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## Capturing economic and social benefits at the community level: Opportunities and obstacles for civil society

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WIDER Working Paper 2017/51

## **Capturing economic and social benefits at the community level**

Opportunities and obstacles for civil society

Keith Slack\*

March 2017

**Abstract:** Civil society organizations have played various roles in promoting the capture of benefits from and protection against the negative impacts of extractive industries. Payment disclosure is one potentially powerful tool for such organizations to promote greater local benefit capture. Practitioners and academics have noted, however, that transparency alone does not equate to accountability. This is true in the extractive sectors, where political dynamics pose serious obstacles. The cases of Ghana and Peru provide examples of these dynamics. Strategies for overcoming them include strengthening the technical capacity of civil society organizations, providing civic education, targeting interventions better, and learning more deeply from positive examples.

**Keywords:** extractive industries, transparency, accountability, Extractive Industries Transparency Initiative, civil society, Ghana, Peru

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## 1 Introduction

Civil society has a critical role to play in helping local communities capture the benefits produced by extractive industries (EI) and avoiding or mitigating the social and environmental damage these industries can cause. Payment disclosure data is a potentially powerful tool for civil society to hold governments accountable for pro-development expenditure of extractive revenues. Yet analysts have argued that transparency alone does not equate to accountability. In many contexts political dynamics present serious challenges to achieving greater accountability, even with greater public availability of revenue data. In this paper I will examine these dynamics and the role of civil society in promoting benefit capture from extractive industries at the local level as well as the promise (and limitations) of increased revenue data disclosure to support that role. I will look at two cases in particular, Ghana and Peru, which offer important lessons on the opportunities and obstacles for civil society engagement with extractive industries. I will conclude by offering some proposals for strengthening this role.

## 2 Role of civil society in EI-affected communities

The term ‘civil society’ is used in various ways. For the purposes of this paper I will use the World Bank’s definition, which includes not only advocacy- and service-oriented non-governmental organizations (NGOs) but also indigenous peoples’ federations, trade unions, and religious institutions (World Bank 2013). Civil society organizations (CSOs) have played a variety of roles in EI-affected communities. They might generally be described as ‘watchdogs’ that monitor and document the various and often negative impacts that EI projects have on human rights and the environment in these communities. In a number of contexts, particularly in Latin America, CSOs have helped to organize community opposition to EI projects through local campaigns that are often supported at the national and global levels. CSOs have also helped communities to directly negotiate with companies to resolve human rights and environmental problems (Rees et al. 2012). This has in some cases involved bringing legal action against a company or utilizing global accountability frameworks and bodies, such as the Voluntary Principles on Security and Human Rights, the OECD Guidelines on Multinational Enterprises, and the Compliance Advisor/Ombudsman of the World Bank Group’s International Finance Corporation.

Globally, the normative framework around extractive industries has seen dramatic changes over the past 20 years, in large part due to pressure from CSOs. To name two examples, payment disclosure and free, prior and informed consent (FPIC) for indigenous peoples are now part of the policies of extractive corporations and international financial institutions. The Extractive Industries Transparency Initiative is a well-established global norm-setting enterprise that has been supplemented in recent years by the adoption of mandatory EI payment disclosure laws in the United States (through the Dodd-Frank Wall Street Reform and Consumer Protection Act) and European Union (European Accounting Directive). The International Finance Corporation, which finances EI projects, has adopted both payment disclosure and FPIC in the performance standards its clients are obliged to implement. Likewise, the International Council on Mining and Metals, an association of large global mining companies, has also adopted a policy on indigenous peoples that requires respect for FPIC.

There is significant heterogeneity among CSOs involved in the EI space. Some focus primarily on environmental issues, while others are more concerned with human rights impacts. Some espouse a strongly oppositional position in relation to extractive industries. Others are more interested in

promoting reform of the sector through policy dialogue and legislative advocacy work. Corporate-backed NGOs (or ‘BONGOs’: business-oriented NGOs) have appeared in some locations to do community development work on behalf of an EI company.

As the EI sector in developing countries has expanded and evolved over the past 20 years, so too have the interests and sophistication of CSOs involved in the space. After focusing initially on human rights and environmental impacts, CSOs have more recently begun to take on difficult technical issues such as the distribution and management of EI revenues, contract analysis, and taxation. Global NGOs such as Oxfam and the Natural Resources Governance Institute have hired lawyers, tax experts, and other technical specialists to help advance policy reform work in these areas.

Payment disclosure is a critical component for this ‘second-order’ set of EI accountability issues on which CSOs engage. In the next section I will examine the potential utility of this information for efforts to promote greater capture of the benefits produced by EI at the local level. I will also frame a discussion of the political obstacles that may undermine the effectiveness of this tool, as well as broader policy reform efforts in this sector.

### **3 Origins of the extractives revenue transparency movement**

The global movement for greater revenue transparency in the extractives sector began in 2000 with the launch of British NGO Global Witness’s report on Angola’s oil sector (Global Witness 2000). The report described in detail the kleptocracy of the Dos Santos regime and its theft of billions of dollars in oil revenue. The report also laid out the complicity of foreign oil companies—notably BP—in this theft. The report included a recommendation that oil companies operating in Angola, including BP, publicly disclose payments as a way for outside actors, including global and Angolan civil society, to hold the government accountable for the use of those revenues. The report brought swift condemnation of Global Witness by the Angolan government. However, the report also captured the attention of billionaire financier George Soros, who had founded the Open Society Institute (OSI). Soros believed that payment disclosure—which was consistent with his ‘open society’ concept—could be a tool to address problems of corruption and mismanagement in resource sectors globally (Soros 2005).

With support from Soros, Global Witness and other global NGOs established a global campaign to promote extractives payment disclosure. The campaign adopted the name ‘Publish What You Pay’ (PWYP) and drew participants from a broad sector of civil society across the globe. National and regional chapters of the campaign were set up with funding from Soros and other donors. Building on Global Witness’s experience working on BP in Angola, the campaign initially focused on pressuring the UK government to require payment disclosure by British companies. In response to this pressure, the government of UK Prime Minister Tony Blair proposed the creation of the Extractive Industries Transparency Initiative (EITI), which was formally announced at the World Summit on Sustainable Development (Rio+10) conference in Johannesburg in September 2002. The EITI was to be a voluntary initiative in which governments, companies, and NGOs would work together to promote greater revenue transparency in the extractive sectors. The initiative was immediately criticized by some NGOs for its voluntary nature, and for promoting only aggregated data disclosure rather than disclosure on the more granular, project-by-project basis that NGOs had called for. Despite the criticism, most NGOs working in the EI space decided to stay engaged with the initiative, and some—including Oxfam, Global Witness, and PWYP itself—accepted seats on the board of the initiative.

To address the weaknesses of EITI, NGOs continued to push for mandatory disclosure regulations. The US coalition of PWYP, led by Oxfam, Revenue Watch Institute (an organization spun off from OSI and now known as the Natural Resource Governance Institute), and Global Witness, made the furthest progress. Working with a securities lawyer, the coalition developed a proposal for US legislation that would require all companies listed on the New York Stock Exchange to disclose to the Securities and Exchange Commission (SEC) all payments made to governments in countries where they were operating. This information was to be included as part of the standard disclosures required by the SEC. In 2008, at the behest of the coalition, US Senator Charles Schumer and Representative Barney Frank introduced the Extractive Industries Transparency Disclosure Act, which amended the Securities Exchange Act to establish this requirement. The bill made little progress during that year but was reintroduced in 2009 by Senators Ben Cardin and Richard Lugar as the Energy Security Through Transparency Act.

In early 2010, the PWYP-USA coalition saw an opportunity with the introduction of legislation to reform the financial sector following the 2008 financial crisis. The coalition worked closely with Representative Frank, then chairman of the House Financial Services Committee and lead sponsor of the financial reform legislation. Frank agreed to support the extractives transparency legislation as part of the overall financial reform package. Following extensive congressional debate and manoeuvring, the extractives transparency language was added to the bill and approved by the House-Senate conference committee in July 2010. The language appeared as Section 1504 of the 2,300-page bill. The overall financial sector reform bill, including the extractives language, was signed by US President Barack Obama on 21 July 2010.

Following the passage of the legislation, the American Petroleum Institute (API), representing the interests of major oil companies, sued the SEC to block implementation of Section 1504, arguing *inter alia* that the disclosure requirement constituted ‘compelled speech’ and as such was a violation of its right to free speech under the US Constitution. The US District Court for the District of Columbia, which heard the case, sided with the API and compelled the SEC to remake the rule that would govern the implementation of the 1504 legislation. Various suits and countersuits have followed, with Oxfam America leading the legal effort on behalf of civil society to push for publication and implementation of the rule. The SEC published a new rule in June 2016, which was generally well received by transparency advocates as it maintained most of the key provisions of the original rule.

The passage of Section 1504 had an immediate knock-on effect in Europe, where the European Union began to consider similar revenue disclosure requirements, which were adopted in 2014. Similar disclosure requirements have been adopted in Canada and proposed in South Africa and Australia, all key jurisdictions for the raising of capital for extractives companies. Regrettably, one of the first acts of the Trump administration in February 2017 was to sign legislation vacating the SEC’s rule for implementing Section 1504. Although a major setback for extractives transparency proponents, however, the action only requires the SEC to publish a new version of the rule, and does not alter the underlying legislation. Moreover, it does not affect disclosure requirements established in other jurisdictions.

At the heart of the effort to promote EI payment disclosure was a simple idea: that the disclosure of revenue payment information can be a tool for holding governments accountable for where those revenues go. Sunlight, as former US Supreme Court Justice Louis Brandeis famously said, can be the best disinfectant (Brandeis 1913). The ‘sunlight’ of revenue transparency can ‘disinfect’ the corruption, mismanagement, and waste that too often characterizes extractive industries revenues. Getting information into the hands of activists, journalists, and ordinary citizens helps to level the playing field with powerful government and corporate actors. It can create popular pressure to address corruption or the misallocation of revenues.

In this sense, the ‘theory of change’ behind extractive payment disclosure is in line with broader current theory about transparency and data disclosure. We live in an era of ‘big data’ that holds, according to some proponents, the potential to be a ‘game changer’ in terms of empowering people to demand better performance from governments, corporations, and other social actors. Data and disclosure can help to rectify asymmetries of information between governing and governed that will ultimately produce broad social benefits. Moreover, resource-rich countries have been empirically found to be less transparent than their non-resource-rich analogues (Williams 2010).

There is some evidence in the extractive sector that greater transparency has indeed begun to produce some of these benefits. In Nigeria, for example, the EITI process revealed \$2.6 billion in missing oil revenues and a failure of oil companies to pay \$9.9 billion in royalties (De Sa 2013). There are some other notable positive examples outside the EI sector. CSOs in Ghana have effectively used information and social accountability to drive improvements in government-provided health and agricultural programmes (Dogbe and Kwabena-Adade 2012). Similarly, in Uganda, a government-sponsored newspaper campaign using data on monthly education funding transferred to local districts led to improved enrolment and test scores (Reinikka and Svensson 2005).

More broadly, however, the literature suggests that information disclosure and transparency have had at best limited or mixed effects on social accountability efforts in developing countries. Some studies have found that voting patterns in developing countries can be influenced by information (Pande 2011), and that transparency can have a generally positive effect in promoting accountability (Kosack and Fung 2014). Sovacool et al. (2016), however, have found that EITI implementation has had no effect on a country’s governance performance, although they acknowledge that it may be too soon in the history of EITI to draw definitive conclusions. Mejia-Acosta (2013) points out that there is ‘no conclusive evidence’ to show that transparency-to-accountability initiatives (such as EITI) have contributed to better development outcomes from EI, and that the causal links between transparency and accountability in the EI sector have not been mapped out.

The effectiveness of transparency is also said to depend significantly on the particular political context in which the transparency data is introduced. Transparency cannot be used, in this analysis, to ‘shame the shameless’ (Fox 2007) and is unlikely to have much impact in autocratic regimes (Frynas 2010).

There is even some analysis to suggest that transparency and information disclosure can actually have a negative impact on social accountability efforts by *inter alia* creating ‘resignation’ rather than ‘indignation’ at the degree of governmental corruption revealed by the disclosures (Bauhr and Grimes 2014). Transparency can also lead to an *increase* in corruption, as it can be used to better identify which officials need to be bribed (Kolstad and Wiig 2009).

As noted at the outset of this discussion, there is a general view among practitioners and academics that transparency alone does not equate to accountability. Simply disclosing information will not produce the desired positive effect for social accountability that one would want to see. Political structures and imperatives can thwart the ability of civil society to make a meaningful impact on how EI revenues are managed (Collier 2010; Fuhr 2015; Keefer and Khemani 2004; Khemani 2007; Robinson et al. 2006). These political obstacles are in some cases deeply engrained in the political culture and history of particular countries. They also relate to the nature of extractive industries themselves, which require a greater degree of governmental intervention than other industrial sectors. Taken together, these obstacles can defeat even the best-designed policies and the strongest transparency regimes. To make large and powerful sectors such as extractive

industries accountable at the local level requires addressing—or at least managing—these issues in some way. I will discuss these obstacles in more detail in the next section.

#### **4 The politics of EI revenue distribution**

Ensuring that the benefits of extractive industries are captured at the local level requires an understanding of the inherently political nature of the management of these industries. Because of the direct role that governments must necessarily play in engaging with EI at all stages, opportunities for political manipulation are rife. This begins with the concessioning process, in which EI companies must purchase a permit to do exploration in a particular area. The permit is granted by the relevant government authority, often with no public consultation or other form of oversight.

Some countries require the redistribution of extractive revenues to affected communities to promote local development and compensate for damages caused by EI activities. Examples include Peru, the Dominican Republic, Ghana, DRC, and Burkina Faso. The full amount of revenue owed to local governments is rarely transferred to them, however. This can be due to bureaucratic inertia as well as political bias against redistribution held by central government elites who distrust local government officials. In Ghana, a study by the African Centre for Energy Policy found that political considerations, rather than efficiency or value for money, appear to have influenced the expenditure of oil revenues on infrastructure projects, resulting in only partially funded and incomplete road projects (ACEP 2013).

Politically motivated expenditure is of course not unique to the employment of EI revenues. It undoubtedly affects governance at least to some degree in all countries. Political ‘short-termism’—focusing on immediate short-term results rather than longer-term development plans—is also a common problem. Politicians are rewarded not for their long-term vision for development in a community, but for what they can deliver to the population today. This is a particularly concerning problem in the extractive industries context because of the non-renewable nature of the extracted resources. In most cases, communities will only have a limited time to benefit from those resources.

Development planning in rural areas of many developing countries where EI operations take place is often weak. Central governments often demonstrate little interest in promoting such development, because their own political and economic interests are centred in the capital city. Communities in extractive-affected areas are thus doubly marginalized by (1) suffering the impacts of extractive activity and (2) lacking the political clout to force national elites to address their problems and take action to ensure that benefits are effectively redistributed.

Extractive companies themselves contribute, wittingly or not, to the short-term political time horizons that exist in local communities. Companies’ commitments to a community usually exist only as long as their commercial interest. Whether a community actually improves its development prospects as a result of a company’s presence can be immaterial to the company’s business interests. This is not to suggest that companies are not genuinely interested in communities’ welfare. Some EI companies have worked to make positive contributions to local communities through the establishment of community foundations and training programmes, and the construction of infrastructure. But few of these kinds of investment continue after a project closes down, or even necessarily after one company sells the project to another. The company’s interests are thus also short-term (even if, as in some cases, they have a presence in the community for 50 years or more).



In light of these challenges of political structures and incentives, it is not easy to envision ways for civil society to overcome them. A key dilemma is for CSOs to engage with these political dynamics without also themselves becoming political (in the sense of politically ‘partisan’). The answers may also lie in increasing civic education about what good development and good governance look like. This could help to create demand for better long-term development planning, and for politicians who will articulate a vision for achieving it. Transparency and information disclosure, despite the limitations described above, could be a useful tool for strengthening this education process. In the next sections I will examine in more detail how these conflicting political imperatives play out in two specific cases: Peru and Ghana.

## 5 Ghana

Until recently Ghana enjoyed a reputation as an African ‘success’ story. Since undergoing structural adjustment in the 1980s, it has had good rates of economic growth and achieved lower-middle income status. It has significantly reduced poverty and improved access to education. The country is generally seen as stable and relatively non-corrupt, certainly in comparison with the ‘sorry mess’ that is its neighbour Nigeria (Burgis 2015).

Ghana is also a leading minerals producer: the second-largest gold producer in Africa after South Africa, and as of 2011 a mid-level oil producer. Natural resources produced \$1.2 billion in revenues for the government in 2015, according to the EITI. Despite this wealth and Ghana’s generally positive reputation for fiscal governance, there is a sense among observers inside and outside the country that it has not benefitted as much as it could have from its resource wealth, particularly from the 100+ years of industrial mining activity. The social and environmental impacts of large-scale mining have been severe, and poverty remains high in mining-affected areas. Indeed, Ghana’s star has dimmed over the last two years in the face of the collapse in oil prices, which forced the country to seek an International Monetary Fund bailout to cover the government’s borrowing against oil futures (Matthews 2016).

If one looks more closely at the Ghana case, one sees in its governance structures and practices a number of the entrenched political dynamics that militate against good resource revenue management at both the national and local levels. These dynamics are not unique to Ghana, but the country offers a particularly stark example, given its resource wealth and otherwise positive governance reputation. These will be discussed in some detail below.

Formally, the Ghanaian parliament has responsibility for approving budgets and, importantly, approving contracts between oil and mining companies and the government. In theory this role presents a potentially strong avenue for accountable management of the extractive sectors. In practice, however, the parliament is dominated by the executive branch, which controls candidate lists and awards loyal members of parliament with ministerial positions and all the financial benefits and trappings those entail (Oxfam America 2016a).

Ghana’s annual national budgeting process is largely a paper exercise. There are significant discrepancies between approved budgets and actual expenditures due to ‘off-budget’ expenditures that the executive branch makes after the formal annual budget has been approved. The role of members of parliament and the ability of civil society to influence the budget development process are limited (Oxfam America 2016a). The dominance of the executive branch over parliament in budgeting and other matters leads Ayee et al. (2011: 15) to state simply that ‘in practice, the parliament in Ghana is not an autonomous organ of the state.’

Even more starkly, members of parliament are often appointed to the boards of the local subsidiary of a mining company operating in their district. This has served to undermine the oversight function of parliament on mining activities and has strengthened members' support of the companies (Ayee et al. 2011).

At the local level, Ghana is governed by district assemblies (DAs), institutions that represent the most local-level governance entity in the country. These units were created as part of a decentralization process established with the return to democracy in 1993 following two decades of military rule. In theory, the DAs could be an effective unit of local-level governance and accountability of extractive industries. In reality, however, little progress has been made in giving the DAs real power and authority, and the president himself appoints one third of the DAs' membership, thus ensuring party loyalty to the president (Ayee et al. 2011). Moreover, Standing and Hilson (2013) describe a widespread perception of corruption in the assemblies among Ghanaians and development agencies.

Compounding the difficulties of effective oversight and governance of extractive industries at the local level is the presence of traditional authorities or chiefs. Local governance in Ghana is effectively a hybrid of traditional chieftaincy rule and a modern bureaucratic state system. Under the Ghanaian constitution, chiefs control local landownership and receive a direct disbursement of 20% of mining royalties. Thus the chiefs have a direct financial interest in mining activities, even though ostensibly their role as traditional leaders should require them to look after the interests of their entire community. These funds are used for 'expenditures other than those that benefit the local communities involved' (International Council on Mining and Metals 2007: 77). This conflict of interest has led chiefs in some cases to sell land to mining companies without the consent (or even knowledge) of the occupants. This has contributed to conflict and protest in some mining communities (Standing and Hilson 2013).

The accountability problems that Ghana experienced in managing its mining wealth led to a series of efforts to try to avoid such problems with the advent of the country's oil sector, which officially came online in 2011. Most notable among these was the creation of the Public Interest Accountability Committee (PIAC), which was included in the Petroleum Revenue Management Act passed in 2011. The mission of the PIAC is to oversee government management and expenditure of oil revenues. Its membership is comprised of representatives of Ghanaian civil society, trade unions, traditional leaders, and business groups. In principle, the creation of the PIAC was a major step forwards in resource revenue accountability. In practice, however, the PIAC has not been able to do its job effectively, as it has been starved of resources by the parliament. Some analysts have suggested that the Ghanaian executive only accepted the creation of the PIAC due to donor pressure on 'good governance' reforms, and from the beginning was not committed to its success (Oppong 2016).<sup>1</sup>

Despite the deeply engrained political and structural impediments, the cause of accountable resource revenue management at the local level in Ghana is not lost. Ghana is possessed of a vociferous and capable civil society, consisting of a broad range of organizations with expertise in community development, environment, human rights, and fiscal governance, among other issues. Civil society played an important role in getting Ghana to join the EITI and in the creation of the PIAC. In 2013, CSOs led a successful popular campaign with the title 'Oil for Agriculture', which convinced the Ghanaian government to commit 15% of oil revenues to small-scale agriculture (Offenheiser 2014).

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<sup>1</sup> See also the analysis of the macroeconomic problems that have resulted in Bawumia (2017, forthcoming).

In the Shama district in Ghana’s Western Region, the Ghanaian NGO Friends of the Nation has led innovative work in partnership with the DA to support participatory budgeting and public oversight of expenditure of oil revenues. Friends of the Nation has helped to organize various social accountability mechanisms, including a ‘people’s forum’ and town hall meetings with members of the DA to discuss budget and expenditure issues and development of district development plans. These efforts have resulted in increased expenditure in community development projects, a generally harmonious relationship with and favourable attitude towards the DAs of community members, and, according to one member of the DA, an increased willingness on the part of local citizens to pay their taxes to the DA, given that they believe that they have a meaningful voice in how their taxes are spent (Friends of the Nation 2016).

Whether these bright spots of civil society engagement in Ghana on EI fiscal governance are enough to significantly reshape the broader political dynamics surrounding these issues is an open question. Given its vibrant civil society, relatively subdued ethnic politics, lack of violent conflict, and open political system, Ghana would seem to stand a better chance than most resource-dependent developing countries. Ghanaian civil society may also be better placed than most to take advantage of the revenue disclosure data that will begin to become available. Nevertheless, the challenges even in Ghana remain steep. The experience of another resource-dependent country, Peru, offers another perspective on these challenges—one in which high levels of transparency have not been enough to overcome political obstacles to better deployment of natural-resource revenues at the local level.

## 6 Peru

Peru is an advanced minerals producer and middle-income country. Like Ghana, it has an active civil society engaging on EI issues from a variety of angles, including human rights, indigenous rights, environment, and fiscal governance. Also like Ghana, the country has struggled to translate its oil and mineral wealth into local-level development. The perceived lack of benefits to local communities from EI projects has driven a cycle of violent conflict around extractive projects that has affected the country over the past 15 years. The province of Cajamarca, home to Latin America’s largest goldmine and the recipient of \$700 million in mining revenues between 2010 and 2015, is now Peru’s poorest province (INEI 2015).

The conflicts within Peru’s extractive sector have occurred despite a relatively high degree of formal transparency in the sector. The Ministry of Energy and Mines publishes mining project revenue data on its website. The country has been compliant with the EITI since 2012. It scores 75 out of 100 on the Open Budget Index, equal to the UK and above Germany (Open Budget Index 2015).

Under Peru’s *canon minero* legal framework, 50% of mining revenues are to be transferred back to mining production areas. While this is potentially a very significant source of funding for local-level development, expenditure at that level has been problematic due to a lack of local government capacity, poor development planning, and political incentives for short-term spending (Arellano-Yanguas and Mejia-Acosta 2014).

Like Ghana, Peru has a dominant executive and a weak legislative branch that exercises little effective oversight over the executive. The government lacks the capacity and political will to effectively audit EI companies. The tax authority is unable to assess critical data such as production volumes, costs, and transaction prices (Oxfam America 2016b).

Peru's legislative weaknesses stem from the era of former President Alberto Fujimori, who gutted the authority of congress and established a patronage system in which members of congress depend on the executive for their seats. The auditing function of congress has become a 'political game' rather than being designed to hold the executive accountable for the appropriate management of the country's resources. Lack of public faith in political parties has made them largely transient entities that are unable to build the political will or public support to take on corruption and mismanagement. Analysts also describe a 'revolving door' between extractive companies and the government, such that government officials, some of whom have had oversight responsibility for the EI sector, leave to take jobs with EI companies (Oxfam America 2016b).

Peru's media is also heavily concentrated in the hands of a small elite. This is another legacy of Fujimori, who sought control of the media in order to eliminate it as an obstacle to his agenda, which was later revealed to be deeply corrupt and for which he was ultimately jailed (Durand 2016).

Participatory budgeting is widely practiced in Peru. Yet the costs of individual participation in budgeting processes can be high. The World Bank (2010) has estimated the costs of participation for a rural Peruvian in an entire year of participatory budgeting at \$195, or 95% of a monthly salary at minimum wage. McNulty (2012) has documented the limitations of the participatory budgeting process, including little engagement by women and women's organizations, complex technical rules, and a lack of formal sanction for politicians who do not carry out the participatory process in the spirit of the law.

The Ministry of Economy and Finance plays a particularly dominant role in the country's fiscal governance, including with regard to extractive industries. This ministry largely controls the national budgeting process. It also makes key decisions about the distribution of mining revenue under the *canon minero*, and can block the transfer of revenue to local governments. The congress is left 'acting like a beggar' vis-à-vis the executive branch, and has no effective control over it on fiscal issues (Mauro 2014).

The breakdown in formal accountability for the use of mining revenues is perhaps seen most starkly in the province of Ancash, home to Peru's largest mine, Antamina. Instead of funding local development priorities, mining revenues have helped to fuel rampant corruption and the creation of what has been called a 'mafia mini-state,' characterized by intimidation of the local media and judiciary, and contract murders of political foes of the provincial governor (Bajak 2014a; The Economist 2014). The district of San Marcos receives \$50 million per year in mining royalties, but there are no paved roads and no hospital (Bajak 2014b). Ancash is not an isolated case: in 2014, 22 out of 25 regional presidents were under federal investigation for corruption. By the end of 2014, three were in jail, two had resigned, and one was barred from holding public office (Oxfam America 2016b).

As noted above, Peru does get high marks by some transparency standards. Yet the implementation of this transparency is problematic. The country's law on access to information is often not complied with by public institutions (for which there is no effective sanction) and is ignored by private companies. There are also questions about the validity of the information that is disclosed by the government through various portals (Oxfam America 2016b).

Despite the deep challenges presented by Peru's rampant corruption, executive dominance, and weak formal accountability structures, CSOs have made some advances in promoting greater accountability of extractives revenue management. These include identifying discrepancies in the transfer of *canon minero* revenues and highlighting problems with the execution of projects carried out with *canon* funds. The disclosure of additional revenue data through mechanisms such as Dodd-Frank 1504 may further strengthen these efforts.

The Peruvian research organization Propuesta Ciudadana has done an analysis of two cases of local governance that perhaps hold interesting lessons for other countries. In Arequipa in southern Peru, they found that the presence of a regional president who was personally committed to open governance and transparency was an important factor in more effective management of mining revenues in the region. In the northern Peruvian department of San Martín, Propuesta's research concluded that the relatively strong governance performance of the regional government was at least in part connected to investment in governance support by the US Agency for International Development, which was channelled as a result of US interests in fighting coca production in that part of Peru (Grupo Propuesta Ciudadana 2015).

The cases of Ghana and Peru demonstrate the deeply entrenched challenges of political economy to the effective deployment of extractive industries revenues at the local and national levels. These challenges reflect the history and structures of the respective states and their surrounding political cultures. They also reflect internal power dynamics that link to the nature of extractive industries themselves and their geographies (as described above). Addressing these challenges goes beyond the extractive industries, of course, but in countries like Peru and Ghana that are dependent on these industries the path to effective state functioning necessarily runs through them. In the final section I will address how CSOs (and others) can apply knowledge of these political contexts to promoting greater accountability of the extractive sectors for local development.

## **7 Strengthening the role of civil society in capturing local benefits**

Ensuring that extractive industries projects produce benefits at the local level for the communities on which these operations impact most directly is one of the most difficult questions in the broader field of extractives' role in development. There are few positive examples globally; success stories in poorly governed developing countries are even scarcer. As noted above, this has to do with a number of factors, including the destructive nature of the industries themselves, the mechanisms by which they generate wealth and concentrate it in relatively few hands, governance weakness across the entire production chain, corporate time horizons, and large information asymmetries among key stakeholder groups (governments, companies, and communities.) The deeply political nature of decision-making around these industries, in which poor and politically marginalized communities lose out to elite interests and intranational power dynamics, also work to limit the benefits that communities obtain.

Transparency and social accountability are in theory a mechanism to push back against these dynamics and empower affected communities to reclaim a fairer share of the benefits derived from resources taken from their lands. However, as described above, transparency does not automatically equate to accountability. The barriers to participation in social accountability initiatives, especially in developing countries, can be high, including time taken away from work and family, and the understandability of the information itself. There is also evidence to suggest that there is a gender bias in such initiatives that impedes the effective participation of women (Bradshaw et al. 2016).

The solutions to these problems will undoubtedly vary significantly according to each case. Getting governments to care about their populations and make decisions in their best interests rather than on parochial political concerns is perhaps the defining problem of political development. It is also key to ensuring that extractive industries provide more benefits to local communities. I propose four broad areas of action that, if focused on in the right contexts, could potentially produce momentum for achieving positive change. These are: (1) strengthening civil society's technical capacity; (2) providing civic education; (3) focusing on countries with a minimum level of

governance capacity; (4) identifying and promoting learning from legitimately positive examples. I will take each of these in turn.

## **7.1 Strengthening technical capacity**

As described above, a wide variety of types of organization engaging with extractive industries come under the general rubric of ‘civil society’. They vary in their focus and objectives. Standing and Hilson (2013) note that in Ghana urban-based and professionalized NGOs funded by foreign donors do not necessarily represent the interests of affected communities, although they may claim to do so. This is also an issue in other EI-dependent countries such as Peru.

Notwithstanding these caveats, civil society has played a key role in driving change in the EI sector (as seen in the Peru and Ghana cases). However, in many cases they face serious limitations of resources and technical capacity. This is particularly the case with regard to their ability to analyse technical data, including the terms of production contracts, national and local municipal budgets, and environmental impact assessments. In recent years, working with the support of some global NGOs and technical experts, local CSOs have been able to engage on these issues and produce alternative technical analyses that have helped to reframe public debate on EI governance issues (Cordaid et al. 2016; Moran 2001).

The ability of CSOs to prepare these kinds of analysis should be strengthened and made more sustainable. At present, much CSO technical analysis is provided by non-indigenous experts, who do not necessarily build local capacity. The creation of an independent technical support funding mechanism to support the production of technical analyses—and to build local capacity—would be an important innovation that could help to address the asymmetries that so deeply characterize the EI sector. This would include analysing and employing revenue disclosure data. The goal could be the development of a global cadre of independent, national technical EI experts, with some means of remuneration to sustain their work and avoid the temptation of deploying their technical skills for well-paying EI companies.

Technical data analysis skills within local CSOs will also become even more important as more revenue disclosure data becomes available. Also important are political analysis skills that will enable CSOs to identify opportunities for utilizing the data to drive policy change processes that might ultimately result in more benefits being delivered to local communities. Similarly, engaging with the local media and building its capacity to understand and report on these issues is also essential for generating informed public opinion and mobilizing it to promote change.

## **7.2 Providing civic education**

Governance is poor in most developing countries. Governments fail to provide basic public services such as security, infrastructure, healthcare, and education. Likewise, populations may be conditioned to expect poor performance from government, and may not be fully aware of what they have a right to expect from their governments in terms of service delivery. This can create a vicious circle in which poor services lead to lowered expectations, which create more poor services as such services become the norm. Breaking out of this cycle requires education and information about community rights and what good governance performance can and should look like.

Even taking into account the limitations of transparency described above, transparency can be an important complementary tool alongside education. Armed with (1) an awareness of what good governance is and (2) information to help demand better performance, citizens can press their

governments for better delivery. To be effective, data yielded by transparency initiatives must be plugged into a deliberate influencing strategy and approach. Data on its own will not be sufficient to produce the desired outcome of greater accountability and delivery of services. CSOs and donors could better coordinate around promising cases that have realistic possibilities of converting into success stories.

### **7.3 Focusing on appropriate countries**

In selecting such contexts, it is important to recognize that for some countries, it may simply be too politically difficult to try to fix the problems of the mismanagement of extractive industries. A minimum threshold level of governance is likely required for transparency and other interventions to have positive prospects. This observation is consistent with one of the key recommendations of the World Bank's Extractive Industries Review, which called for 'explicit core and sectoral governance requirements' to be met before the World Bank Group invested in an extractive project (Extractive Industries Review 2003). It is also consistent with observations that transparency is unlikely to have much effect in autocratic regimes.

It may be better for donors and CSOs to focus their efforts in countries with the best chances of progress. This does not mean 'writing off' some countries permanently. It would mean, however, not attempting to address resource mismanagement issues in countries where the current political contexts are such that they likely pose insurmountable obstacles to success. As describe above, Peru and Ghana, although facing significant governance challenges, are democratic and possess vibrant civil societies. These conditions would suggest that addressing the problems of persistent rural poverty and poor service delivery should not be beyond the grasp of Peruvian and Ghanaian society. In such contexts, civic education focusing on the 'demand' side of good governance and what citizens have a right to expect (as described above) could potentially bear fruit.

### **7.4 Promoting positive examples**

If Peru and Ghana were ultimately to become examples of good resource governance, it would be critically important to ensure that those lessons were widely shared and adapted as appropriate to other contexts. In general, the power of positive examples should be better harnessed to demonstrate what is possible in addressing the political aspects of resource governance. Currently there are few positive examples of effective national-level natural-resource management in developing countries beyond the oft-cited cases of Chile and Botswana. Relatively little effort has been made to unpack these cases and examine what lessons might (or might not) apply to other countries seeking to implement effective national natural-resource revenue management policies. It would be useful to expand the universe of positive examples to find elements of effective resource revenue management at the national level that could be highlighted and studied more thoroughly.

Clearly, the simple existence of a handful of positive examples alone will not be enough to override the political forces that militate against the effective use of resource revenues in developing countries. The learning from these examples needs to be analysed and adapted, where feasible, to other contexts. At present, however, too little is known about what can work in governance-challenged resource states (Ross 2014). Greater coordination among donors could also be beneficial in this realm. Rather than dispersing their efforts across a wide range of countries, it could make sense for the bilateral and multilateral donors referenced above to coordinate their EI and development initiatives more to focus in on a select group of promising cases. Donor countries could also do more to make their own EI companies more transparent and accountable. This is

particularly true for countries such as the US, Canada, Australia, and China, which have significant EI interests in developing countries.

## 8 Conclusion

Resource-rich developing countries are at an important ‘moment of truth’. Over the past 20 years a massive amount of analysis has been done on the ‘resource curse’ and the development of policy tools and recommendations to address it. Transparency is one such tool although, as discussed above, it is far from being a magic bullet for natural-resource management issues. Despite the volume of analysis and the tools developed, resource-rich countries generally did not use the recent commodities price boom (2002–13) to their full advantage to reduce poverty and diversify their economies. Added to this, we are now amidst a commodities price downturn that analysts believe may be long-term. This is combined with a renewed push to phase out the use of fossil fuels in order to stave off the worst effects of climate change. While undoubtedly in the best interests of the planet, such a phasing-out will have significant development repercussions for countries that depend on the export of oil, gas, and coal (Caney 2016).<sup>2</sup>

The scenario described above is not necessarily encouraging for resource-dependent countries, or for civil society efforts to try to ensure that local communities capture more of the benefits produced by extractive industries. On a more positive note, however, the years of analysis have identified how governments can ‘get it right’ with regard to the management of their extractive sectors. This provides the basis for civil society and others to engage with governments and companies to try to ensure that this happens. Whether governments will chose to do the right things (about which they can no longer plead ignorance) comes down now to questions of politics. Civil society will ultimately succeed or fail in driving better development outcomes from EI investments to the extent to which it can effectively engage with, and in some cases overcome, these political dynamics.

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<sup>2</sup> See also the paper for this project by Ouedraogo et al. (2017, forthcoming).



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