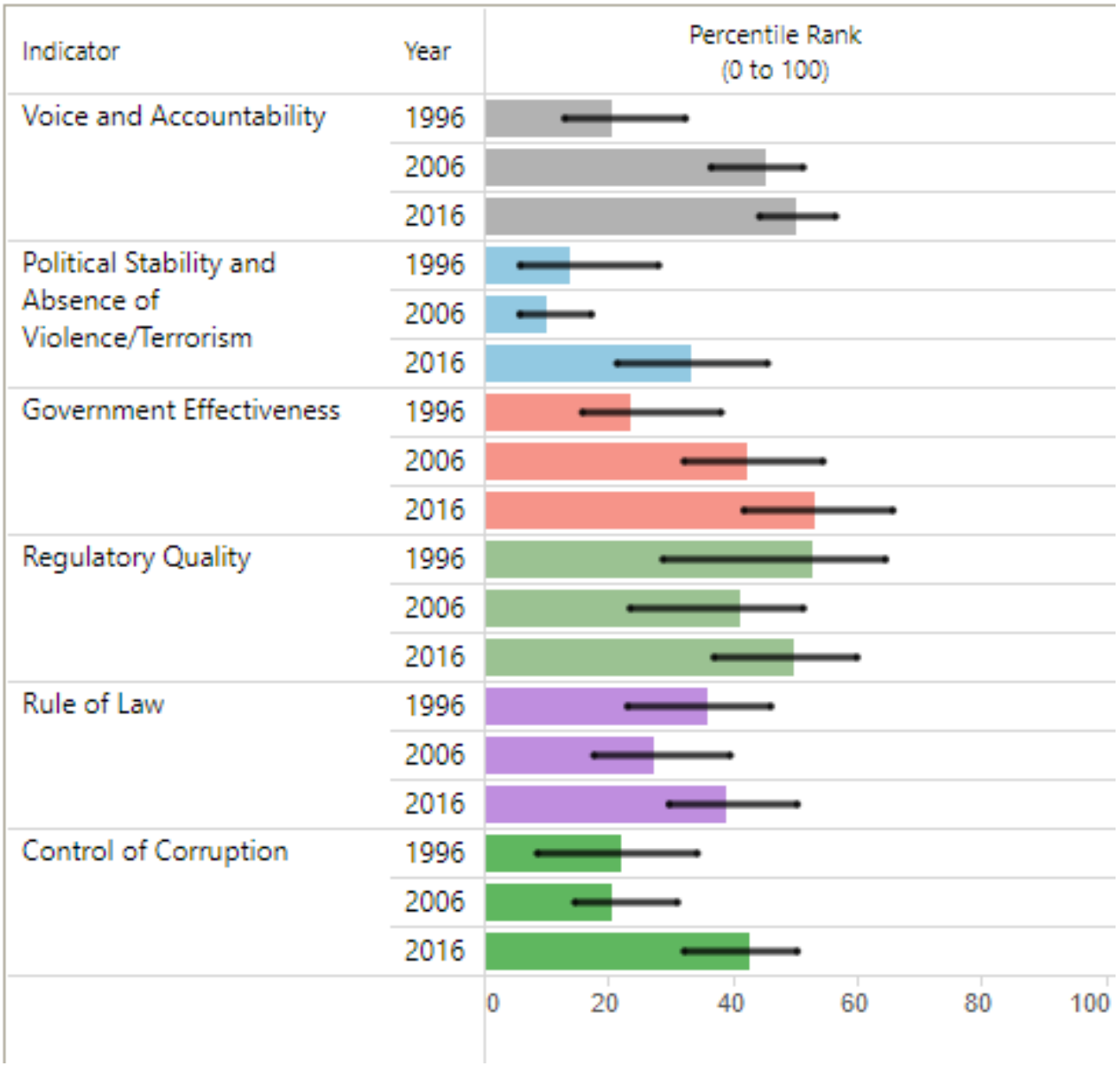
Source: Kaufmann, Daniel, Kraay, Aart and Mastruzzi, Massimo, The Worldwide Governance Indicators: Methodology and Analytical Issues (September 2010). World Bank Policy Research Working Paper No. 5430. Available at SSRN: http://ssrn.com/abstract=1682130

Worldwide Governance Indicators for Venezuela: 1996, 2006, 2016



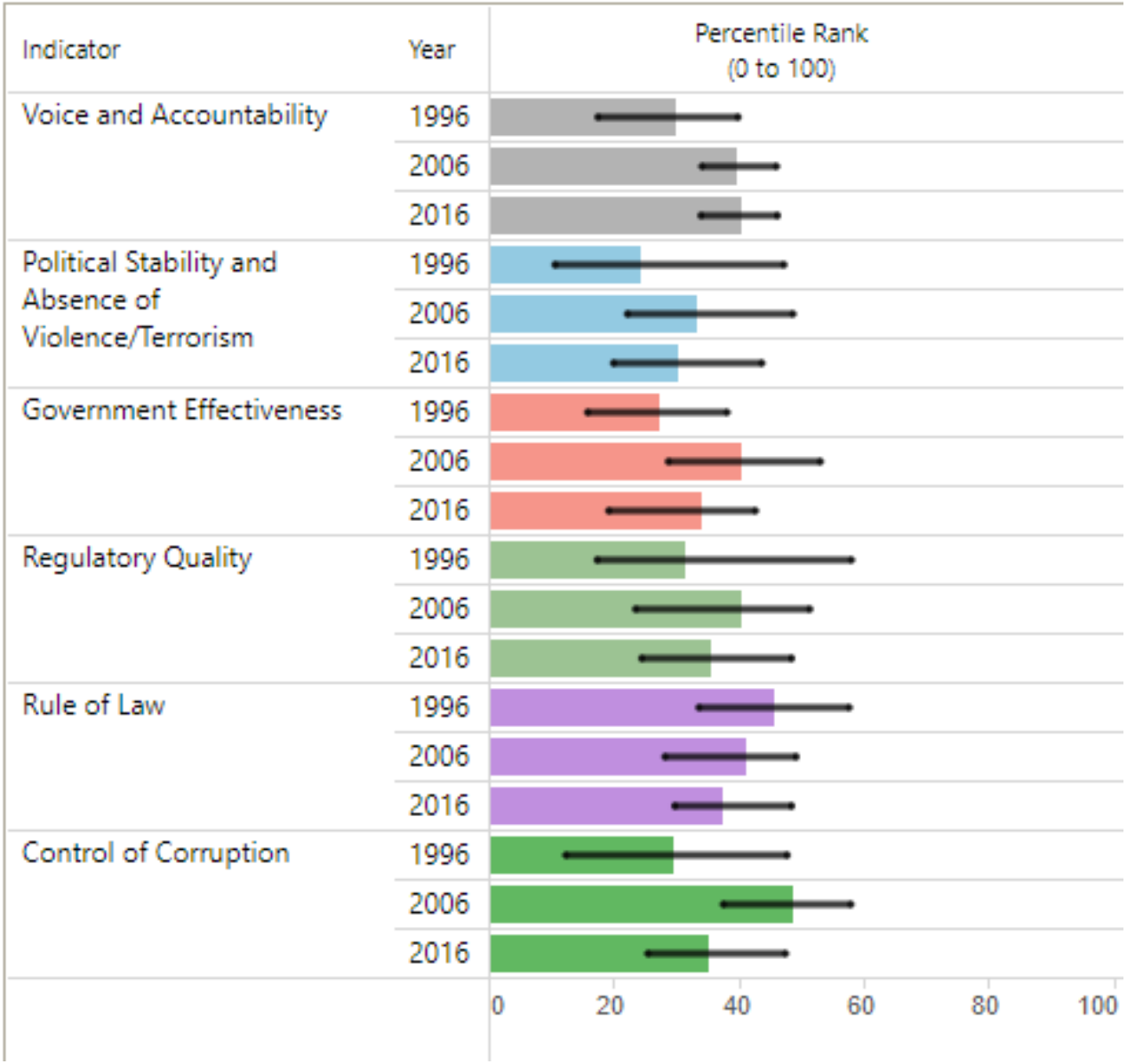
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Worldwide Governance Indicators for Indonesia: 1996, 2006, 2016



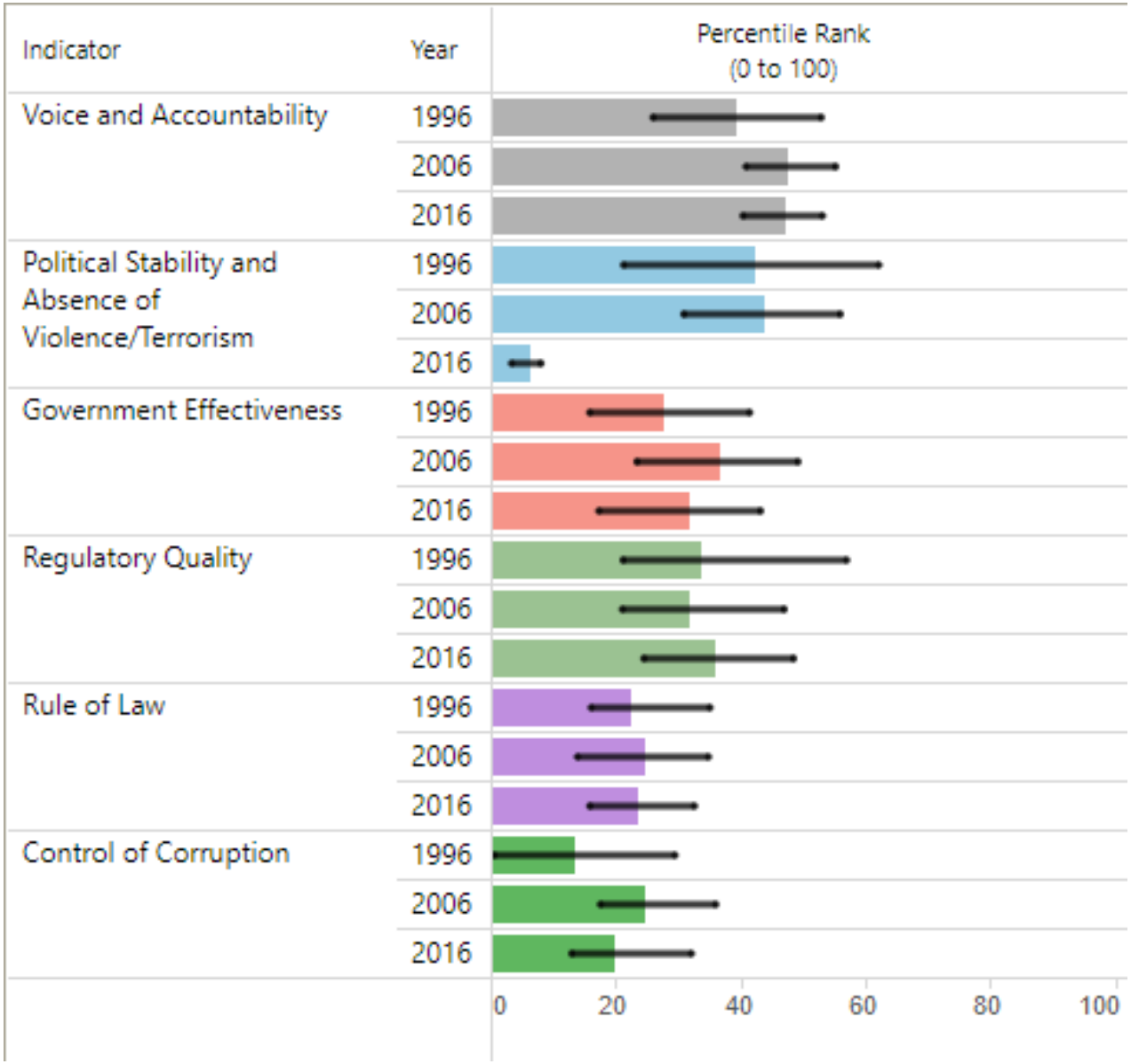
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Worldwide Governance Indicators for Tanzania: 1996, 2006, 2016



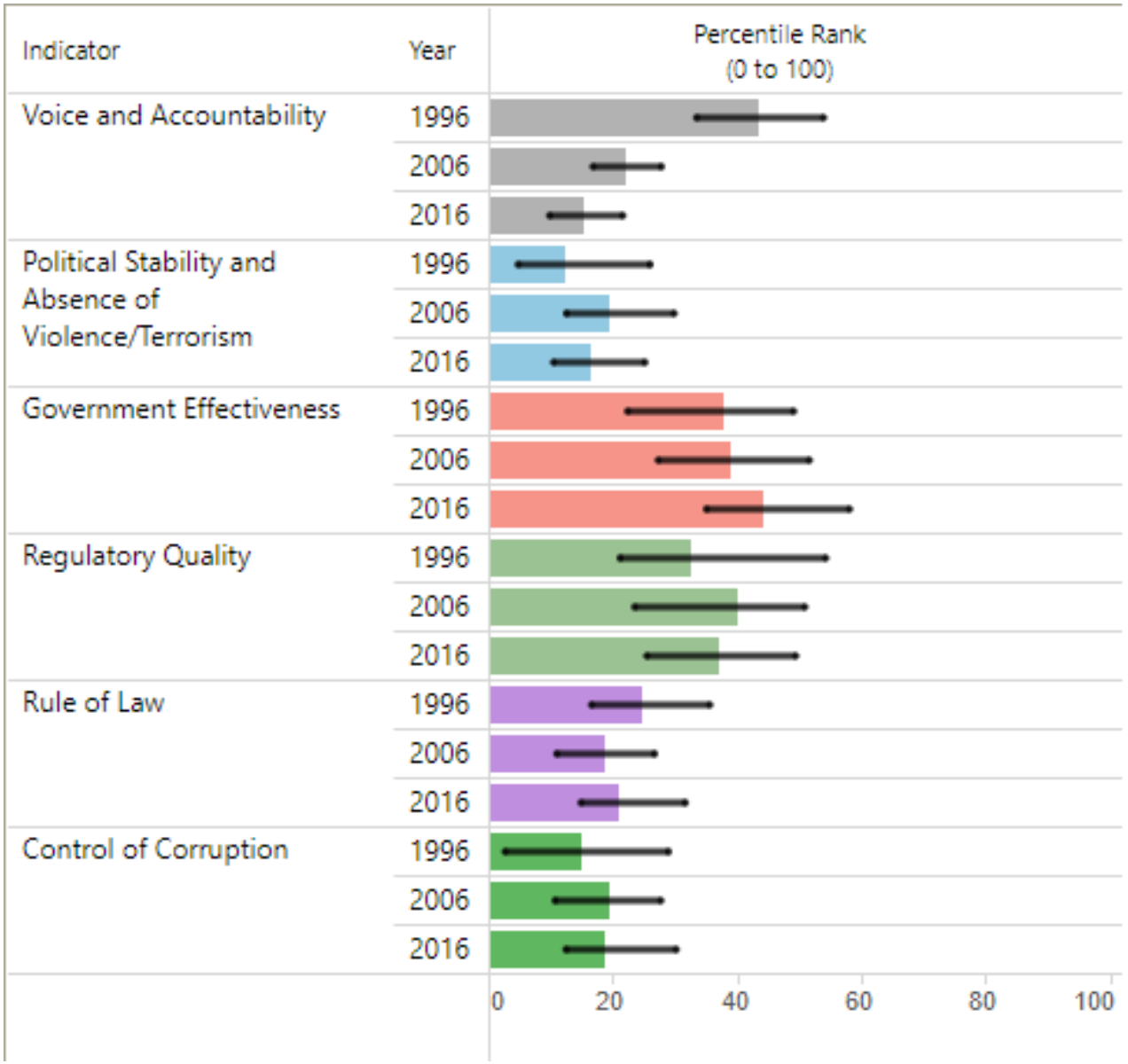
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Worldwide Governance Indicators for Ukraine: 1996, 2006, 2016



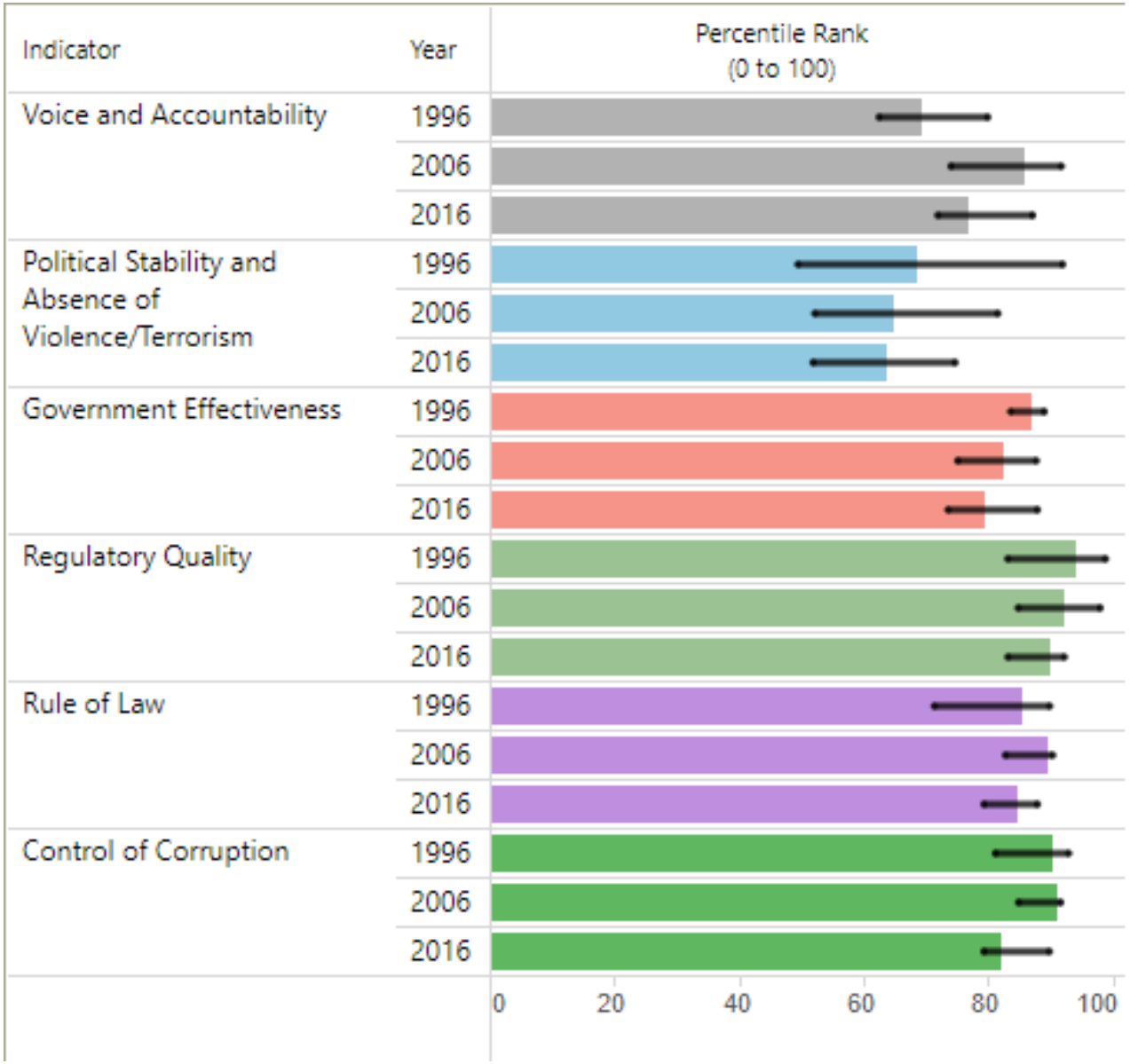
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Worldwide Governance Indicators for Russia: 1996, 2006, 2016



Source: Kaufmann, Daniel, Kraay, Aart and Mastruzzi, Massimo, The Worldwide Governance Indicators: Methodology and Analytical Issues (September 2010). World Bank Policy Research Working Paper No. 5430. Available at SSRN: http://ssrn.com/abstract=1682130

Worldwide Governance Indicators for Chile: 1996, 2006, 2016

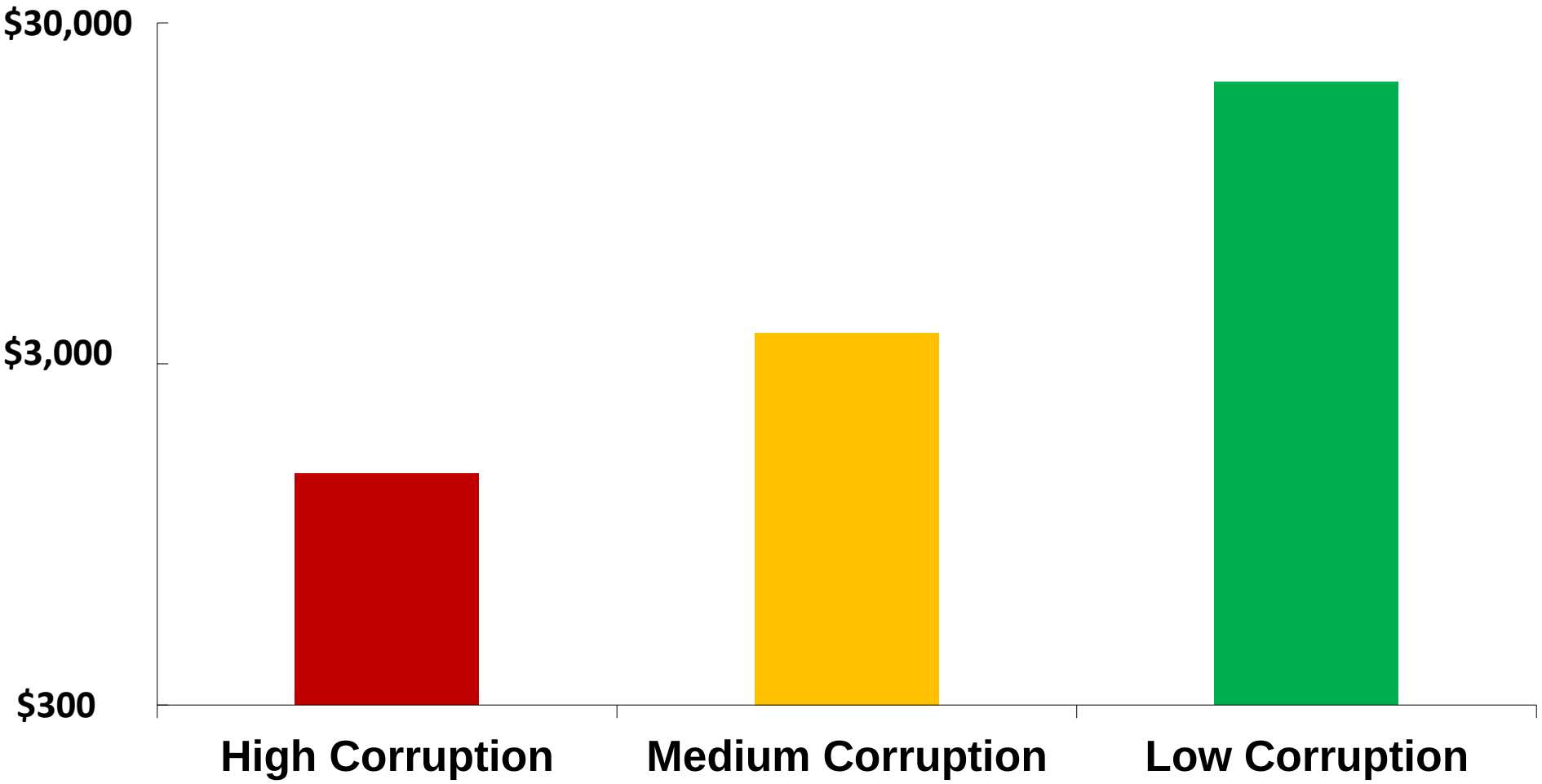


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But does Governance & Corruption Matter?

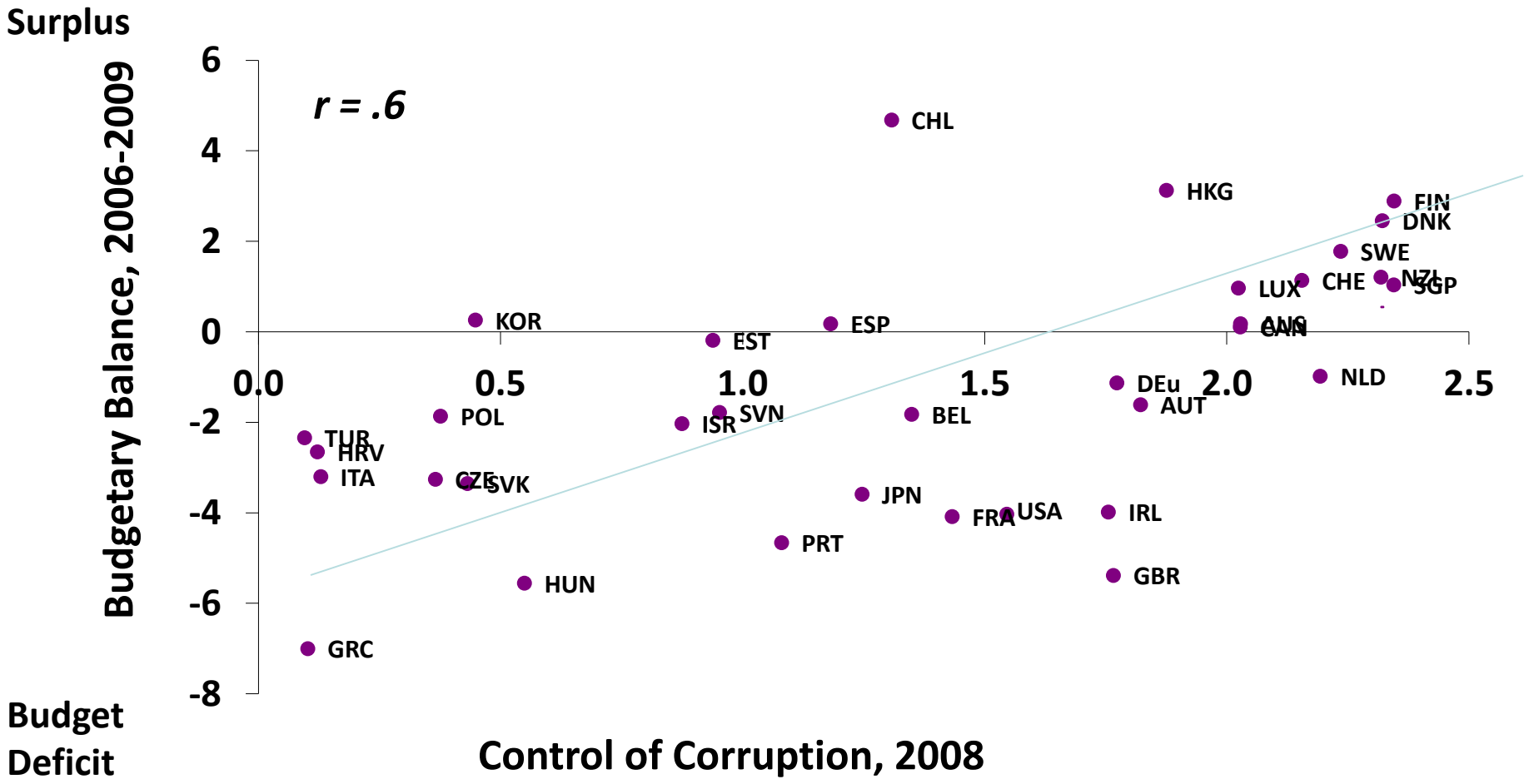
- **OK, governance and corruption can be measured, with caution**
- **But does it really matter?**

The 3-to-1 Development Dividend From Improving Governance & Controlling Corruption



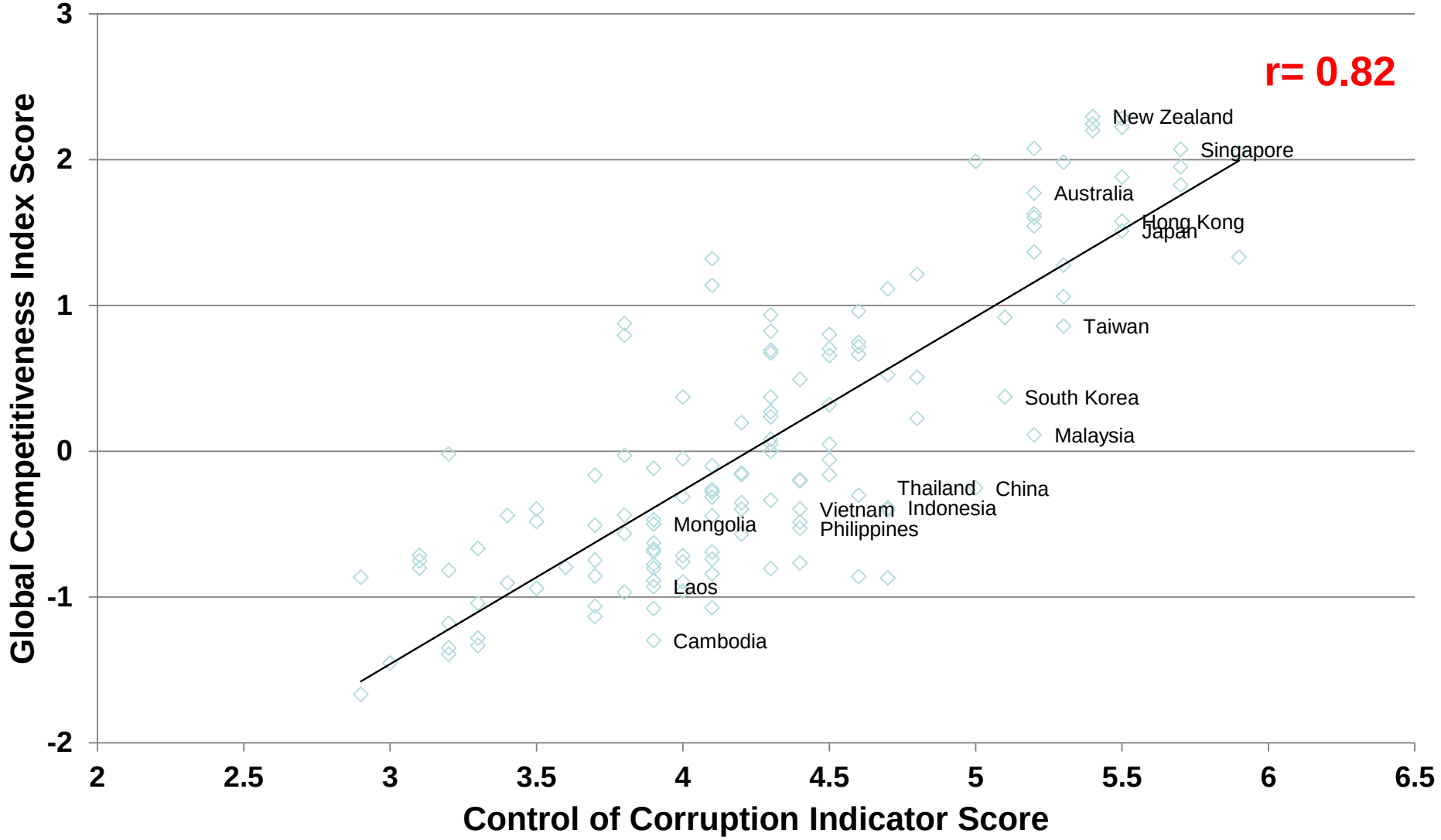
Data Source for calculations: KK 2004. Y-axis measures predicted GDP per capita on the basis of Instrumental Variable (IV) results for each of the 3 categories. Estimations based on various authors' studies, including Kaufmann and Kraay.

Are Budgetary Deficits in Industrialized Countries Associated with Corruption?: Yes



Graph from: D. Kaufmann, *'Corruption and Budget Deficits in Industrialized Countries: Heresy in the Eurozone and Beyond', forthcoming (2010), Brookings Working Paper Series.* Sources of Data for this graph: Control of Corruption, 2008 from the Worldwide Governance Indicators (WGI): Kaufmann, Kraay and Mastruzzi, *"Governance Matters VIII"* (2009). Higher value means better Corruption Control. Budget Balance: Economist Intelligence Unit (EIU), average for budget balance for 2006-2009. A positive (negative) value for budget balance depicts a budgetary surplus (deficit). Chart shows sample of 35 countries of the OECD and other high income economies, except for oil-rich and small islands.

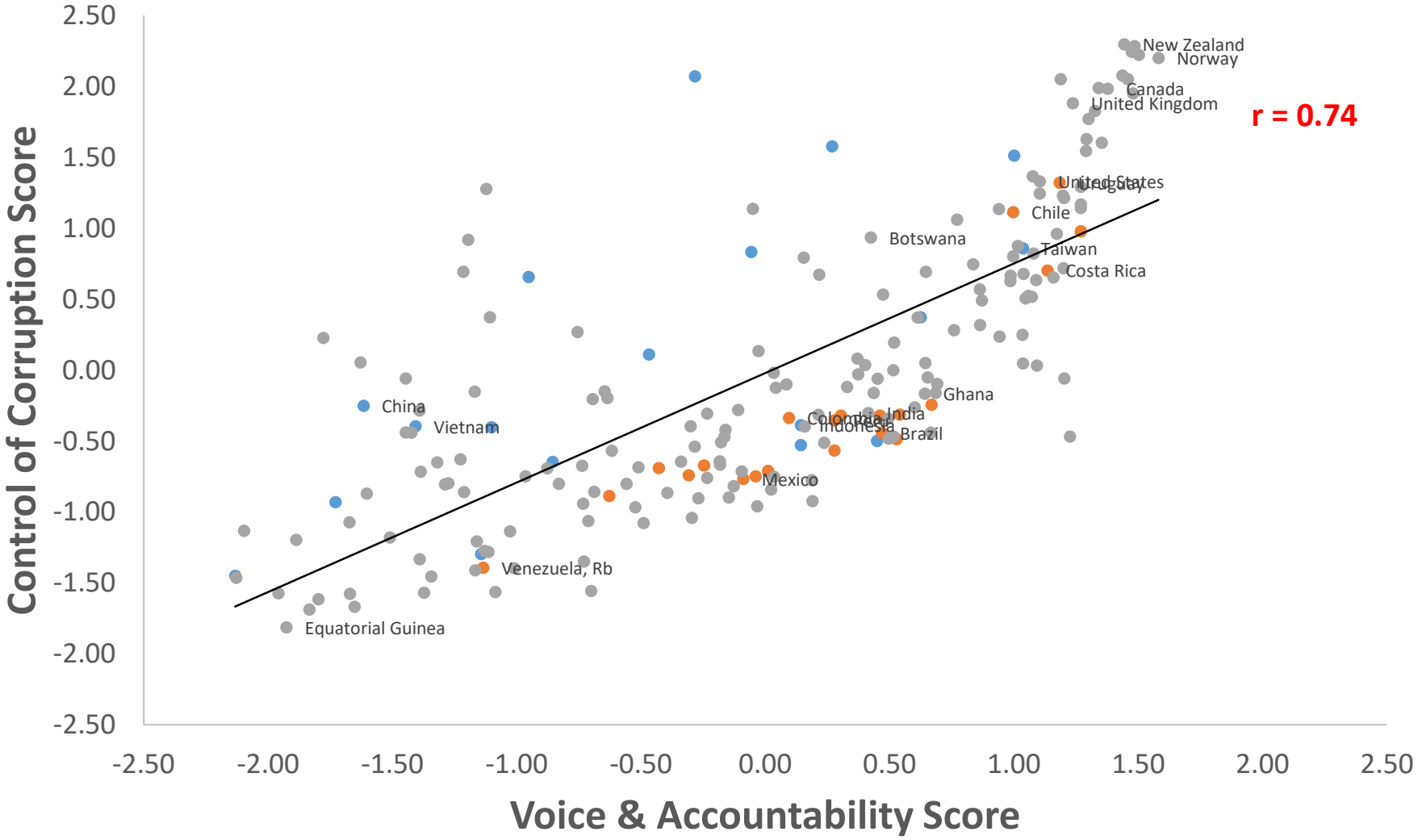
Close link between WEF Global Competitiveness (2017) & WGI Control of Corruption (2016)



Source: Worldwide Governance Indicators (http://www.govindicators.org) and World Economic Forum 2017-2018 Global Competitiveness Report (http://reports.weforum.org/global-competitiveness-index-2017-2018/competitiveness-rankings/)

On determinants of Corruption

Control of Corruption and Voice & Accountability (WGI, 2016 data)



Note: Dots in blue depict countries in East Asia, orange for Latin America, rest of the world is in gray.
Source: Worldwide Governance Indicators (www.govindicators.org).

Freedom of the Press and Transparency is Associated with Corruption Control

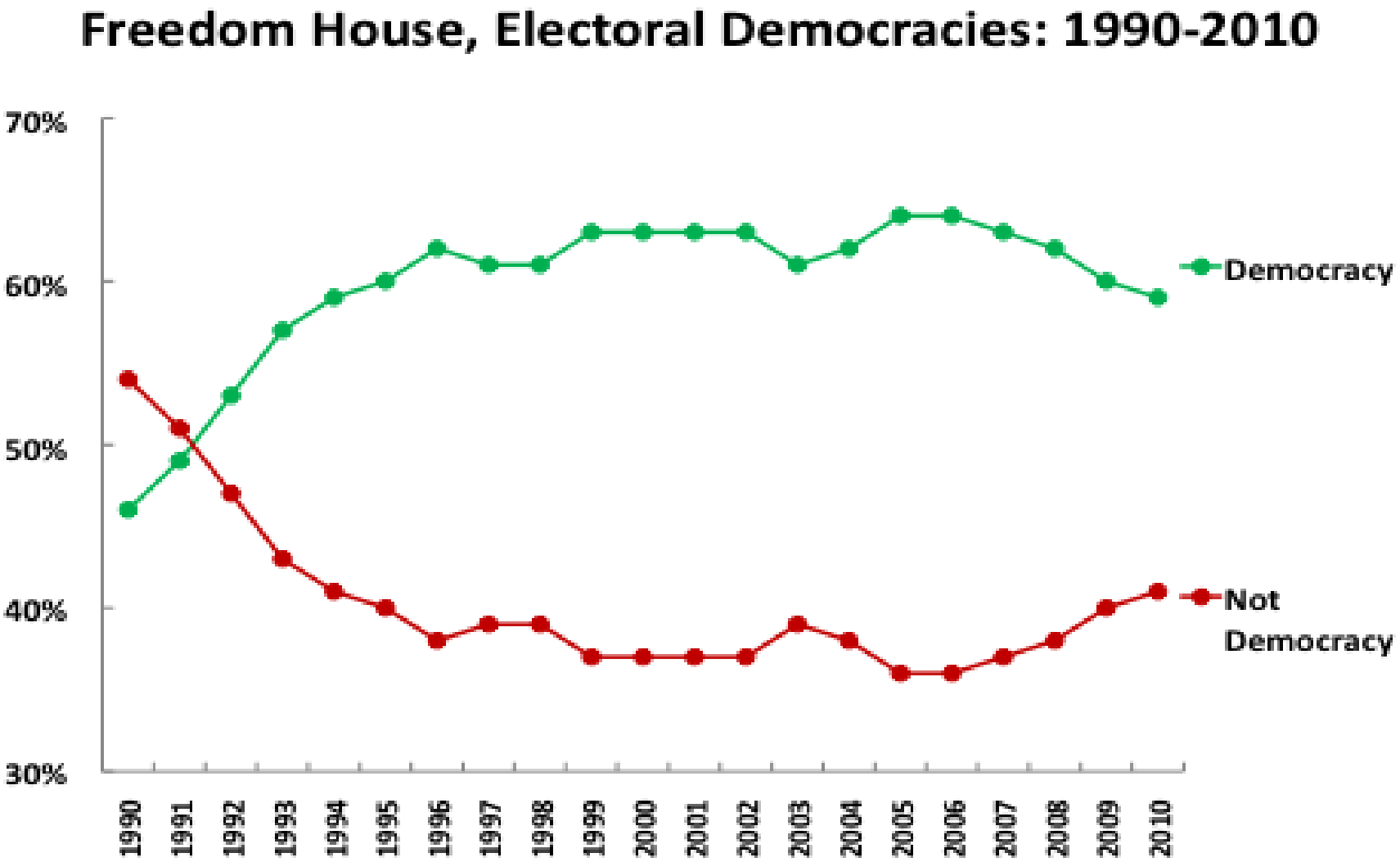
(Emerging Economy sample-- 135 countries)

Good



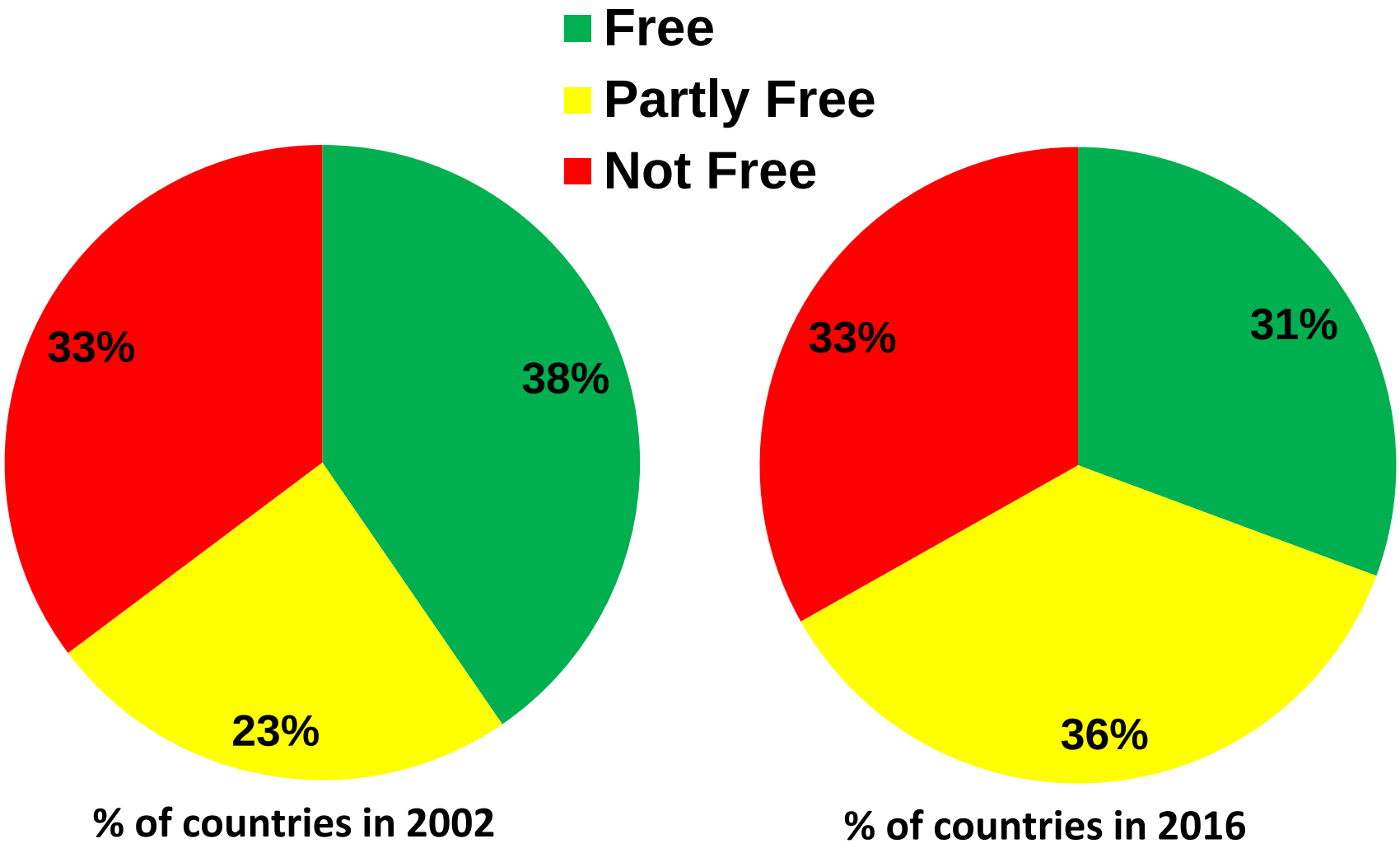
Source for Control of Corruption: : 'Governance Matters IV: Governance Indicators for 1996-2004', Kaufmann, D., A. Kraay and M. Mastruzzi, (http://www.worldbank.org/wbi/governance/govdata/); Source for Press Freedom: Freedom House. Source for Gender Equality: CPIA 2004. Source for Transparency: Transparenting Transparency", A. Bellver and D. Kaufmann. Satisfactory Freedom/Rights reflect higher ratings from Press Freedom, women's rights, gender equality and transparency ratings.

Formal Progress:....



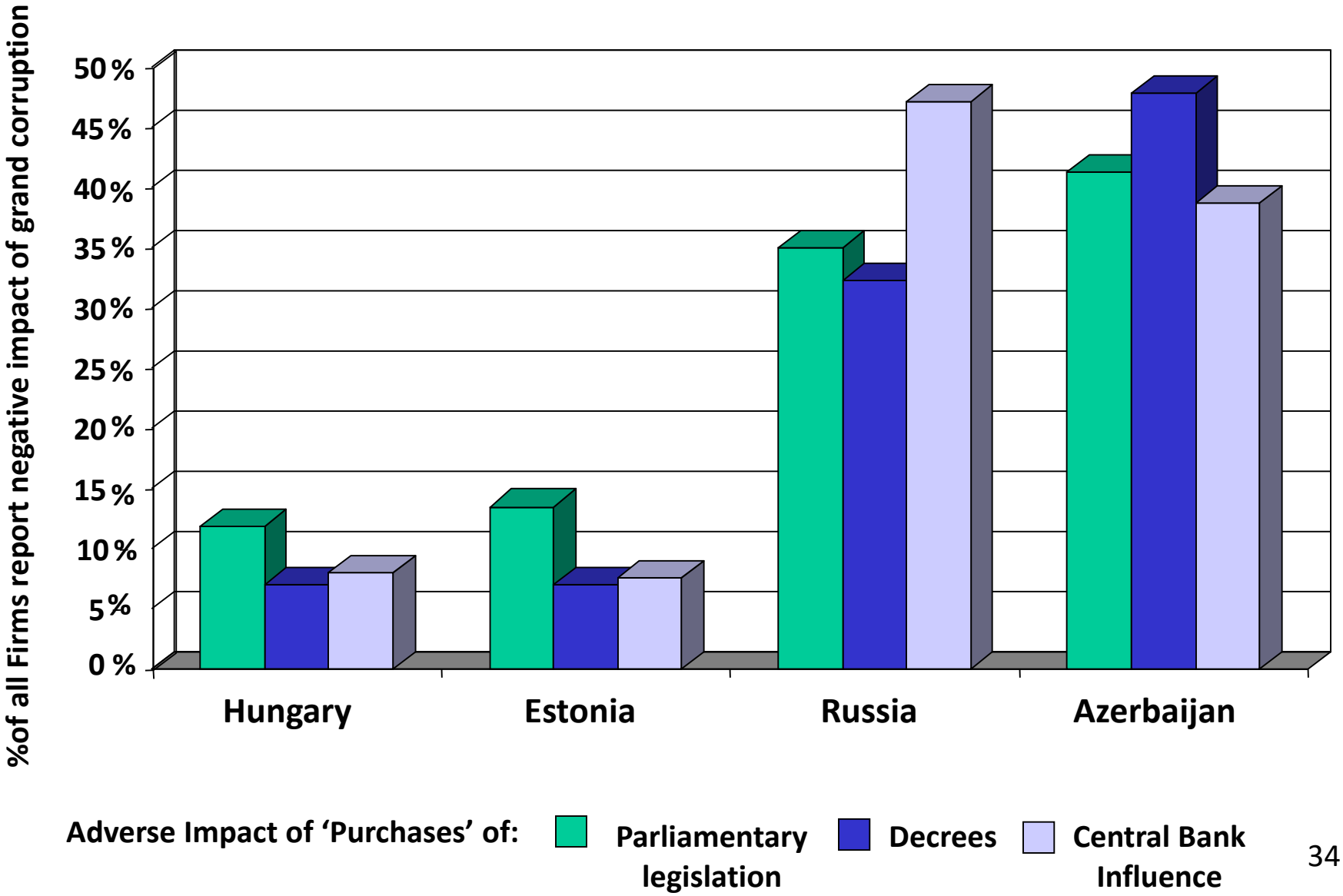
Source: 2011 Freedom House. Line chart measures percentage of countries considered to be democracies and not democracies.

Freedom of the Press, 2002 and 2016: Press Freedom Rating in Developing Countries

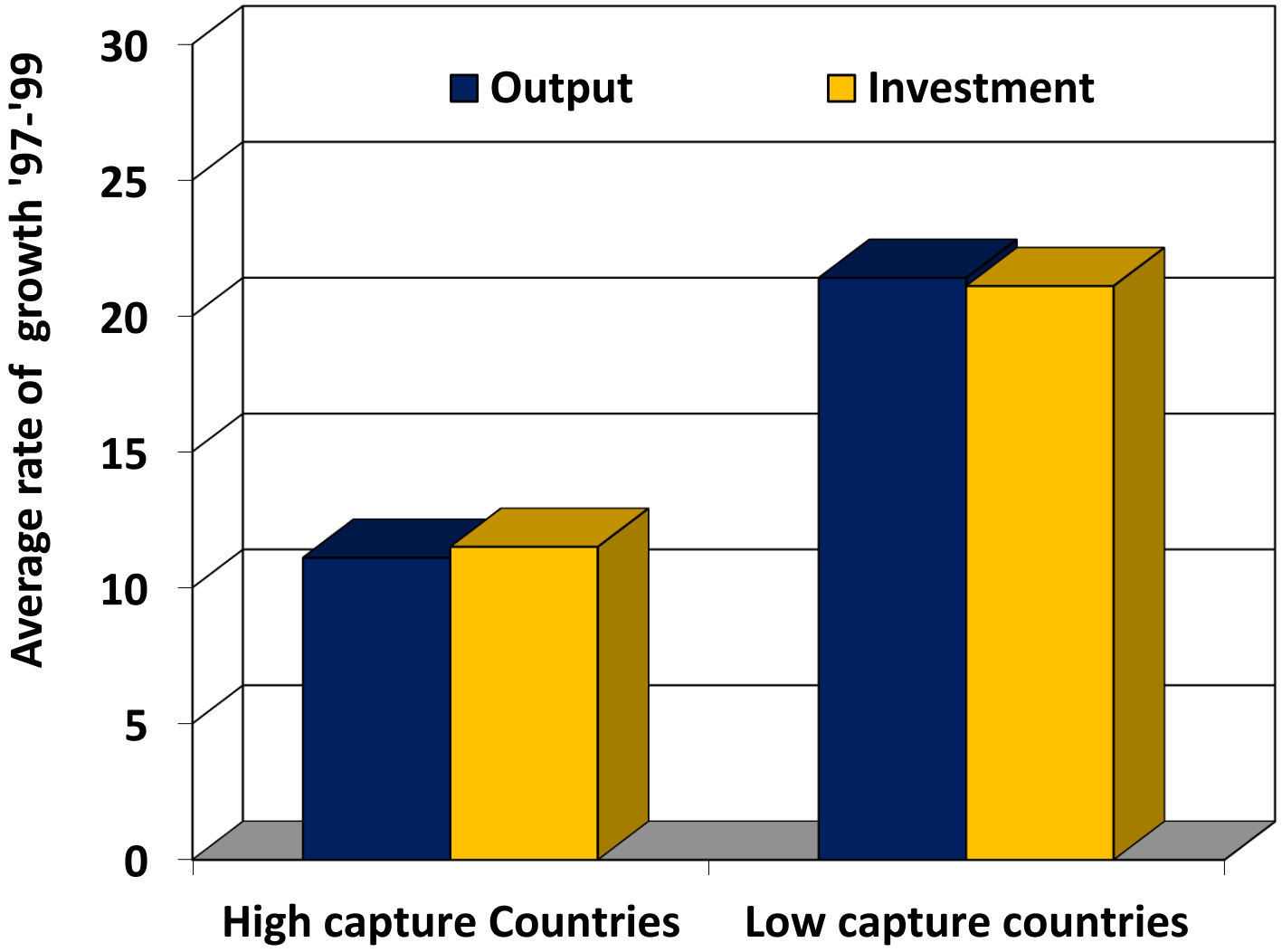


Source: Freedom House, 2017 Freedom of the Press, https://freedomhouse.org/report/freedom-press/freedom-press-2017

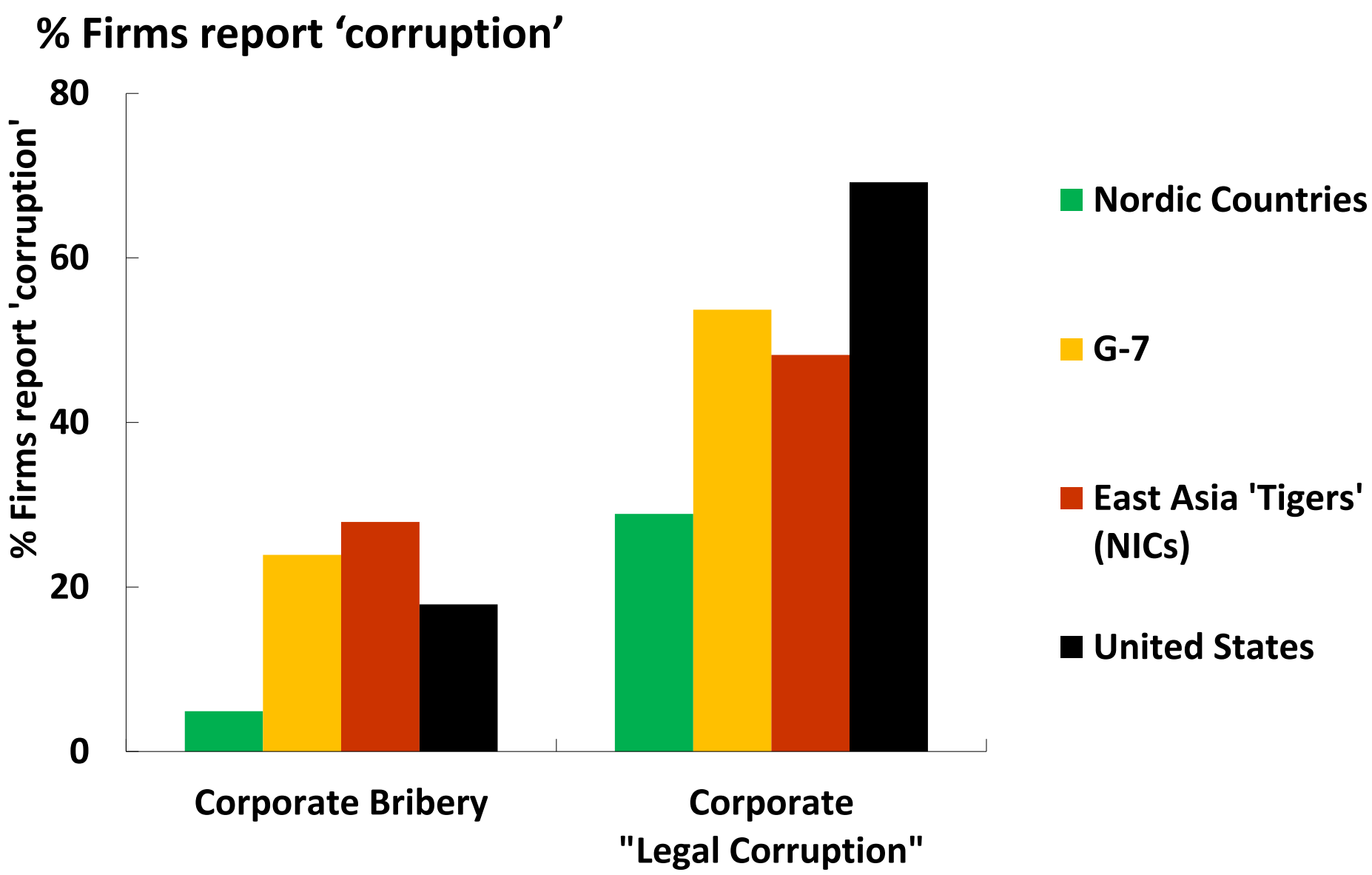
‘Seize the State, Seize the Day’ Research on Capture, 1999-2000: Differences in Transition Countries on the Extent of State Capture



Costs of State Capture – *Private Sector grows and invests less*



Bribery vs. ‘Legal Corruption’ (& soft Capture), 2004

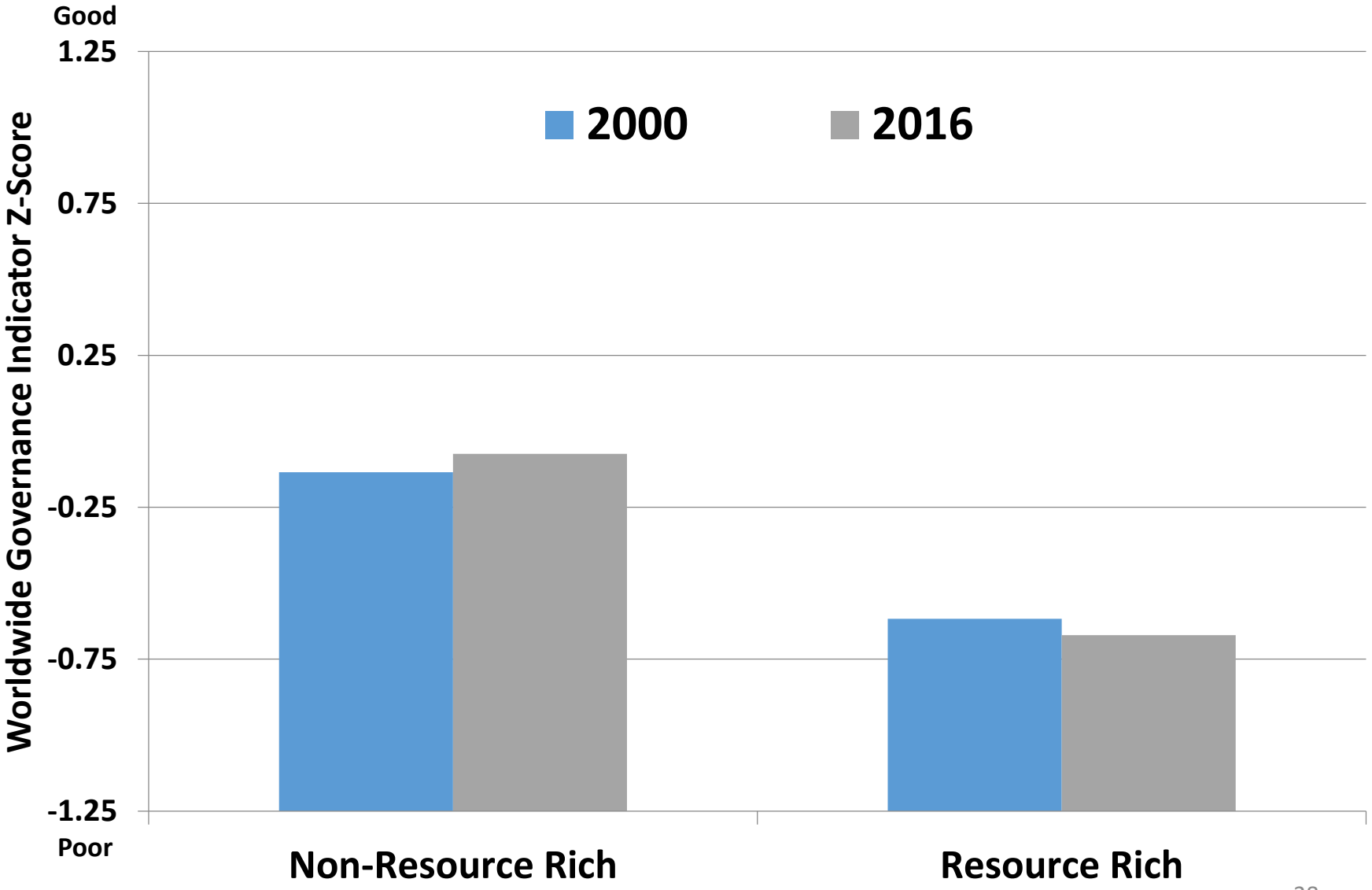


Source: Author’s calculations based on EOS 2004.

Governance & Anti-Corruption in Natural Resources: Tackling the Development Challenge of the Decade

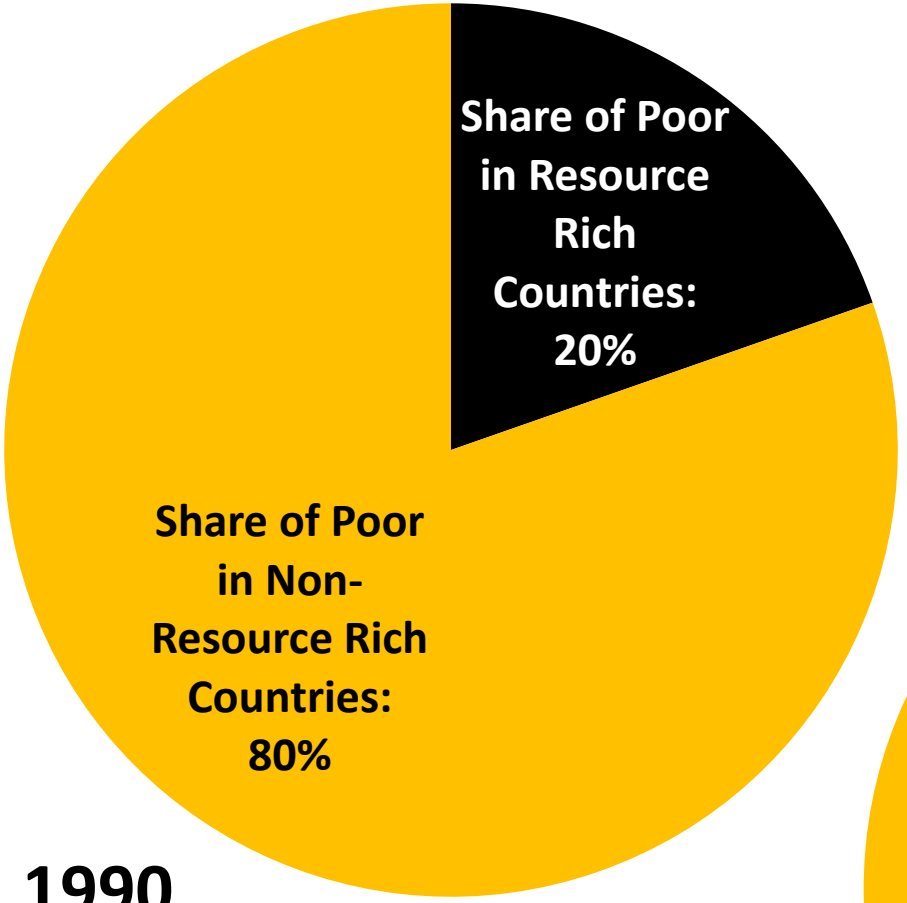
- A man-made resource curse persists for about one billion people living in poverty in the midst of abundance
- Experience + our evidence: resource curse not predetermined, good NR governance *is* possible
- Yet most resource-intensive countries face a major ‘government deficit’
- In those countries, the poor is not benefiting from their resource riches

Control of Corruption, 2000 & 2016: Resource Rich vs. Non-Resource Rich Developing Countries

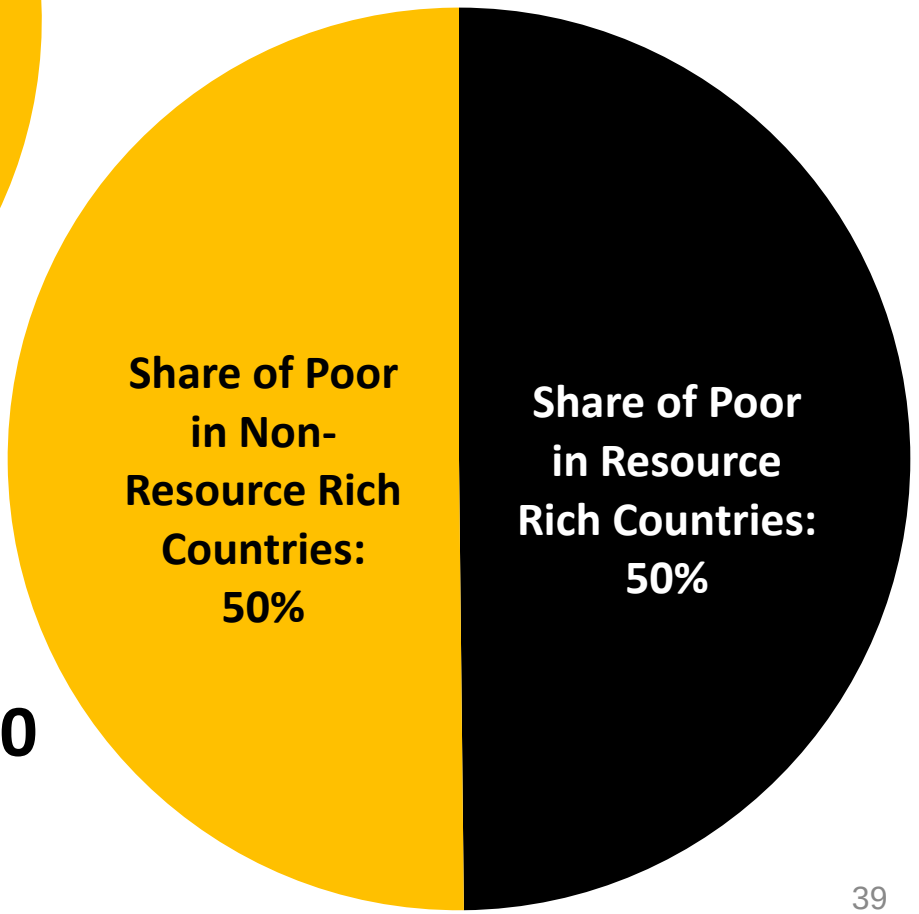


Source: Worldwide Governance Indicators (www.govindicators.org)

Share of the # of Poor living under $2.00 a day in Non-Resource Rich Countries vs. Resource Rich Countries, 1990 & 2030

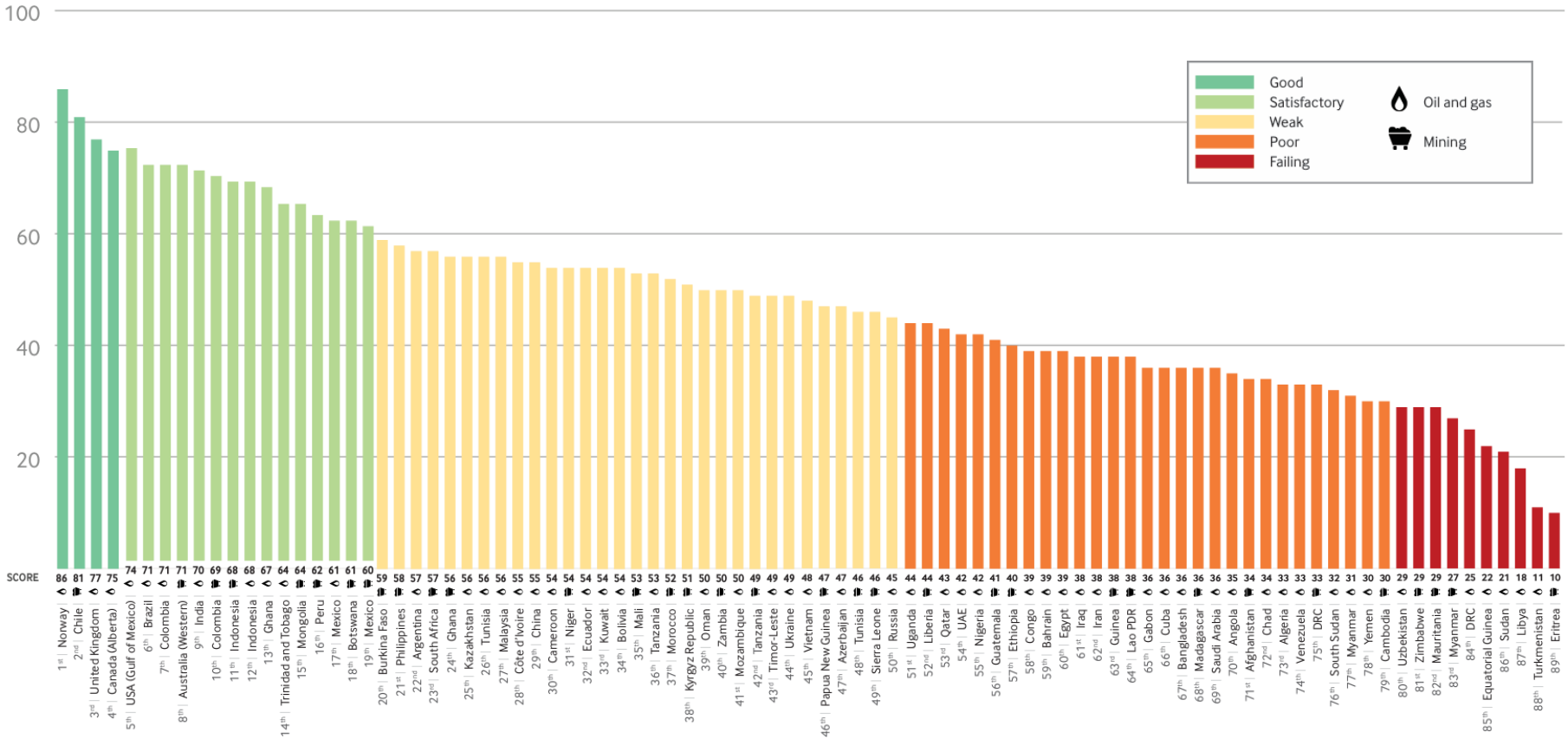


1990



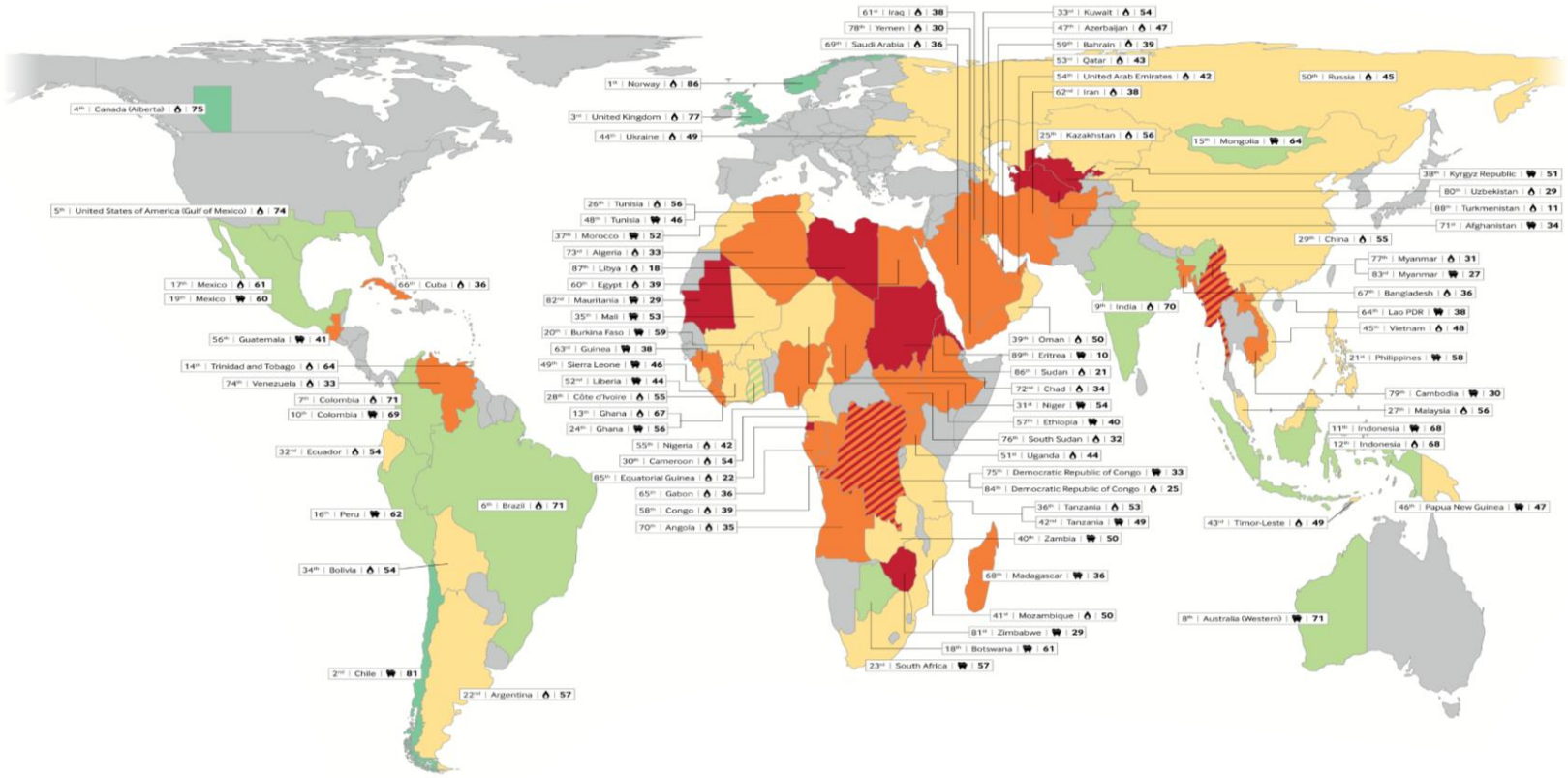
2030

2017 Resource Governance Index country scores and rankings



World map of RGI scores & performance categories

6 billion people, 1.8 billion poor



Resource Governance Index composite and component scores

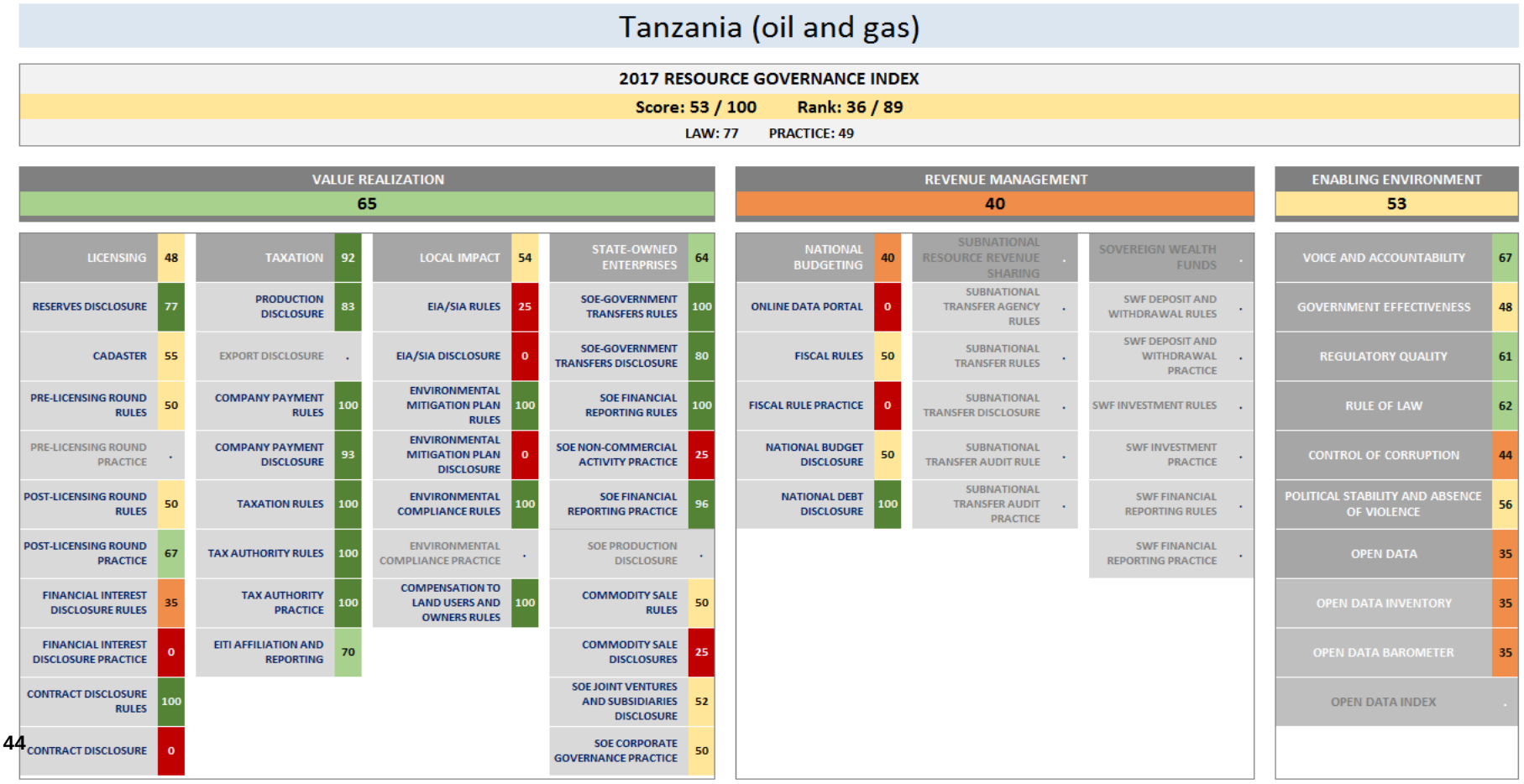
Index rank	Country	Assessed sector	Index score	Value realization score	Revenue management score	Enabling environment score
1	Norway	oil	86	77	84	97
2	Chile	mining	81	74	81	90
3	United Kingdom	oil	77	70	68	95
4	Canada (Alberta)	oil	75	69	59	97
5	United States of America (Gulf of Mexico)	oil	74	66	63	93
6	Brazil	oil	71	62	78	72
7	Colombia (oil and gas)	oil	71	59	85	67
8	Australia (Western)	mining	71	65	51	96
9	India	oil	70	75	66	69
10	Colombia (mining)	mining	69	59	82	67
11	Indonesia (mining)	mining	68	64	76	65
12	Indonesia (oil and gas)	oil	68	64	76	65
13	Ghana (oil and gas)	oil	67	65	65	70
14	Trinidad and Tobago	oil	64	64	57	71
15	Mongolia	mining	64	63	54	73
16	Peru	mining	62	68	57	62
17	Mexico (oil and gas)	oil	61	64	54	65
18	Botswana	mining	61	40	62	81
19	Mexico (mining)	mining	60	62	53	65
20	Burkina Faso	mining	59	66	54	57
21	Philippines	mining	58	55	52	67
22	Argentina	oil	57	58	54	58
23	South Africa	mining	57	50	40	80
24	Ghana (mining)	mining	56	61	37	70
25	Kazakhstan	oil	56	53	54	61
26	Tunisia (oil and gas)	oil	56	60	40	67
27	Malaysia	oil	56	49	41	77
28	Côte d'Ivoire	oil	55	60	60	46
29	China	oil	55	52	54	59
30	Cameroon	oil	54	59	70	33
31	Niger	mining	54	55	60	47
32	Ecuador	oil	54	51	58	52
33	Kuwait	oil	54	44	51	67
34	Bolivia	oil	54	61	51	49
35	Mali	mining	53	48	70	42
36	Tanzania (oil and gas)	oil	53	65	40	53
37	Morocco	mining	52	56	35	64
38	Kyrgyz Republic	mining	51	57	51	44
39	Oman	oil	50	32	43	76
40	Zambia	mining	50	58	35	58
41	Mozambique	oil	50	66	42	43
42	Tanzania (mining)	mining	49	54	40	53
43	Timor-Leste	oil	49	49	57	42
44	Ukraine	oil	49	61	40	45
45	Vietnam	oil	48	57	30	59

Index rank	Country	Assessed sector	Index score	Value realization score	Revenue management score	Enabling environment score
46	Papua New Guinea	mining	47	50	50	40
47	Azerbaijan	oil	47	49	43	49
48	Tunisia (mining)	mining	46	40	30	67
49	Sierra Leone	mining	46	62	35	40
50	Russia	oil	45	47	40	47
51	Uganda	oil	44	42	42	47
52	Liberia	mining	44	59	30	41
53	Qatar	oil	43	33	19	77
54	United Arab Emirates	oil	42	32	16	78
55	Nigeria	oil	42	50	44	31
56	Guatemala	mining	41	42	35	46
57	Ethiopia	mining	40	46	38	37
58	Congo	oil	39	45	44	29
59	Bahrain	oil	39	27	26	63
60	Egypt	oil	39	45	30	41
61	Iraq	oil	38	52	47	16
62	Iran	oil	38	36	45	34
63	Guinea	mining	38	53	24	37
64	Lao PDR	mining	38	42	30	41
65	Gabon	oil	36	18	47	44
66	Cuba	oil	36	29	23	57
67	Bangladesh	oil	36	39	35	34
68	Madagascar	mining	36	36	34	38
69	Saudi Arabia	oil	36	23	24	60
70	Angola	oil	35	50	31	25
71	Afghanistan	mining	34	58	31	14
72	Chad	oil	34	39	43	19
73	Algeria	oil	33	40	25	35
74	Venezuela	oil	33	48	34	17
75	Democratic Republic of Congo (mining)	mining	33	52	35	12
76	South Sudan	oil	32	42	47	5
77	Myanmar (oil and gas)	oil	31	44	30	19
78	Yemen	oil	30	50	28	11
79	Cambodia	mining	30	31	18	40
80	Uzbekistan	oil	29	40	25	22
81	Zimbabwe	mining	29	37	30	20
82	Mauritania	mining	29	41	10	36
83	Myanmar (mining)	mining	27	33	30	19
84	Democratic Republic of Congo (oil and gas)	oil	25	44	20	12
85	Equatorial Guinea	oil	22	29	18	17
86	Sudan	oil	21	26	26	11
87	Libya	oil	18	27	20	6
88	Turkmenistan	oil	11	11	0	21
89	Eritrea	mining	10	15	5	10

Country illustration of index scores: Colombia (mining)

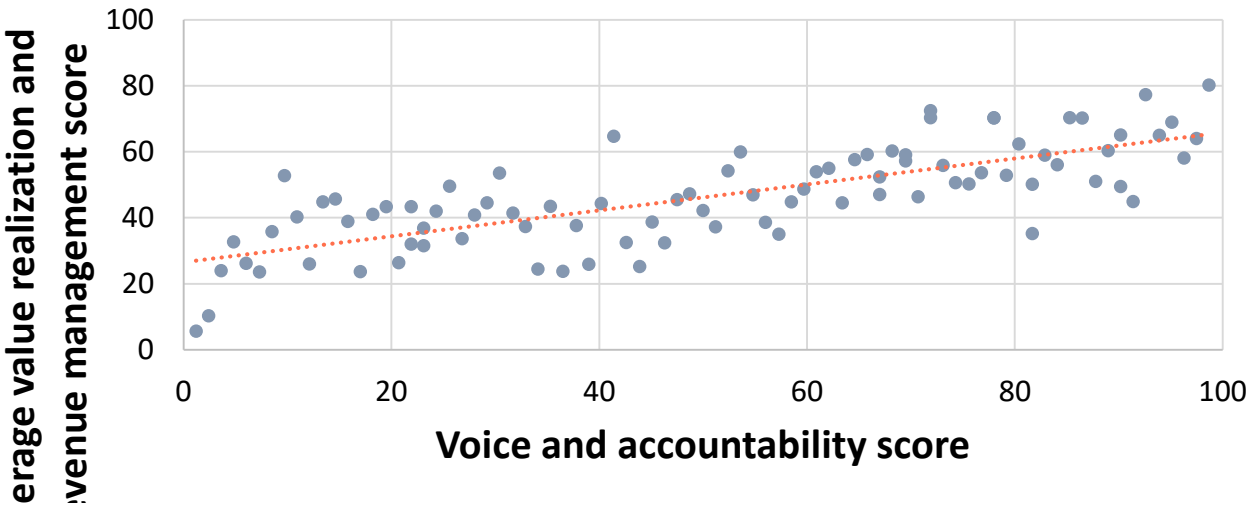


Country illustration of index scores: Tanzania (oil and gas)



Countries with good or satisfactory voice and accountability perform better in value realization and revenue management

Voice and accountability and average extractive sector component score



- Voice and accountability is most strongly associated with performance in value realization and revenue management components
- Civic space is linked to potential for good value realization and sound revenue management

State-owned enterprises assessed in the RGI

Country	State-owned enterprise	Gross sales (USD millions, selected years)	Score [/100]
Chile	Codelco	11,693	90
India	Oil and Natural Gas Corporation of India	23,374	87
Argentina	Yacimientos Petrolíferos Fiscales	14,236	83
Norway	Statoil	45,873	80
Morocco	Office Chérifien des Phosphates	4,890	79
Indonesia (mining)	Antam	680	78
Ukraine	Naftogaz	6,596	76
Ghana (oil and gas)	Ghana National Petroleum Corporation	180	75
Trinidad and Tobago	Petroleum Company of Trinidad and Tobago Limited	3,047	75
Mexico (oil and gas)	Petróleos Mexicanos	52,241	74
Colombia (oil and gas)	Ecopetrol	18,998	73
Bolivia	Yacimientos Petrolíferos Fiscales Bolivianos	6,812	70
Azerbaijan	State Oil Company of the Azerbaijan Republic	32,309	70
Philippines	Philippine Mining Development Corporation	2	70
Zambia	Zambia Consolidated Copper Mines Investment Holdings	163	69
Indonesia (oil and gas)	Pertamina	41,763	66
Tunisia (oil and gas)	Entreprise Tunisienne des Activités Pétrolière	621	66
Iraq	South Oil Company	Not available	66
Kuwait	Kuwait Petroleum Company	106,002	65
Malaysia	Petronas	63,412	65
Brazil	Petrobras	97,314	65
South Africa	African Exploration Mining and Finance Corporation	18	65
Tanzania (oil and gas)	Tanzania Petroleum Development Corporation	35	64
Vietnam	PetroVietnam	7,232	64
Kazakhstan	Kazmunaigaz	492	63
Côte d'Ivoire	Société Nationale d'Opérations Petrolière de Cote d'Ivoire	539	61
Venezuela	Petróleos de Venezuela	55,339	58
China	China National Petroleum Company	68,419	58
Angola	Sonangol	19,135	56
Russia	Gazprom	90,571	56
Ecuador	Petroecuador	8,174	56
Qatar	Qatar Petroleum	463,355	55
Bangladesh	Petrobangla	1,039	54
Mozambique	Empresa Nacional de Hidrocarbonetos	115	53
Cameroon	National Hydrocarbons Corporation	1,096	52
Timor-Leste	Timor Gás & Petróleo, Empresa Pública	10	50
Kyrgyz Republic	Kyrgyzaltyn	485	50
Papua New Guinea	Petromin	76	49
Algeria	Sonatrach	70,366	47
Chad	Société des Hydrocarbures du Tchad	Not available	46
Zimbabwe	Zimbabwe Mining Development Corporation	307	45
Nigeria	Nigeria National Petroleum Corporation	6,992	44
Uzbekistan	Uzbekneftegaz National Holding Company	Not available	41
Ghana (mining)	Sankofa Prestea Limited	19	41
Congo	Société Nationale des Pétroles du Congo	Not available	40
Mongolia	Erdenes Mongol	1,246	40
Yemen	Yemen Oil and Gas Corporation	Not available	40
Cuba	Unión Cuba-Petroleo	Not available	39
Mauritania	Société Nationale Industrielle et Minière	1,117	38
Guinea	Société Guinéenne du Patrimoine Minier	1	38
Madagascar	Kraomita Malagasy	Not available	36
Egypt	Egyptian General Petroleum Corporation	Not available	36
Democratic Republic of Congo (mining)	Gécamines	Not available	35
Niger	Société de Patrimoine des Mines du Niger	127	35
Tunisia (mining)	Compagnie de Phosphate de Gafsa	260	35
Myanmar (oil and gas)	Myanmar Oil and Gas Enterprise	Not available	35
Tanzania (mining)	State Mining Corporation	Not available	33
Libya	National Oil Corporation	Not available	32
Oman	Oman Oil Company	724	32
Bahrain	Bahrain Petroleum Company	5,310	32
Botswana	Debswana	3,922	29
South Sudan	Nile Petroleum Corporation	Not available	28
Saudi Arabia	Saudi Aramco	Not available	27
United Arab Emirates	Abu Dhabi National Oil Company	Not available	27
Democratic Republic of Congo (oil and gas)	Société Nationale des Hydrocarbures (previously Cohydro)	Not available	25
Ethiopia	Adola Gold Mine	Not available	24
Iran	National Iranian Oil Company	Not available	22
Myanmar (mining)	Myanmar Gems Enterprise	Not available	16
Sudan	Sudanese Petroleum Corporation	Not available	13
Uganda*	Uganda National Oil Company	0	13
Gabon	Gabon Oil Company	Not available	11
Turkmenistan	Turkmengas State Concern	Not available	10
Equatorial Guinea	GEPetrol	Not available	7
Eritrea	Eritrean National Mining Corporation	Not available	4

**The Uganda National Oil Company came into being in mid-2016. It has not commenced activities and therefore most of the indicators in the index's SOE subcomponent were deemed not applicable. Regulation concerning its governance is not fully completed and users of the index should note this when reviewing the company's performance.*

Assessing Corruption Vulnerabilities across the decision chain



License allocations
e.g. Griffiths (Chad), Cobalt/Nizaki (Angola)

Subcontracting
e.g. Petrobras (Brazil), Skanska (Argentina)

Commodity sales
e.g. Sphynx/AOGC & Gunvor (Congo-B), Swap contracts (Nigeria)

Saving revenues
e.g. SocGen (Libya)

Resource Governance Index recommendations

1. Focus on implementation
2. Continue to open governments
3. Bolster state-owned enterprise governance
4. Protect civic space and combat corruption
5. Strengthen global norms and institutions
6. Use data to drive reform

The international environment can help or hinder

Extractive Industries Transparency Initiative

EITI: 51 implementing countries

-- Well over a trillion in payments and revenues in EITI reports



Mandatory Reporting Requirements on Companies:
-- Dodd-Frank Financial Reform Act
-- EU Directives
-- Canada



Abetting or Addressing Illicit financial flows / AML?

EITI's challenge: ensuring that information drives reform

Multi-Stakeholder Dialogue (MSG)	•Creates neutral space for building trust and facilitating discussion
Objective Setting (Work plan)	• Links EITI to broader national policy priorities
Disclose Relevant Information (Reconciler TOR & EITI Report)	• Useful in evaluating pressing questions & concerns
Analysis of Information (CSO & Media Analysis)	• Enables informed public understanding & policy debates
Links to Policymaking & Institution building (Parl., Min., Reg.)	• Increases accountability & development

In Concluding…

1. **Data Power – Measuring, monitoring & diagnosing governance & corruption worldwide/national/subnational/sectoral**
2. **Corruption is not the deterministic driver of all development ills but very costly manifestation of governance weakness**
3. **Anti-Corruption Matters for Development, Competitiveness, etc.**
4. **Importance of the Demand Side of Governance, including Voice & Accountability, Transparency, Open Data *(millions of auditors)***
5. **State Capture & Undue influence: political/elite corruption**
6. **Governance in Extractives: Development Challenge & Fragility**
7. **International Leadership: Challenge & Opportunity**