

State Capture & the Challenge of Governance around the World:

What the evidence tells us – and a rethink?

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www.resourcegovernance.org

***Lecture at the School of Economics,
University of Cape Town,
Friday, September 21st, 2018***

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

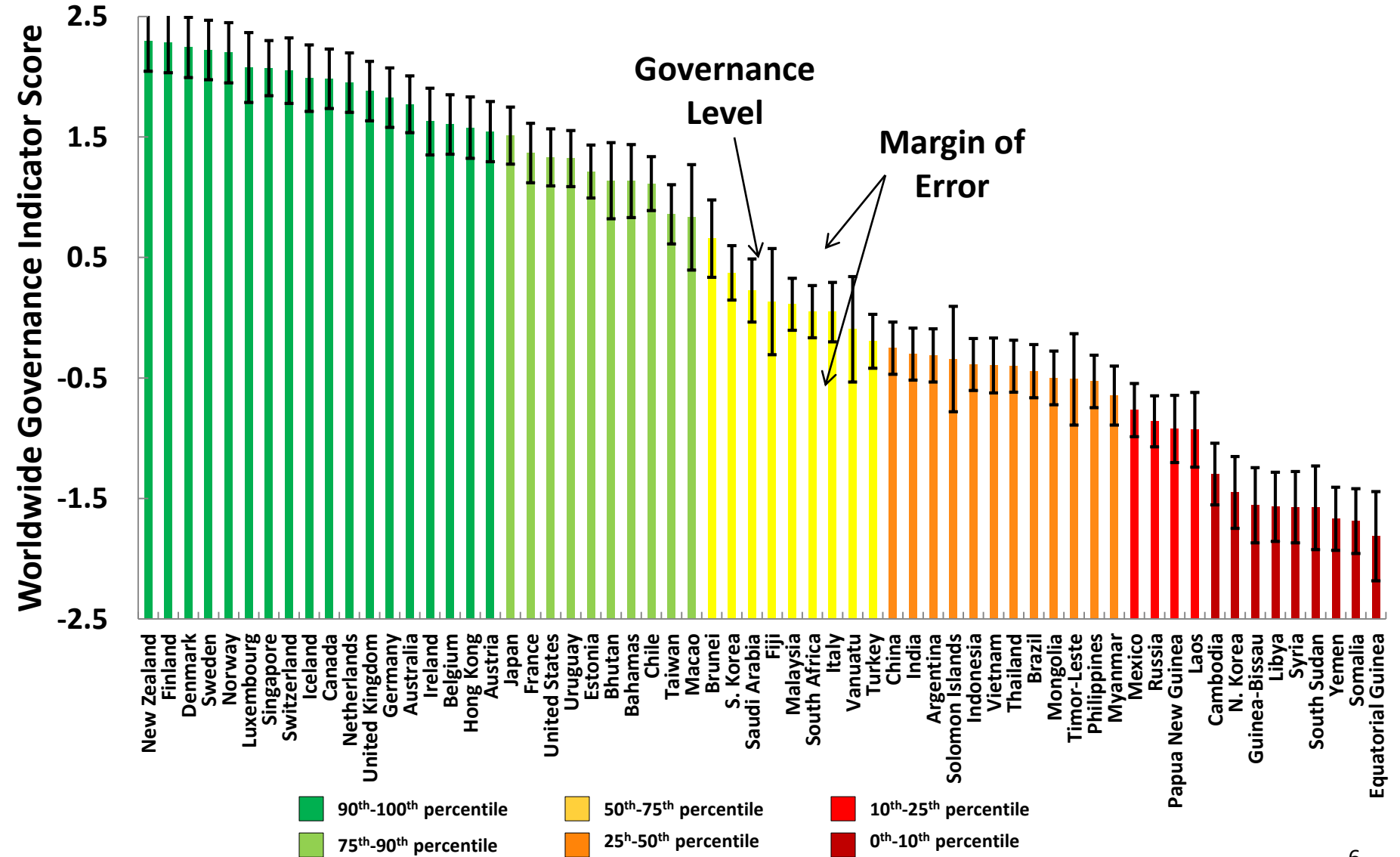
- Data on six dimensions of governance covering well over 200 countries from 1996 until the present
- Synthesis of hundreds of underlying indicators taken from about 30 different data sources
- Aggregate and individual indicators available at www.govindicators.org, about largest publicly-available governance 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

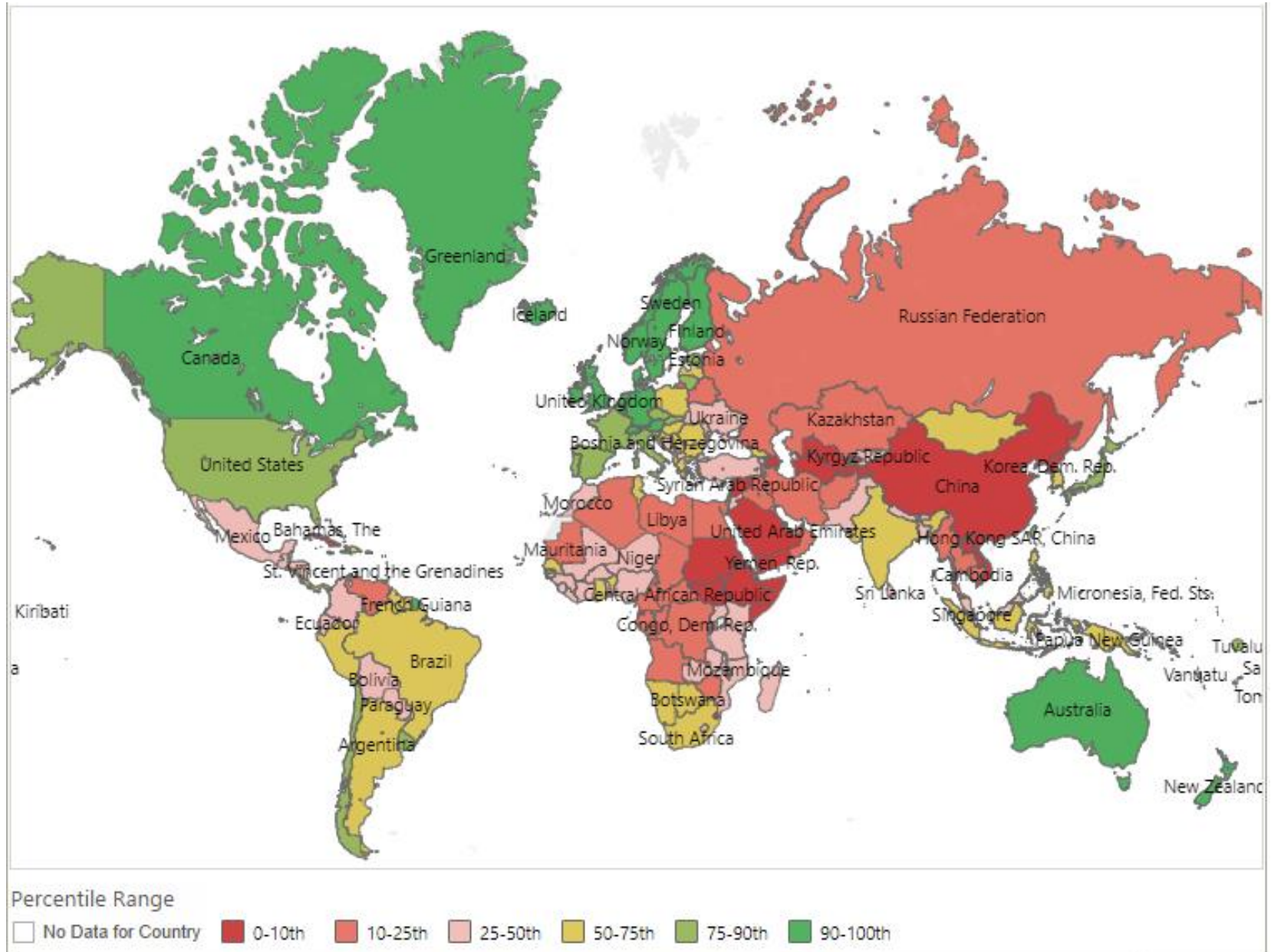
WGI Control of Corruption: Select Countries, 2016

Good Corruption Control

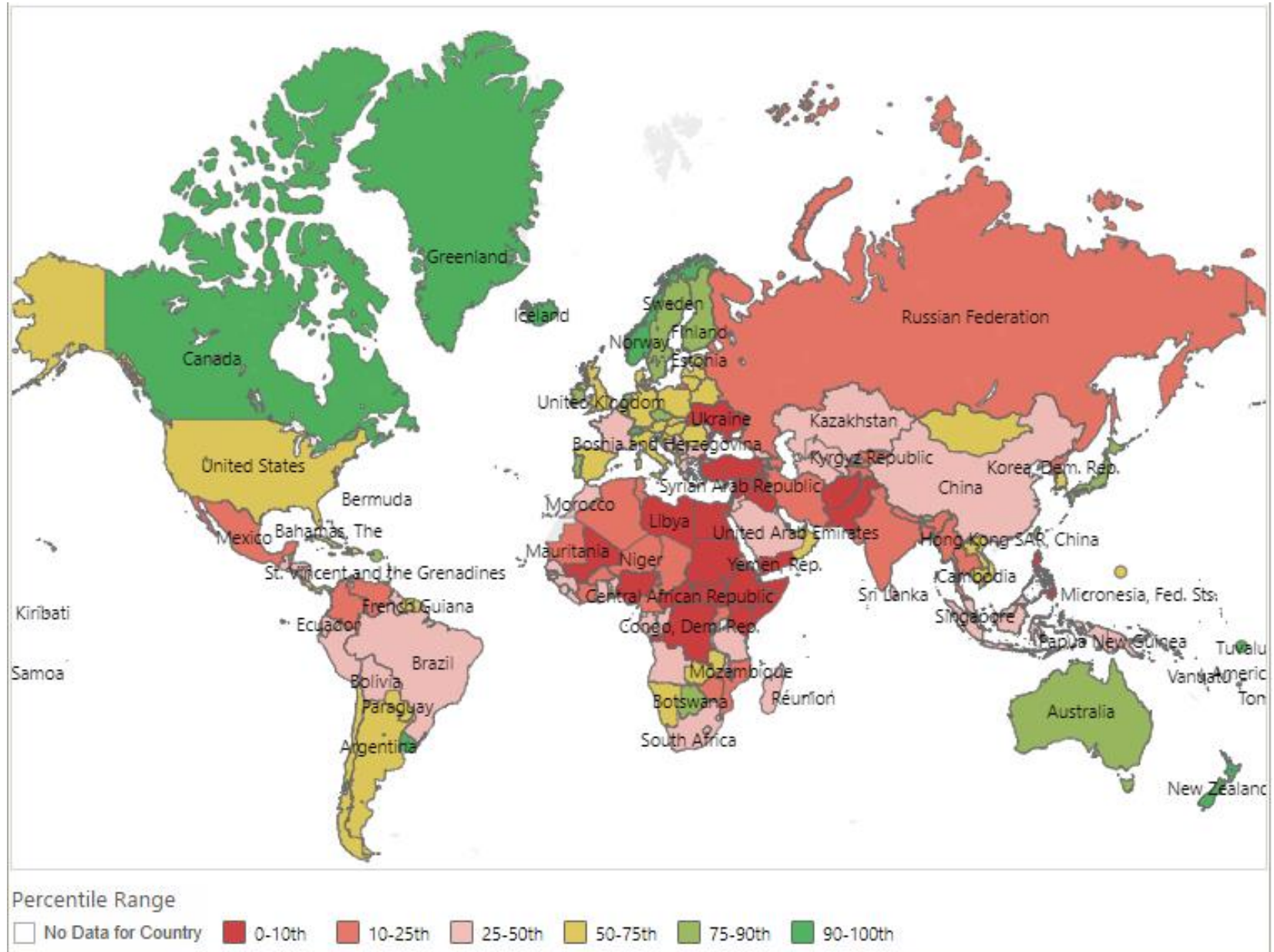


Source: Kaufmann, Daniel, Kraay, Aart and Mastruzzi, Massimo, The Worldwide Governance Indicators: Methodology and Analytical Issues (September 2010). World Bank Policy Research Working Paper No. 5430. Available at SSRN: <http://ssrn.com/abstract=1682130>

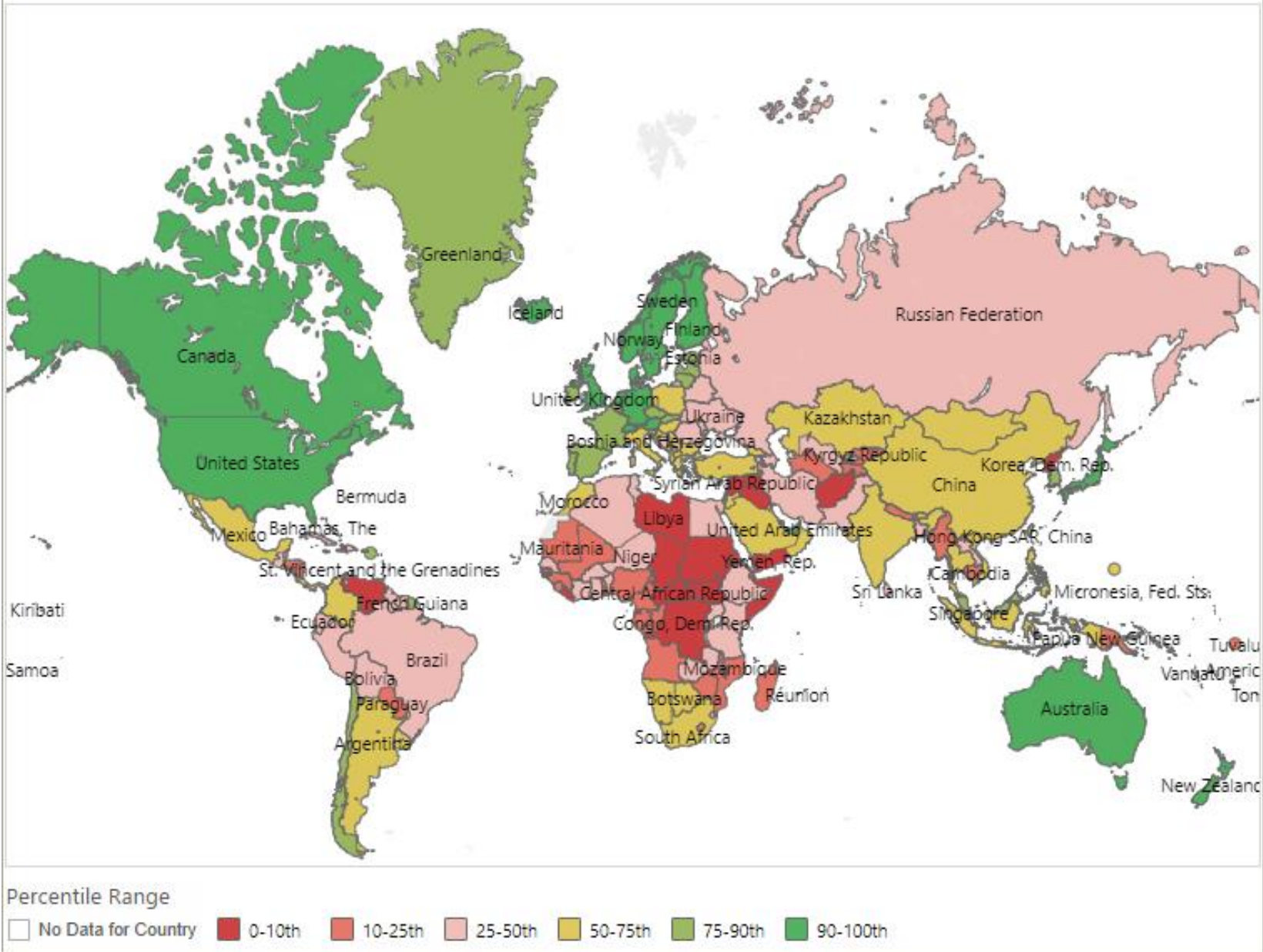
2016 Voice & Accountability



2016 Political Stability & Absence of Violence/Terrorism

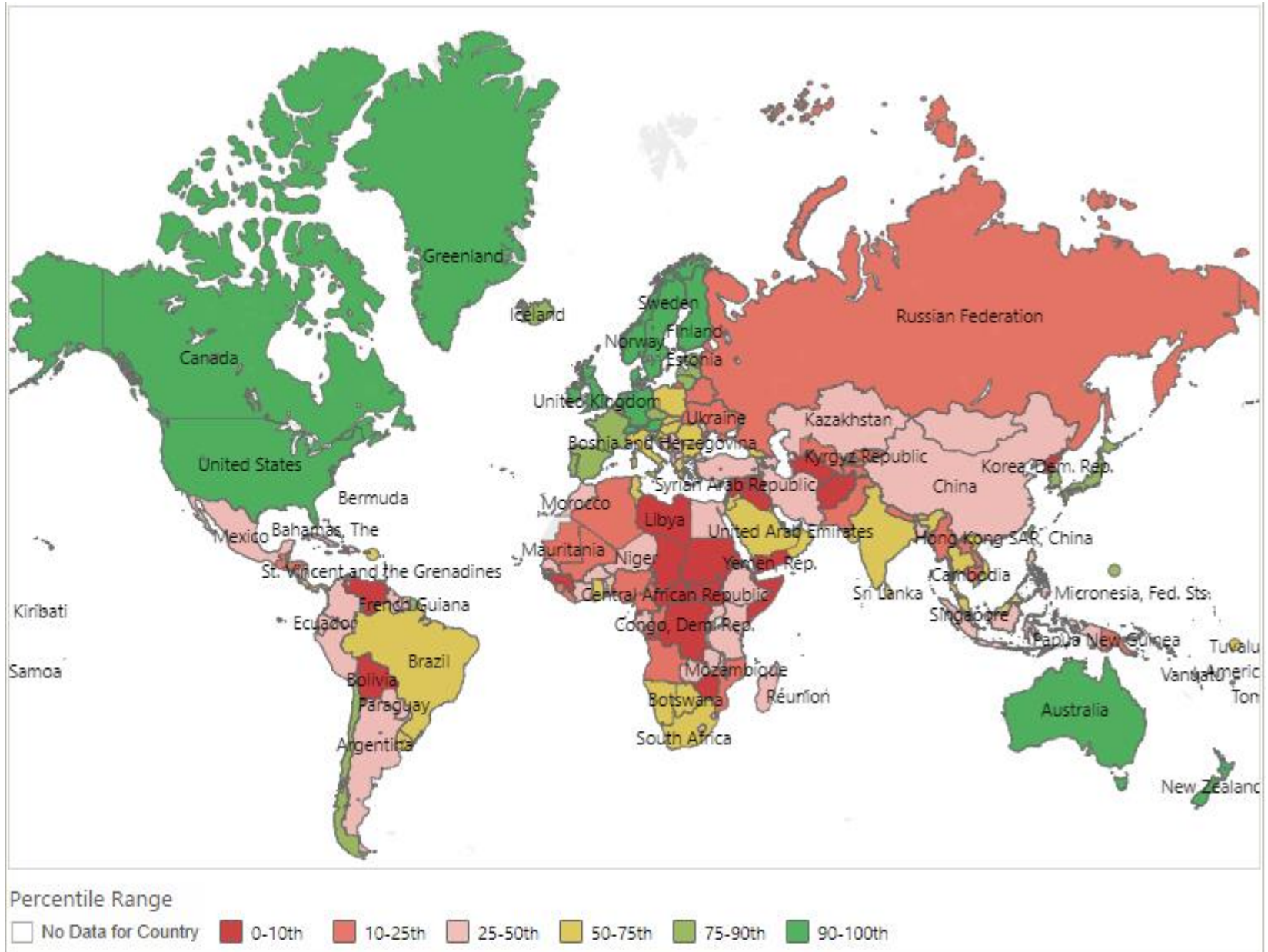


2016 Government Effectiveness

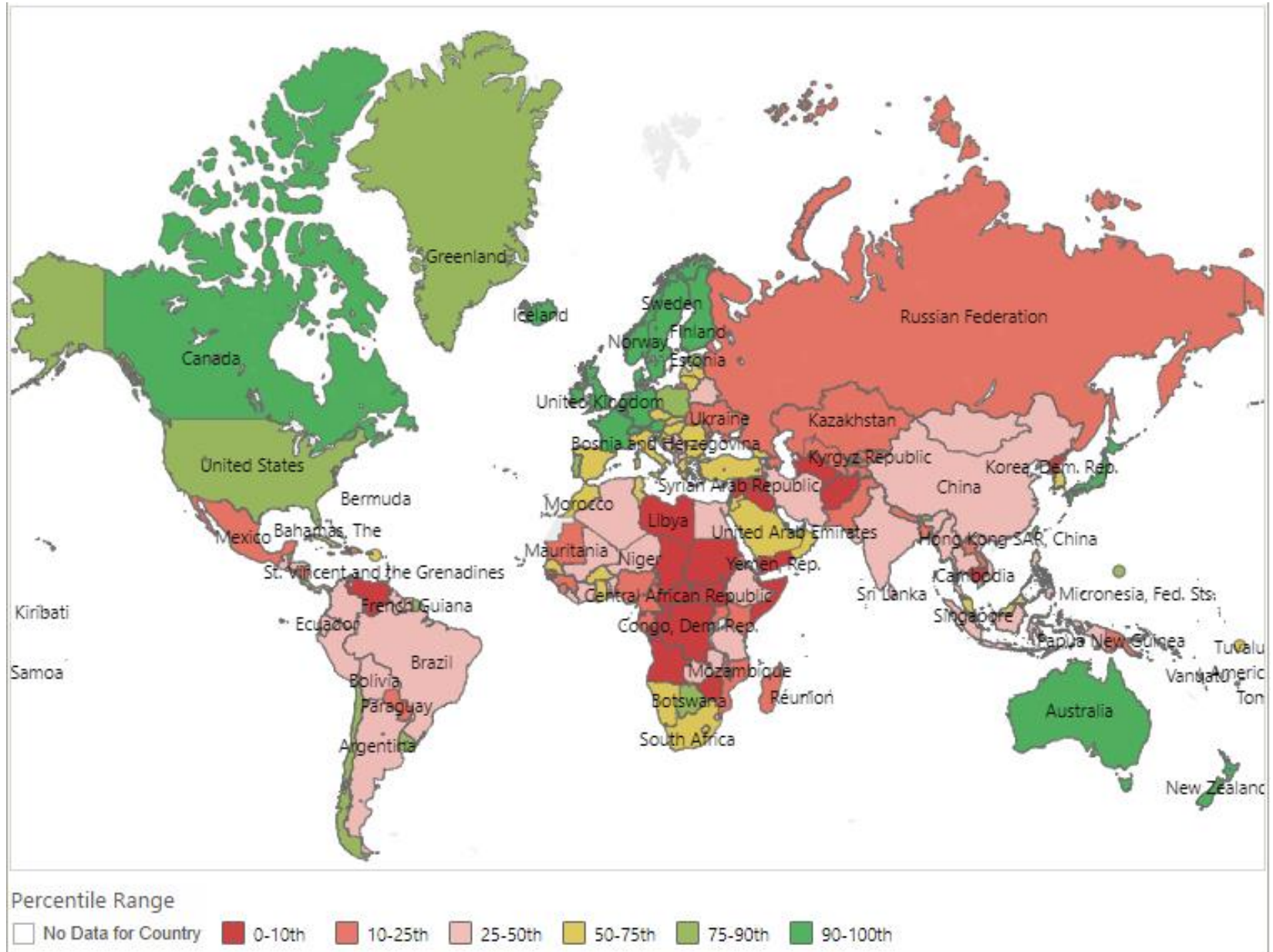


Source: Worldwide Governance Indicators (www.govindicators.org)

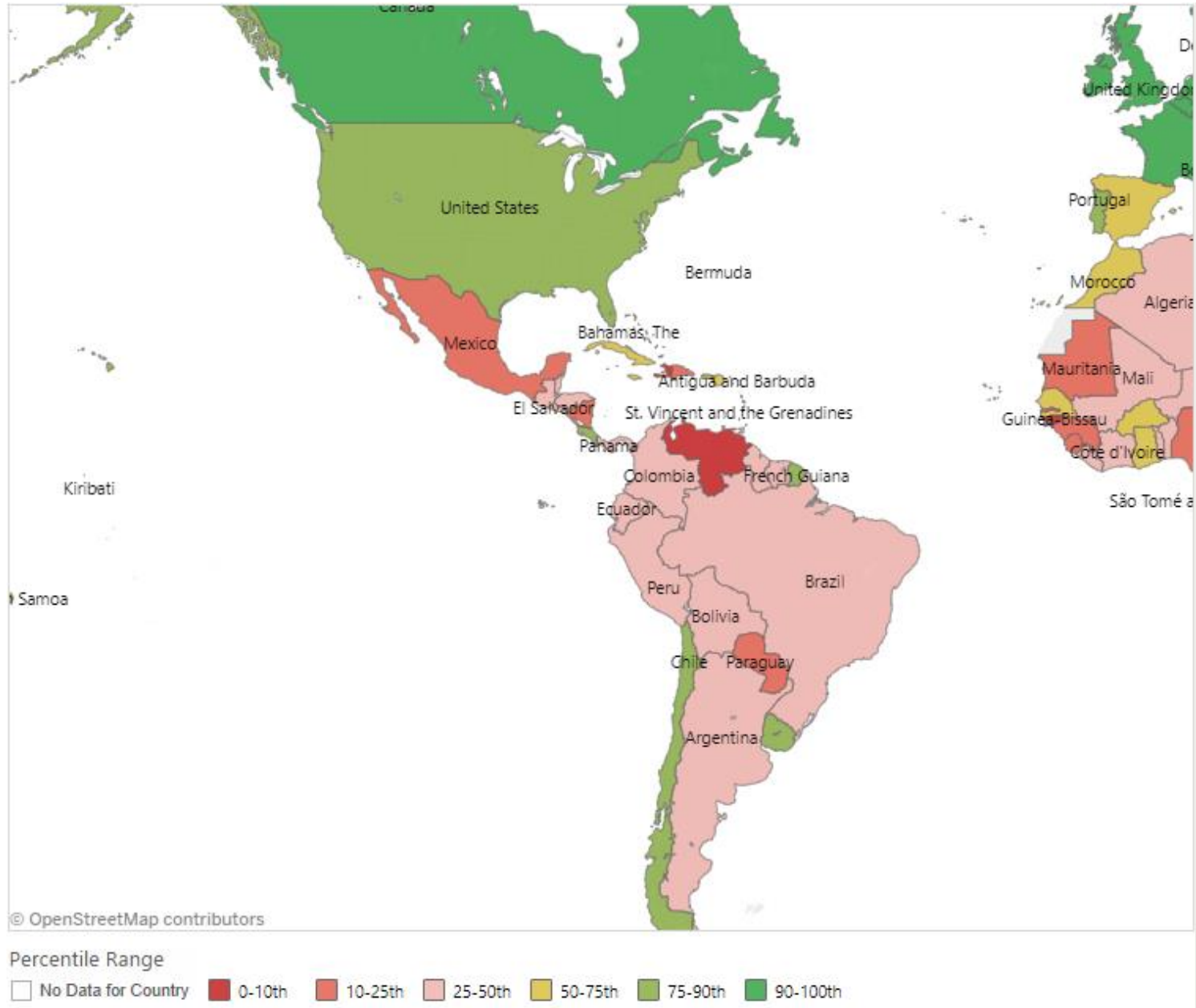
2016 Rule of Law



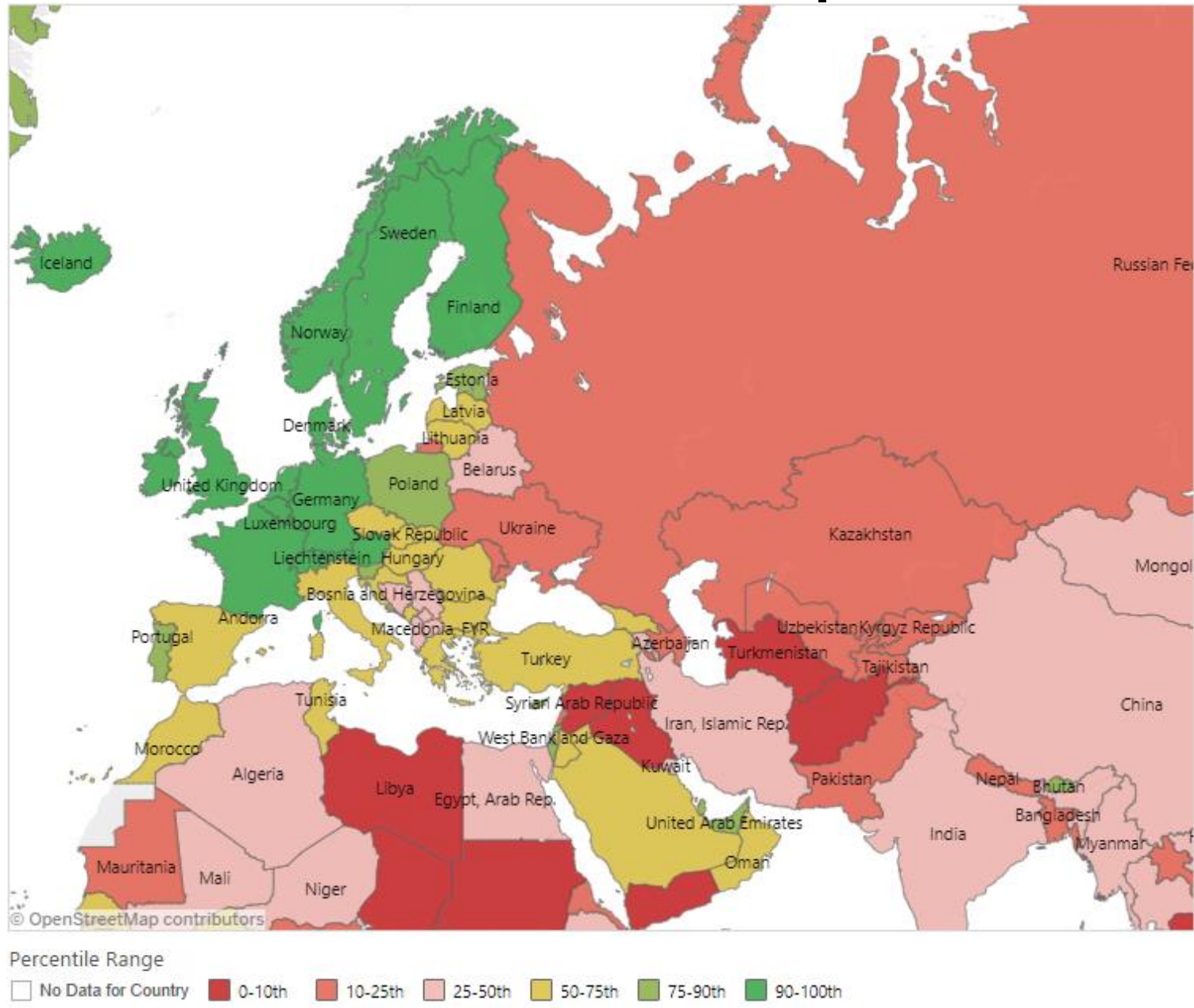
2016 Control of Corruption



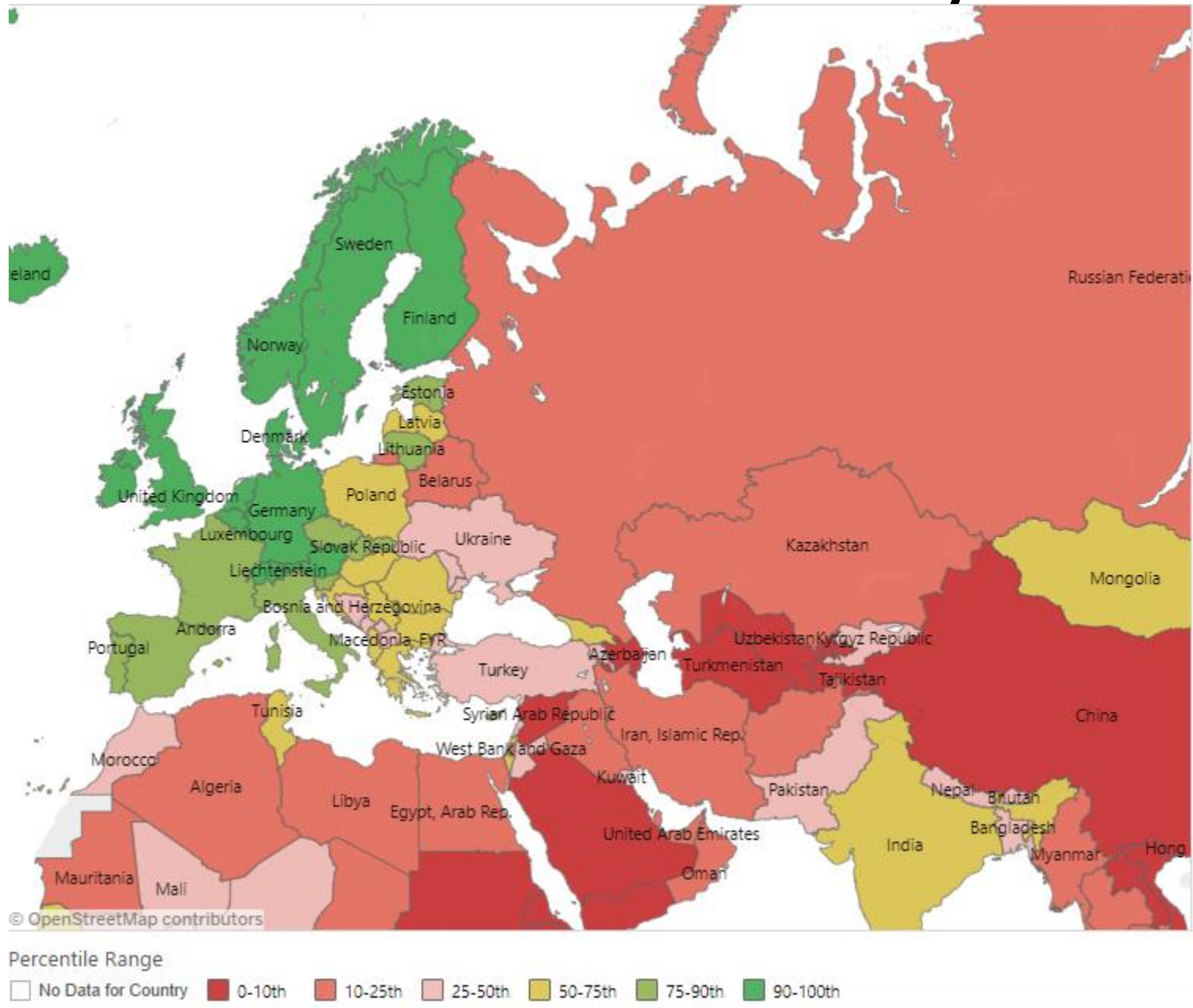
2016 Control of Corruption



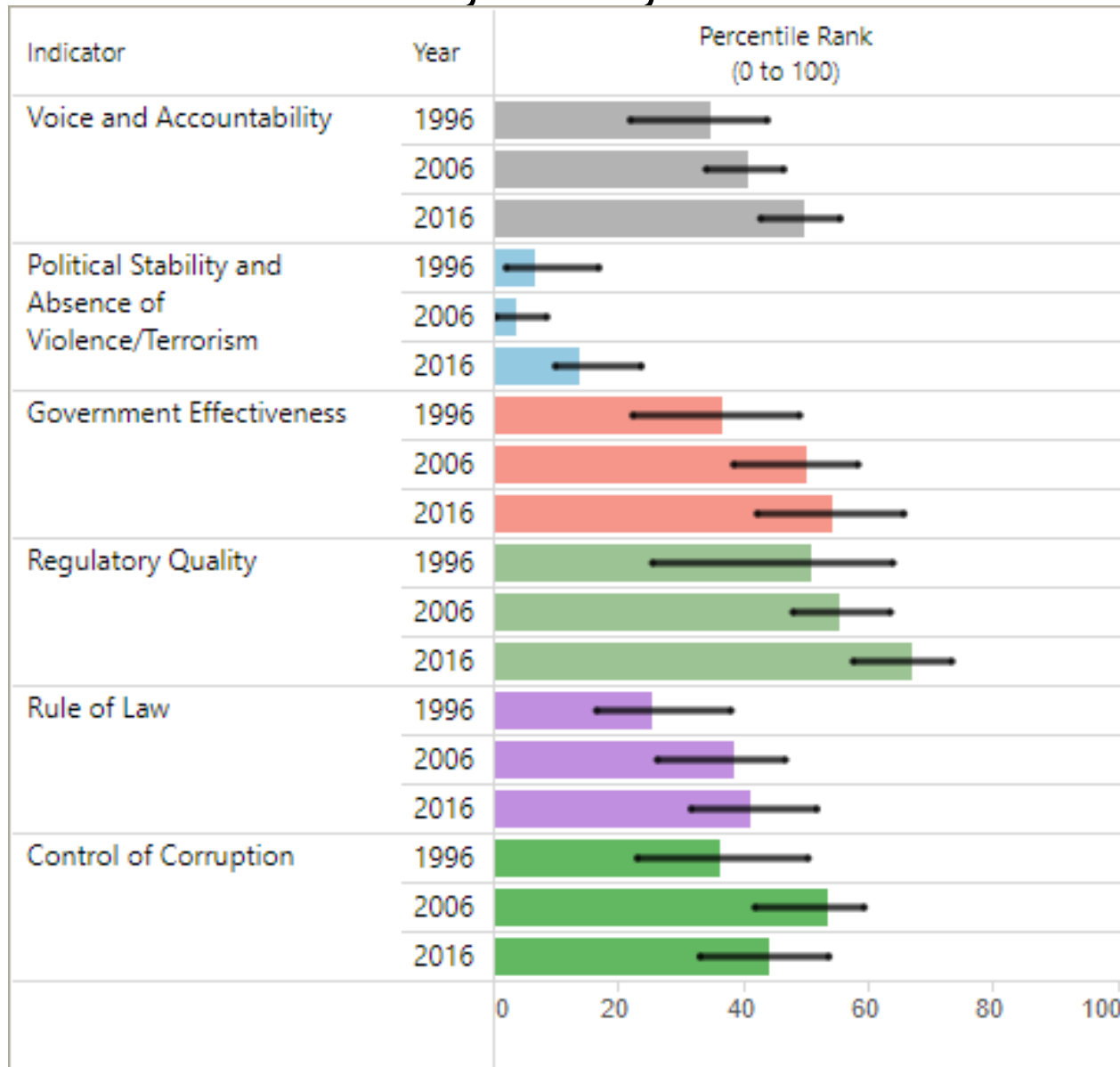
2016 Control of Corruption



2016 Voice & Accountability

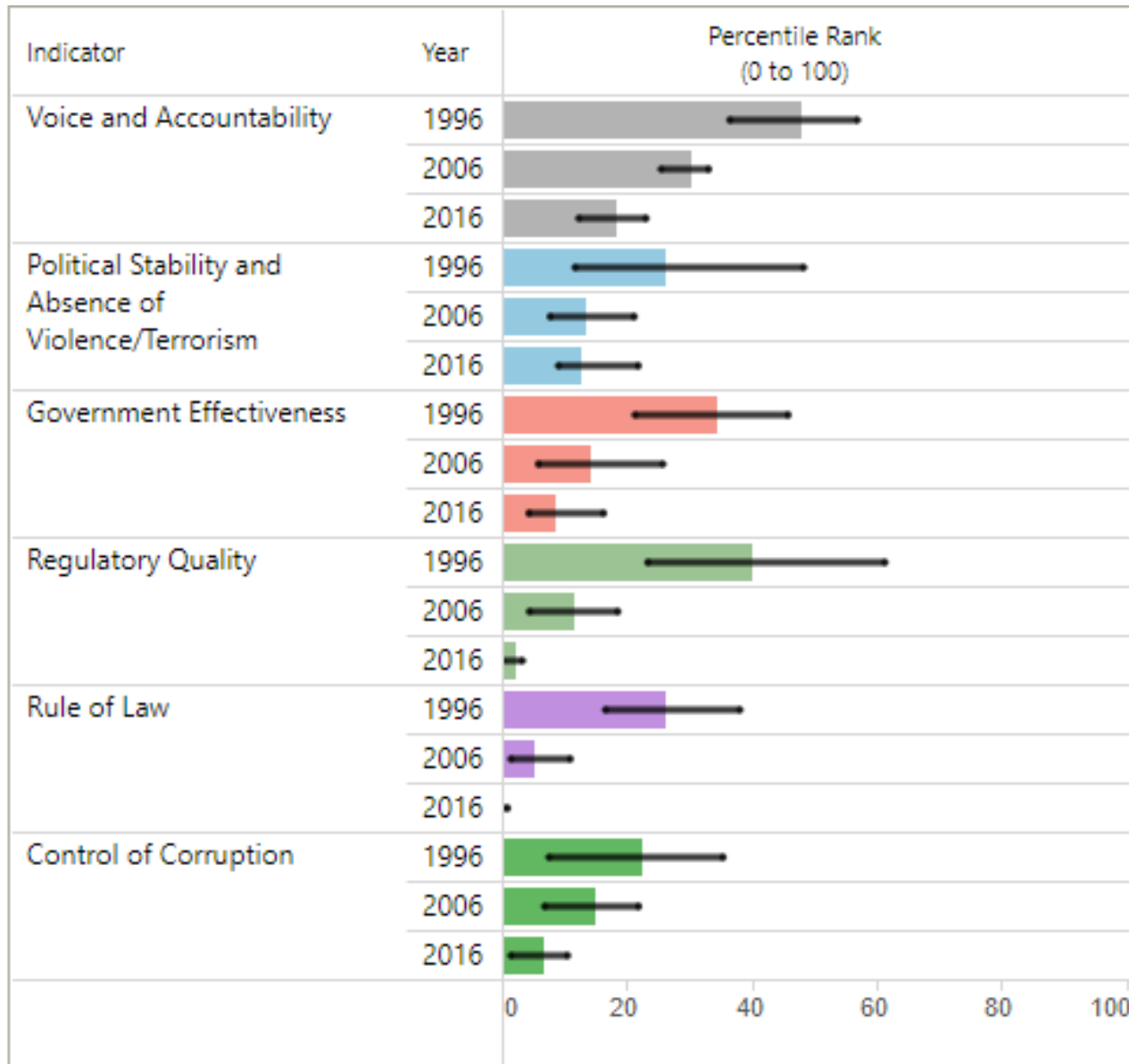


Worldwide Governance Indicators for Colombia: 1996, 2006, 2016



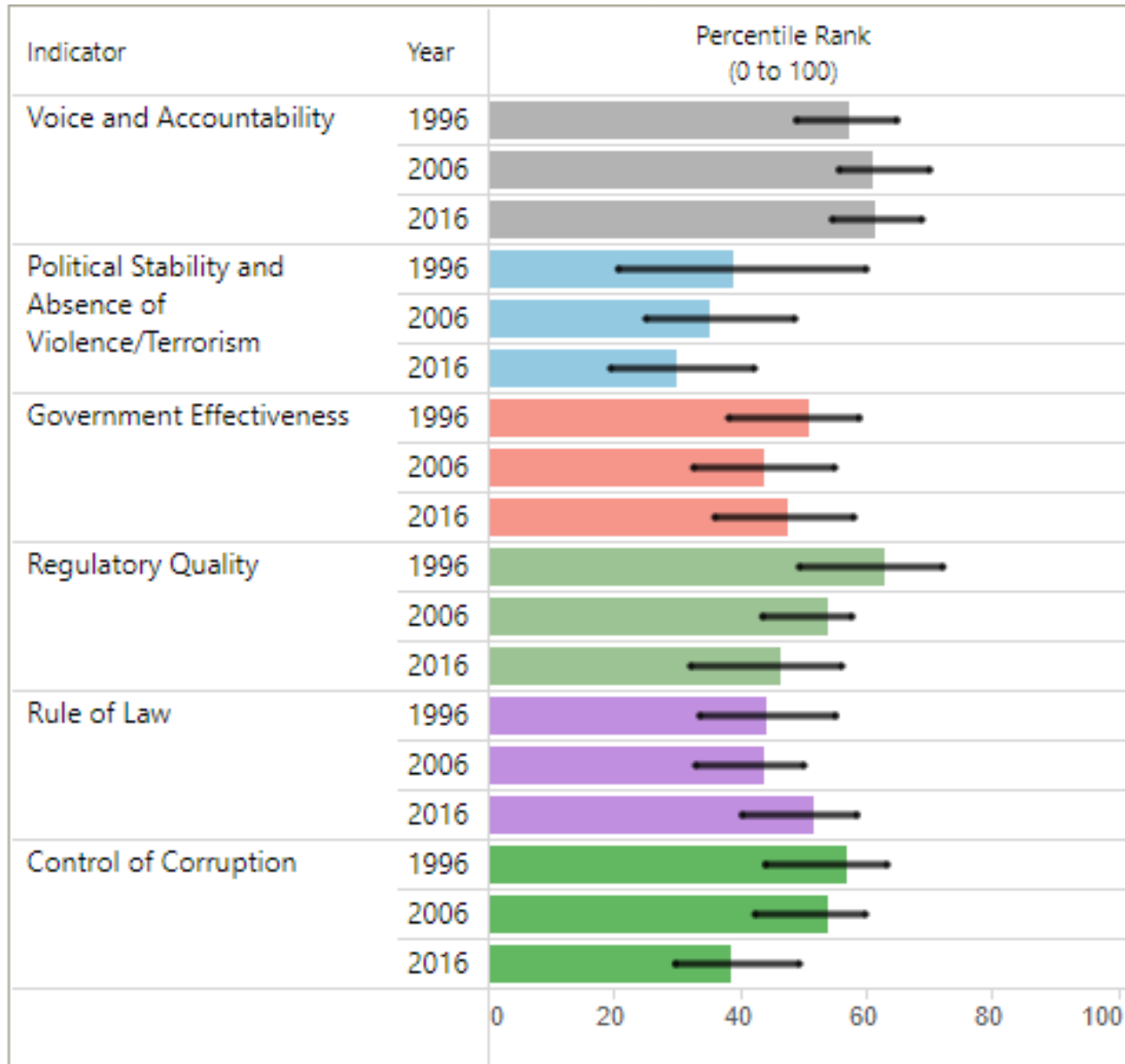
Source: Kaufmann, Daniel, Kraay, Aart and Mastruzzi, Massimo, The Worldwide Governance Indicators: Methodology and Analytical Issues (September 2010). World Bank Policy Research Working Paper No. 5430. Available at SSRN: <http://ssrn.com/abstract=1682130>

Worldwide Governance Indicators for Venezuela: 1996, 2006, 2016



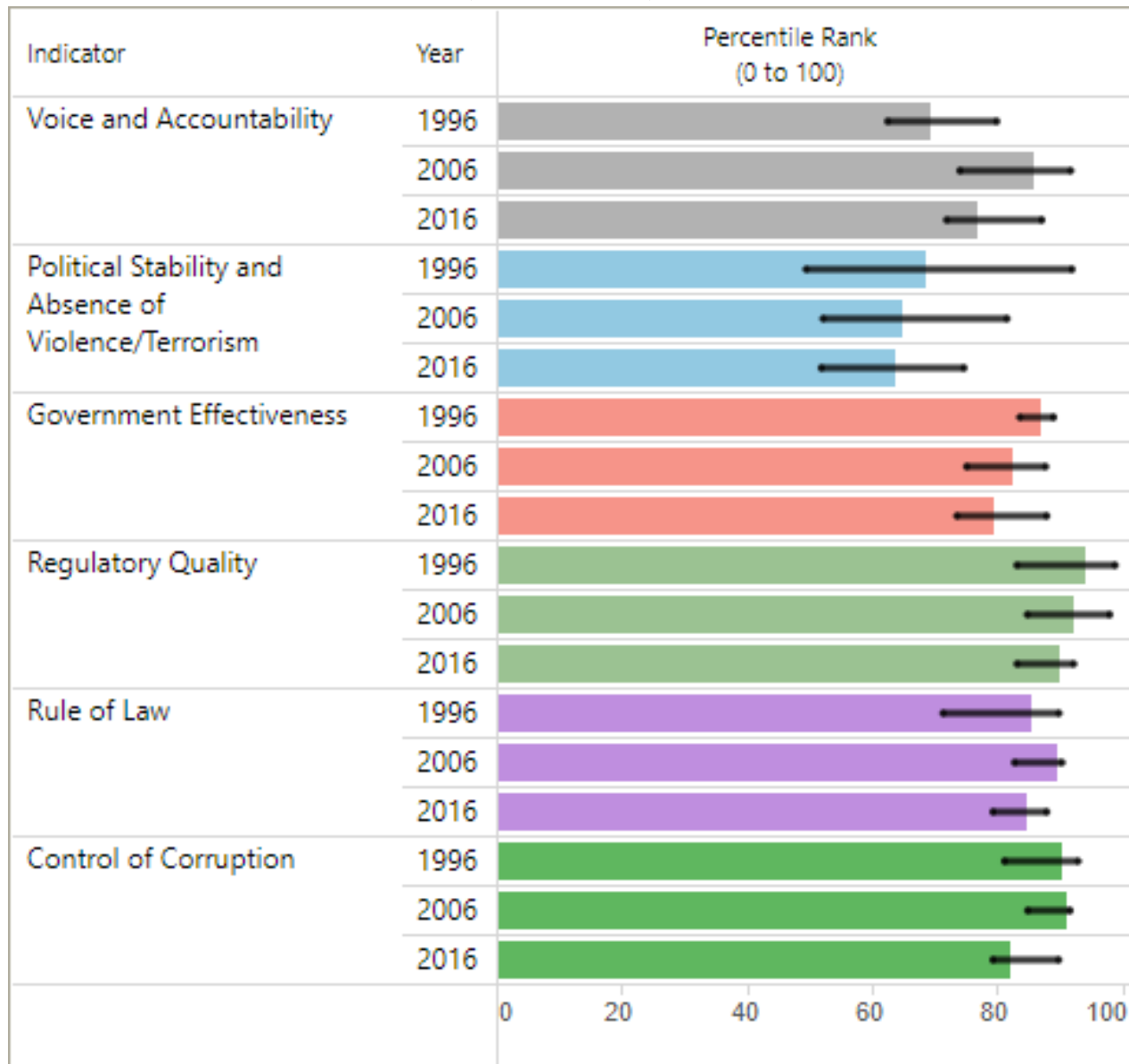
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Worldwide Governance Indicators for Brazil: 1996, 2006, 2016



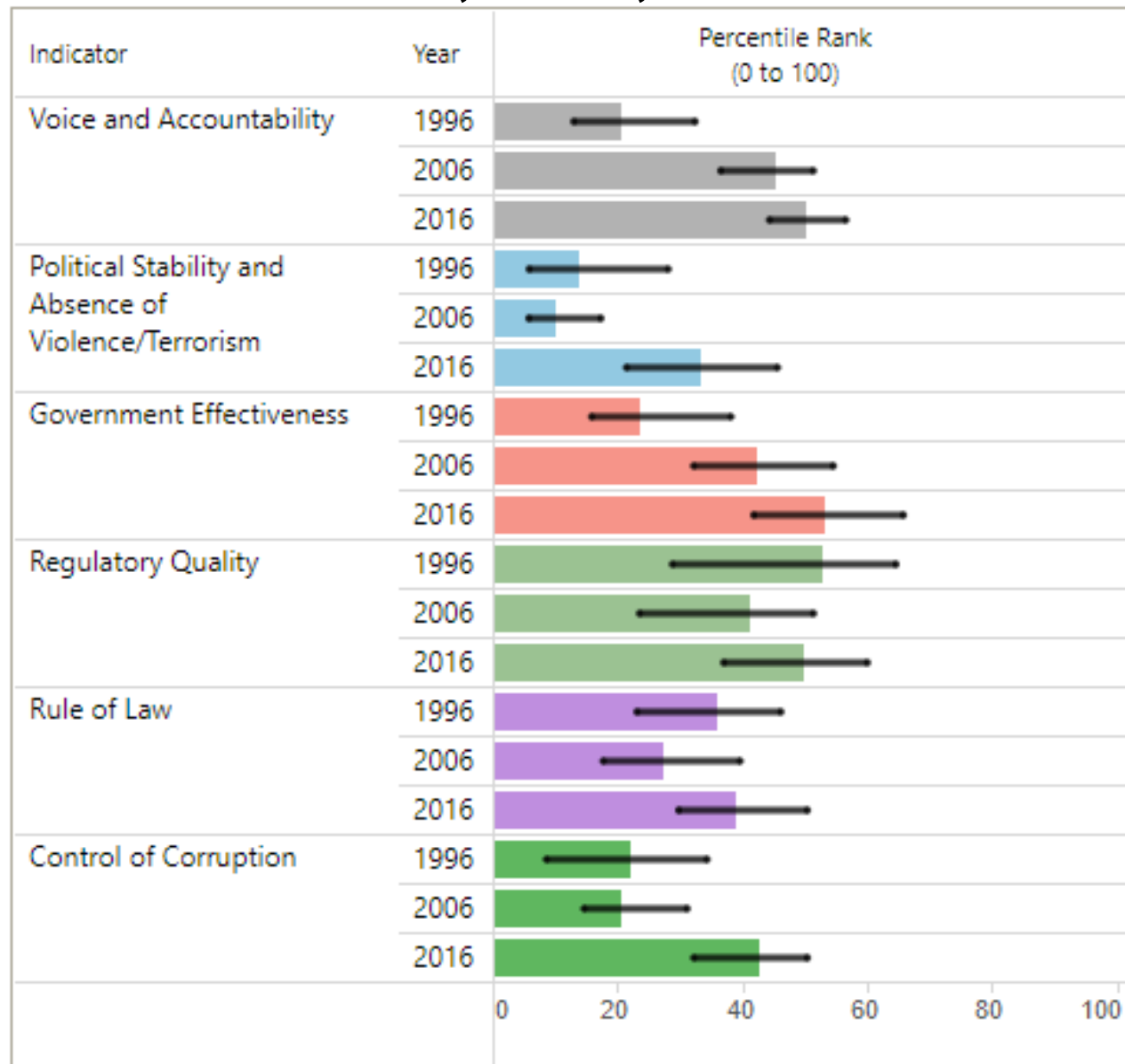
Source: Kaufmann, Daniel, Kraay, Aart and Mastruzzi, Massimo, The Worldwide Governance Indicators: Methodology and Analytical Issues (September 2010). World Bank Policy Research Working Paper No. 5430. Available at SSRN: <http://ssrn.com/abstract=1682130>

Worldwide Governance Indicators for Chile: 1996, 2006, 2016



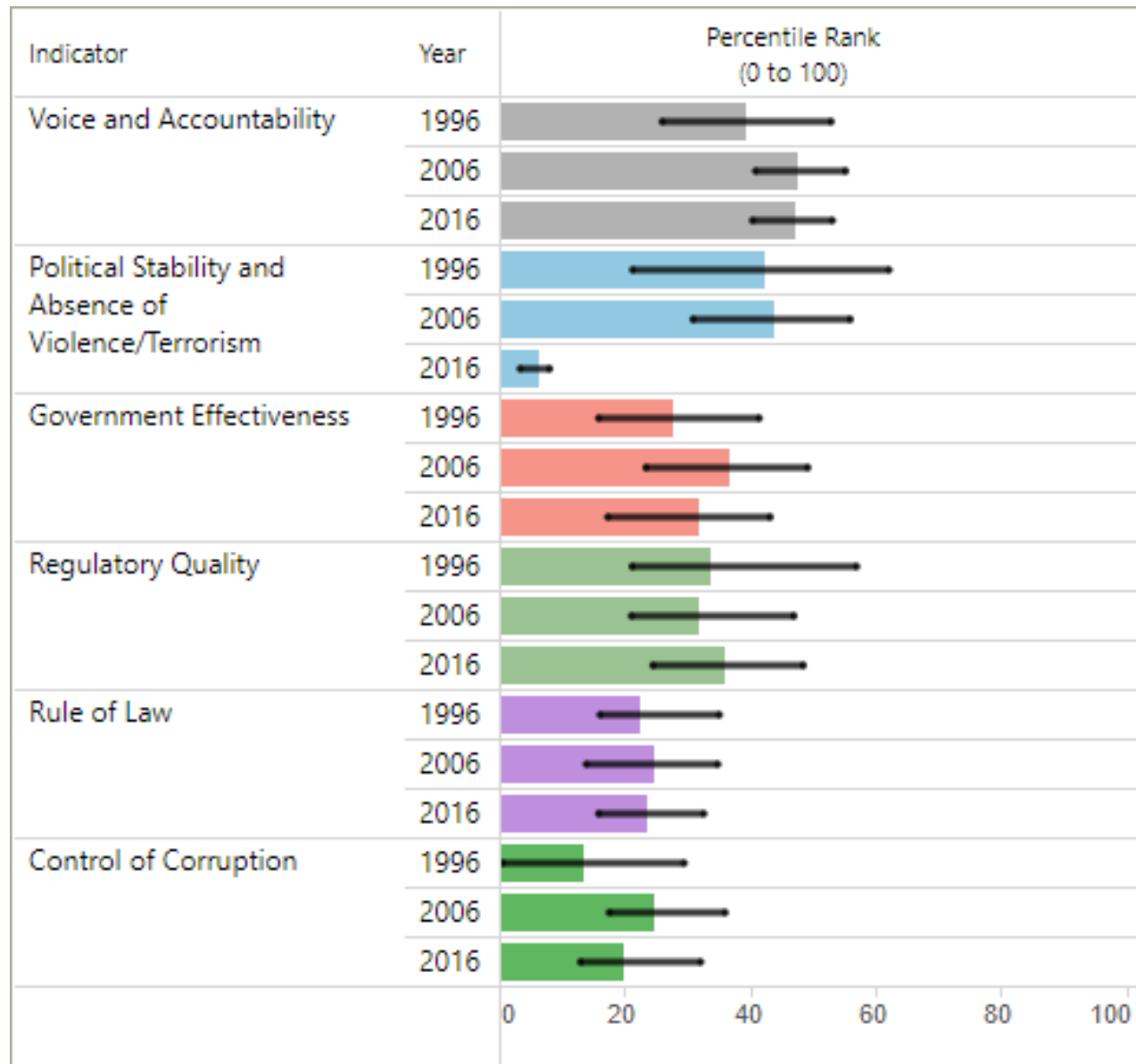
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Worldwide Governance Indicators for Indonesia: 1996, 2006, 2016



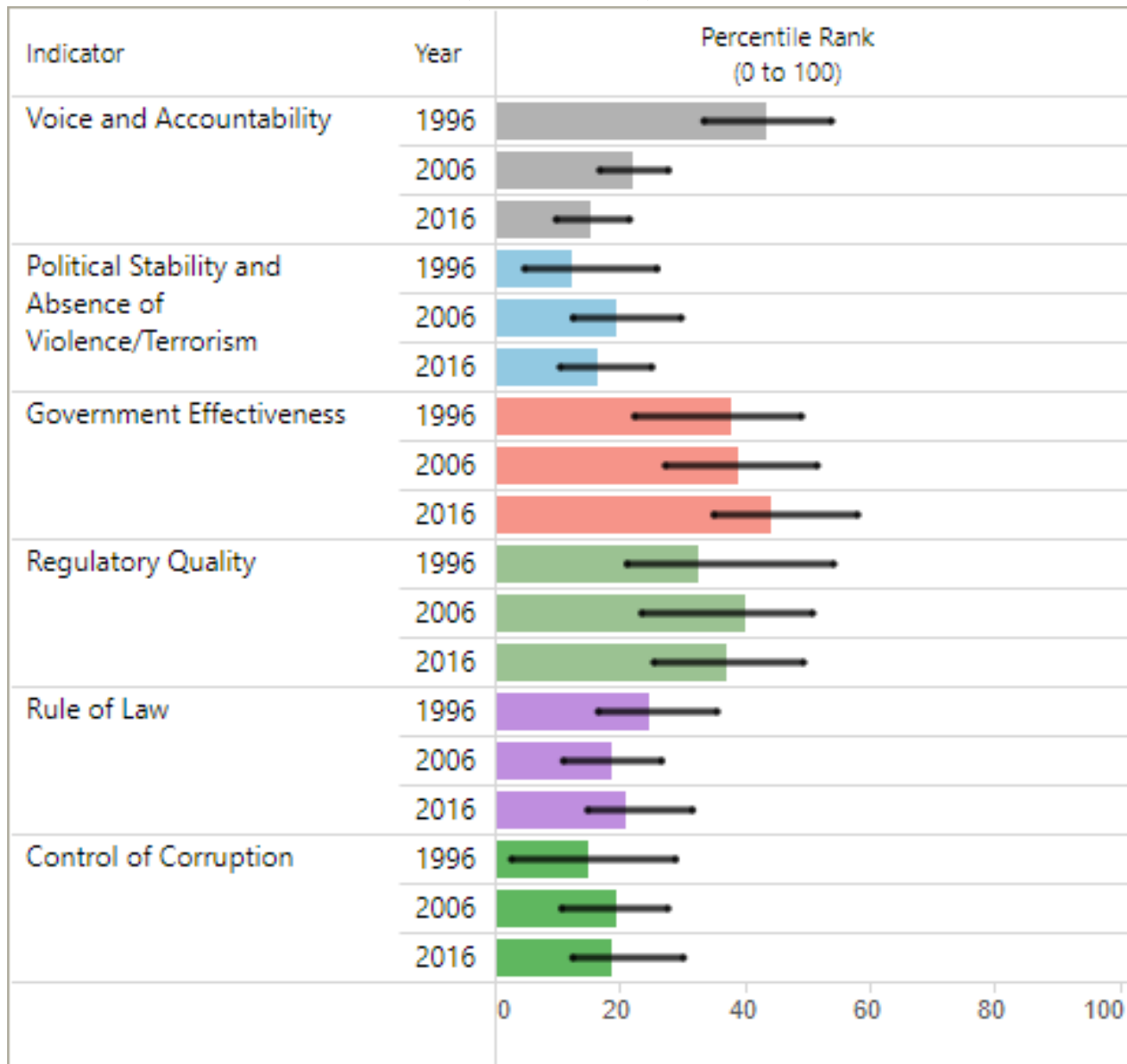
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Worldwide Governance Indicators for Ukraine: 1996, 2006, 2016



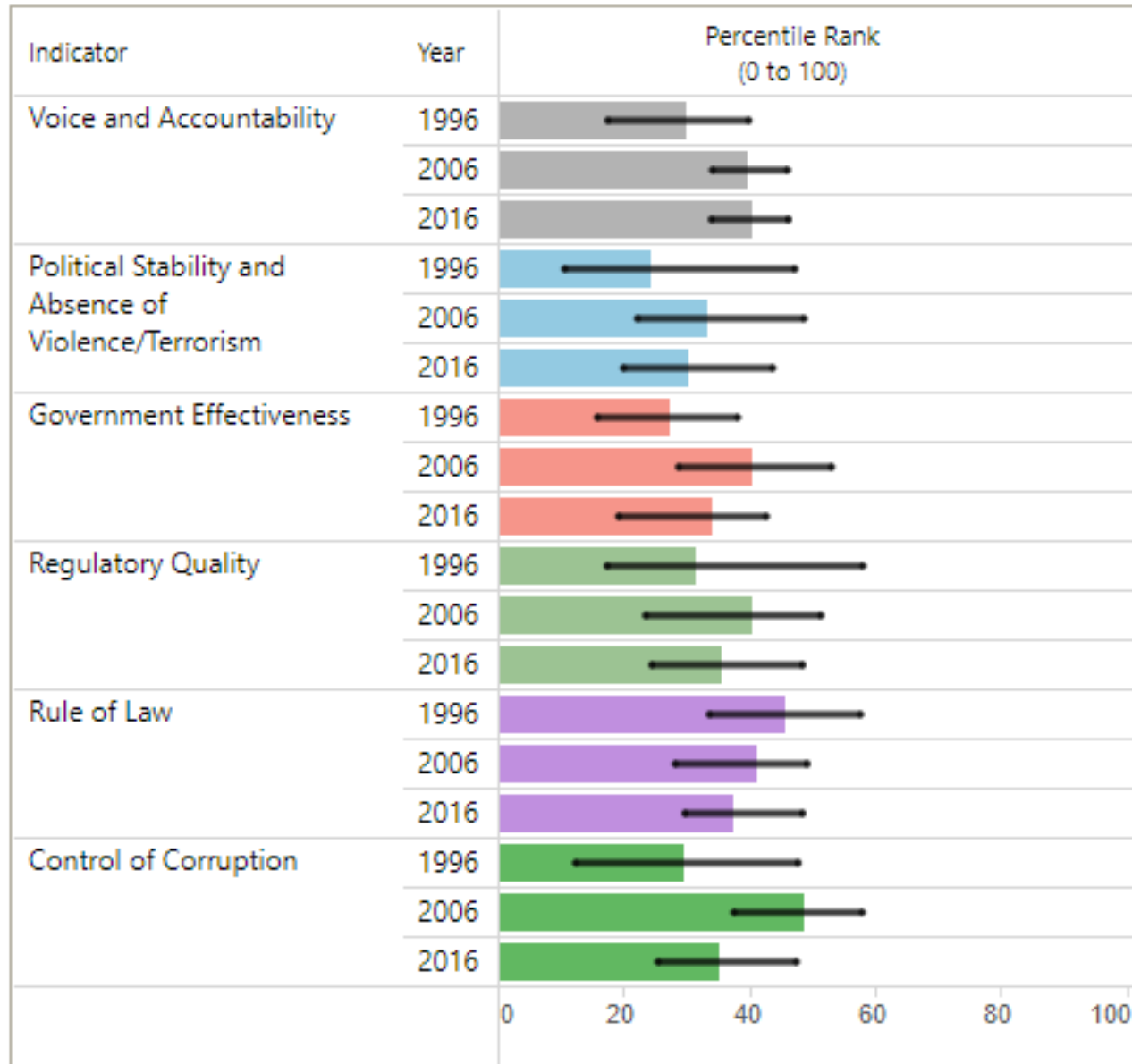
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Worldwide Governance Indicators for Russia: 1996, 2006, 2016



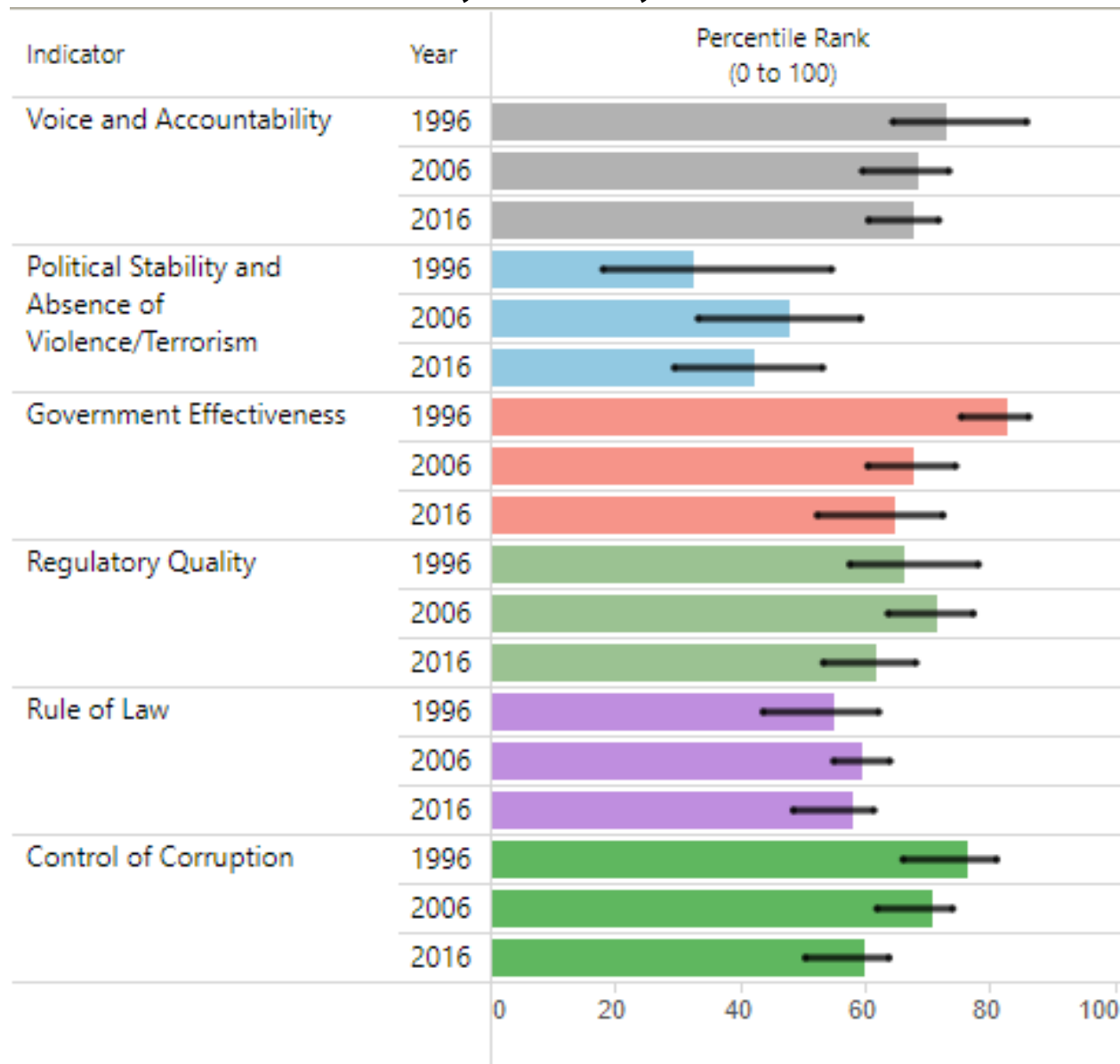
Source: Kaufmann, Daniel, Kraay, Aart and Mastruzzi, Massimo, The Worldwide Governance Indicators: Methodology and Analytical Issues (September 2010). World Bank Policy Research Working Paper No. 5430. Available at SSRN: <http://ssrn.com/abstract=1682130>

Worldwide Governance Indicators for Tanzania: 1996, 2006, 2016



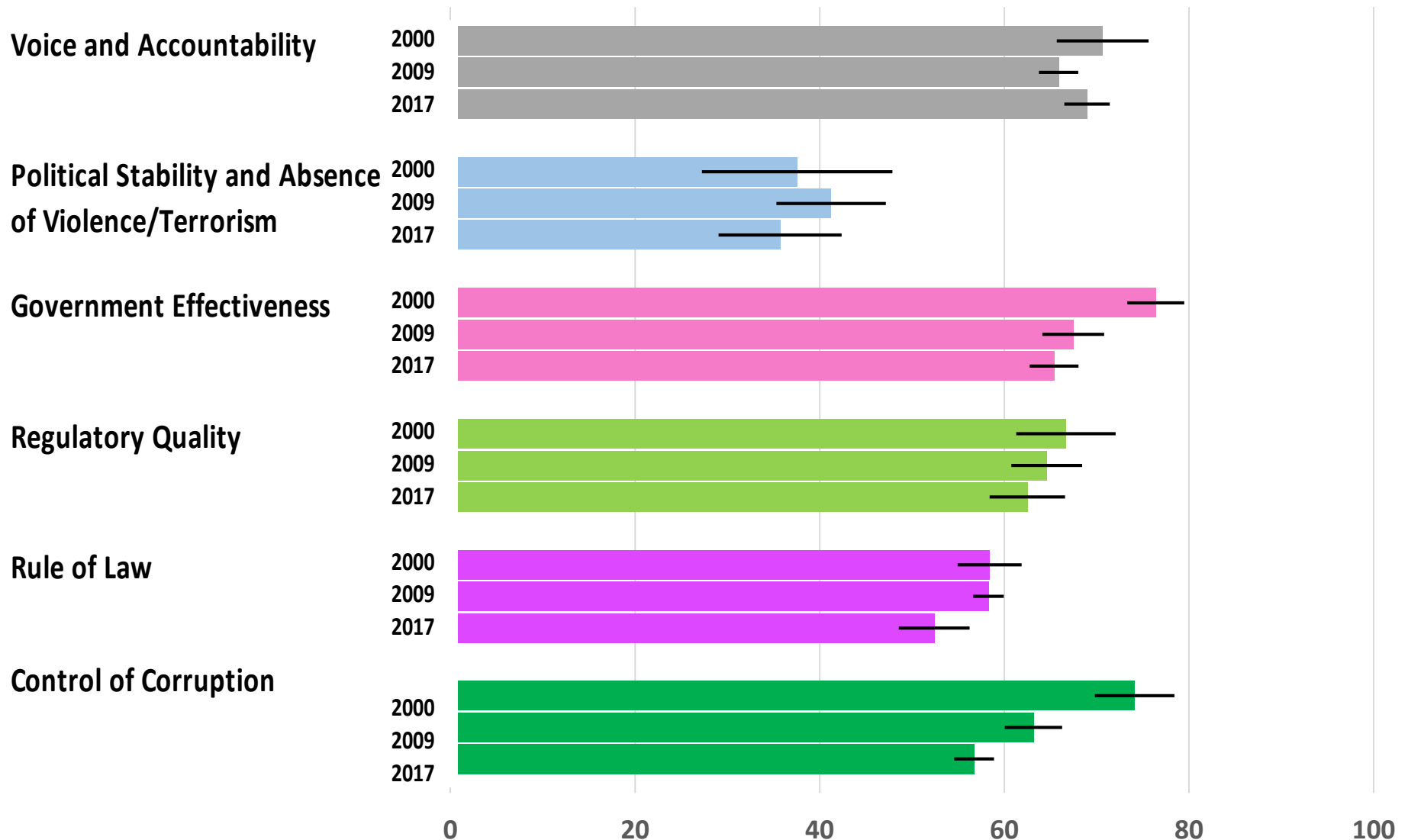
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Worldwide Governance Indicators for South Africa: 1996, 2006, 2016

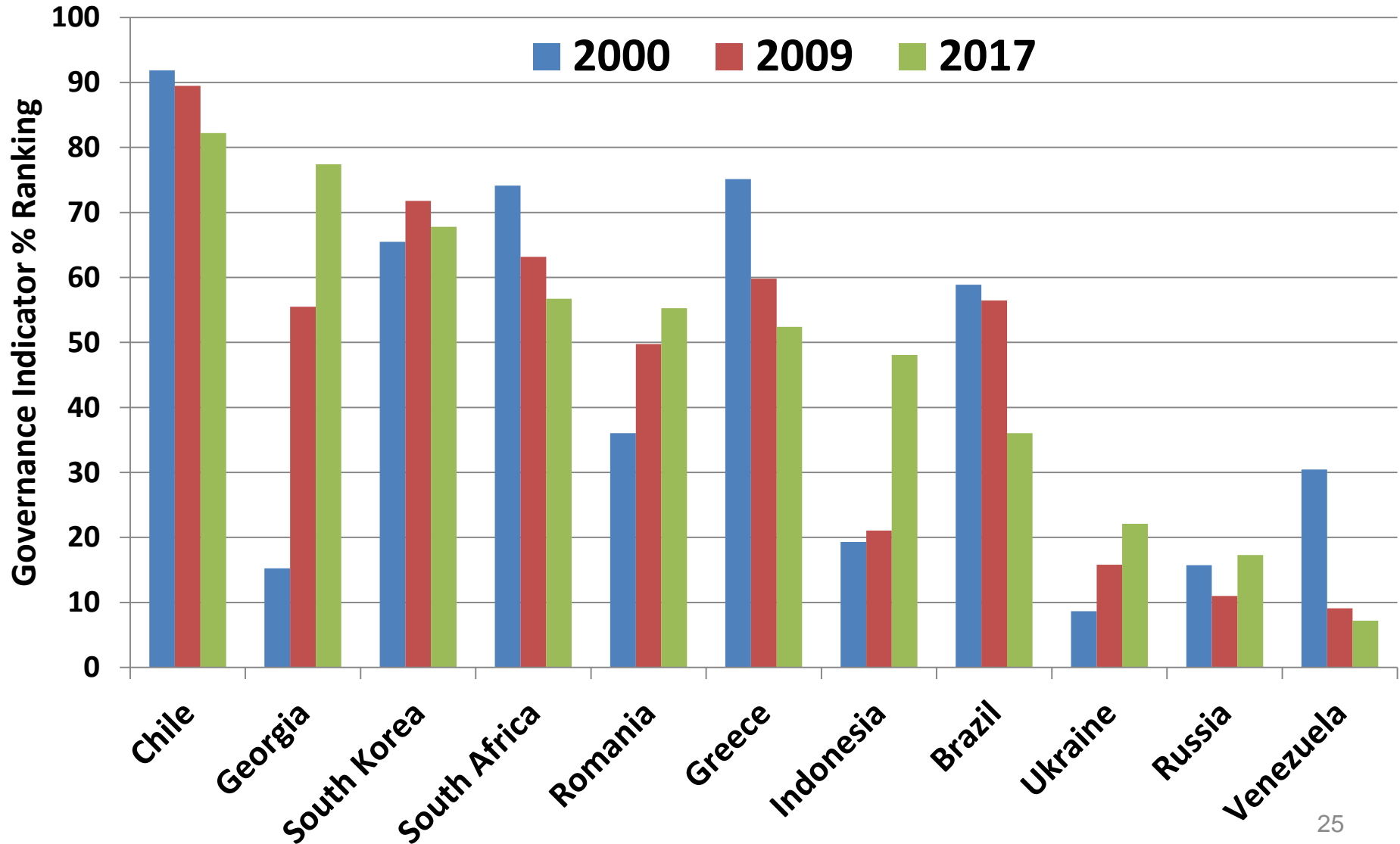


Source: Kaufmann, Daniel, Kraay, Aart and Mastruzzi, Massimo, The Worldwide Governance Indicators: Methodology and Analytical Issues (September 2010). World Bank Policy Research Working Paper No. 5430. Available at SSRN: <http://ssrn.com/abstract=1682130>

WGI Trends: South Africa (up to 2017)



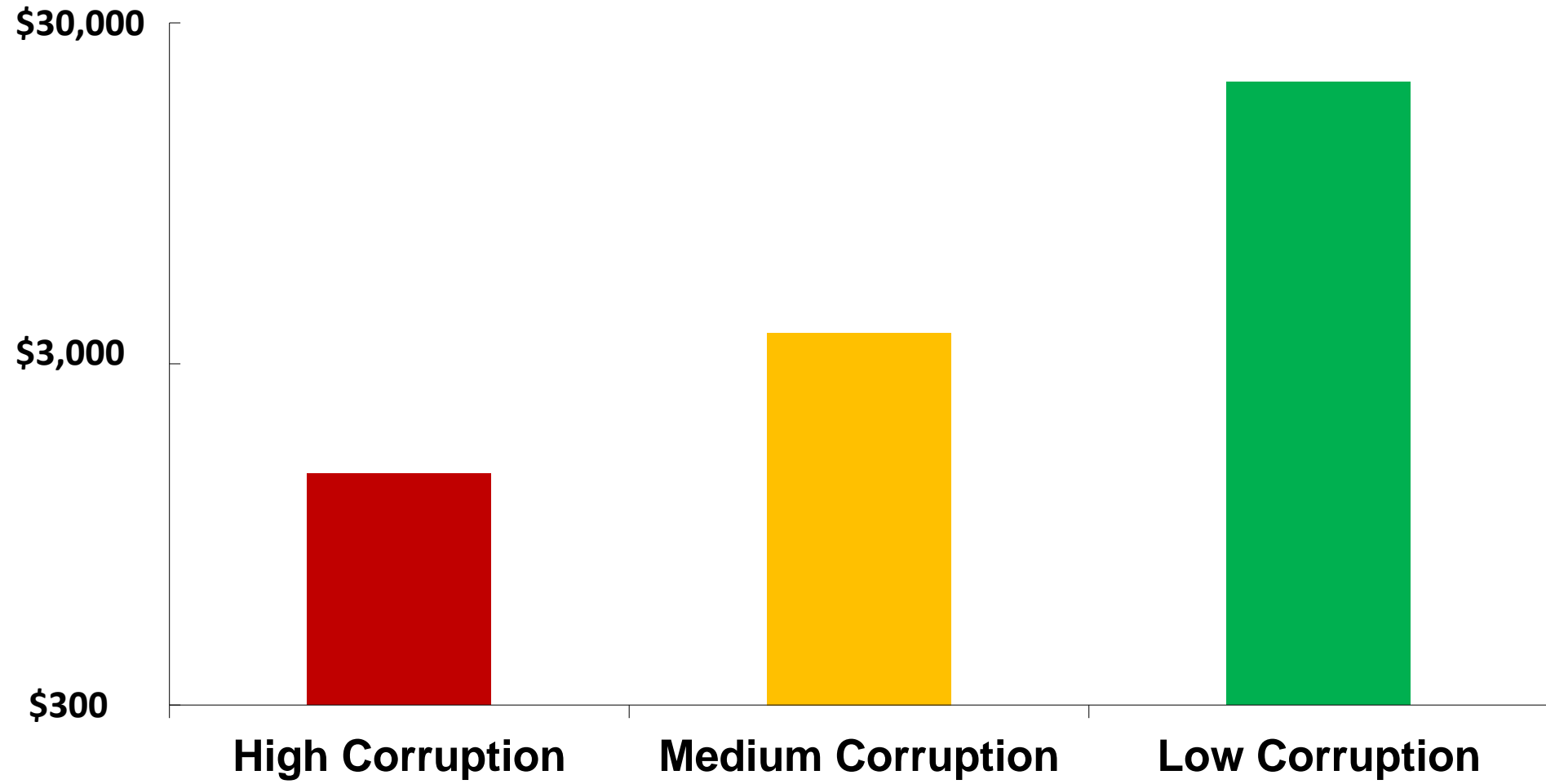
Worldwide Governance Indicator Trends: Control of Corruption in Select Countries



But does Governance & Corruption Matter?

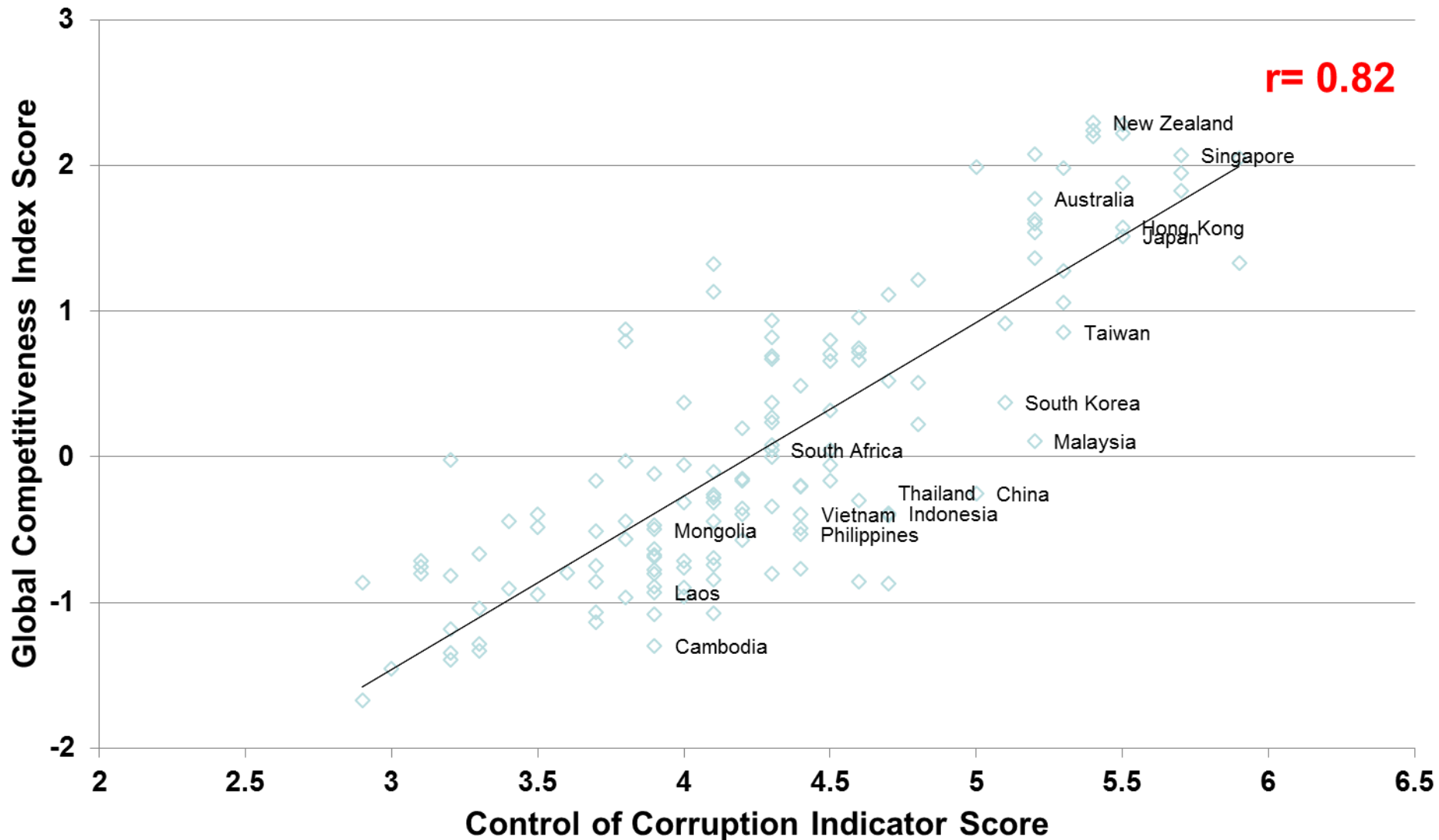
- **OK, governance and corruption can be measured, with caution**
- **But does it really matter?**

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

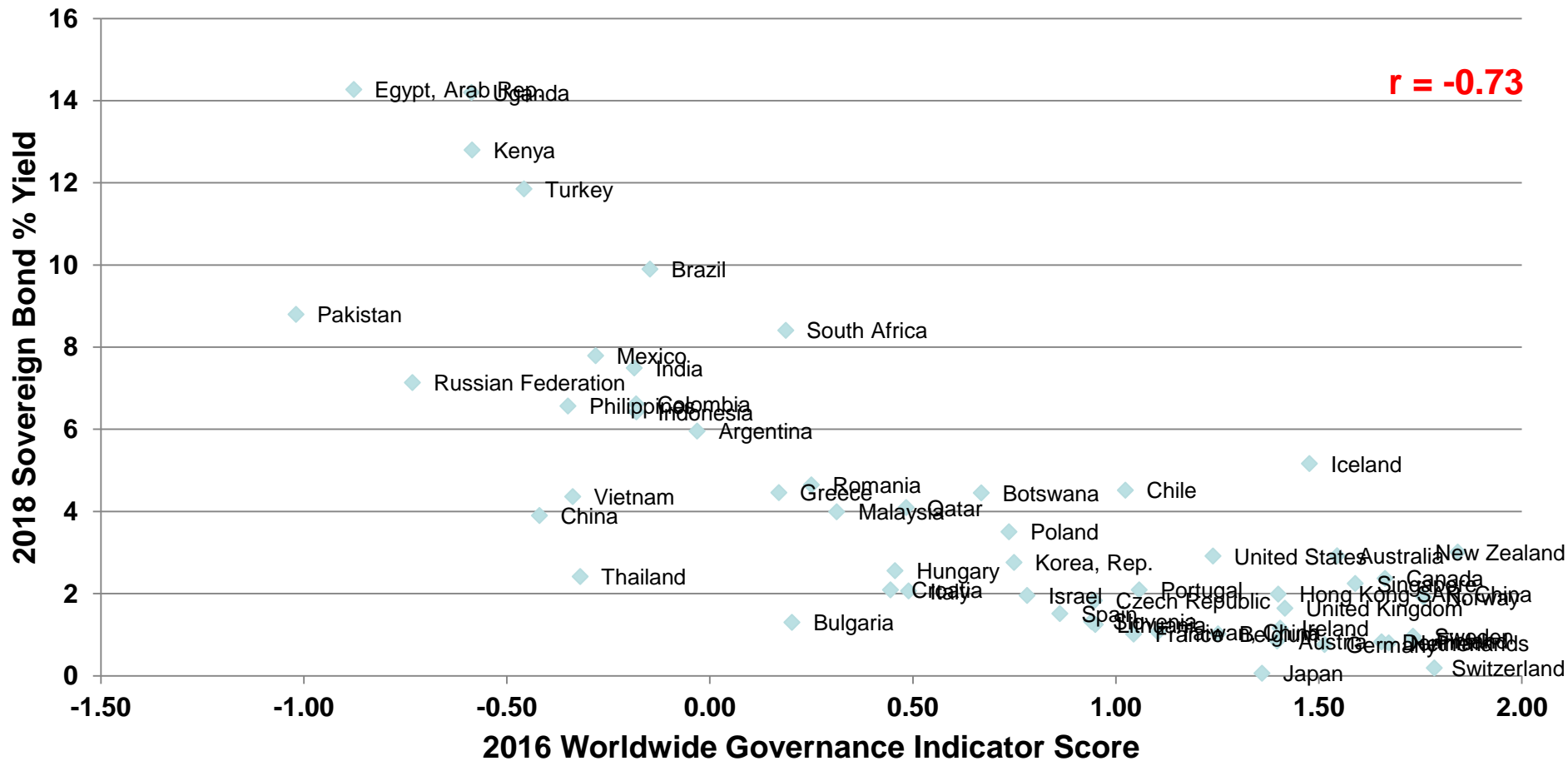


Data Source for calculations: KK 2004. Y-axis measures predicted GDP per capita on the basis of Instrumental Variable (IV) results for each of the 3 categories. Estimations based on various authors' studies, including Kaufmann and Kraay.

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



Sovereign Bond % Yield vs Worldwide Governance Indicator Composite: The '1,000 basis points dividend of good governance'...?

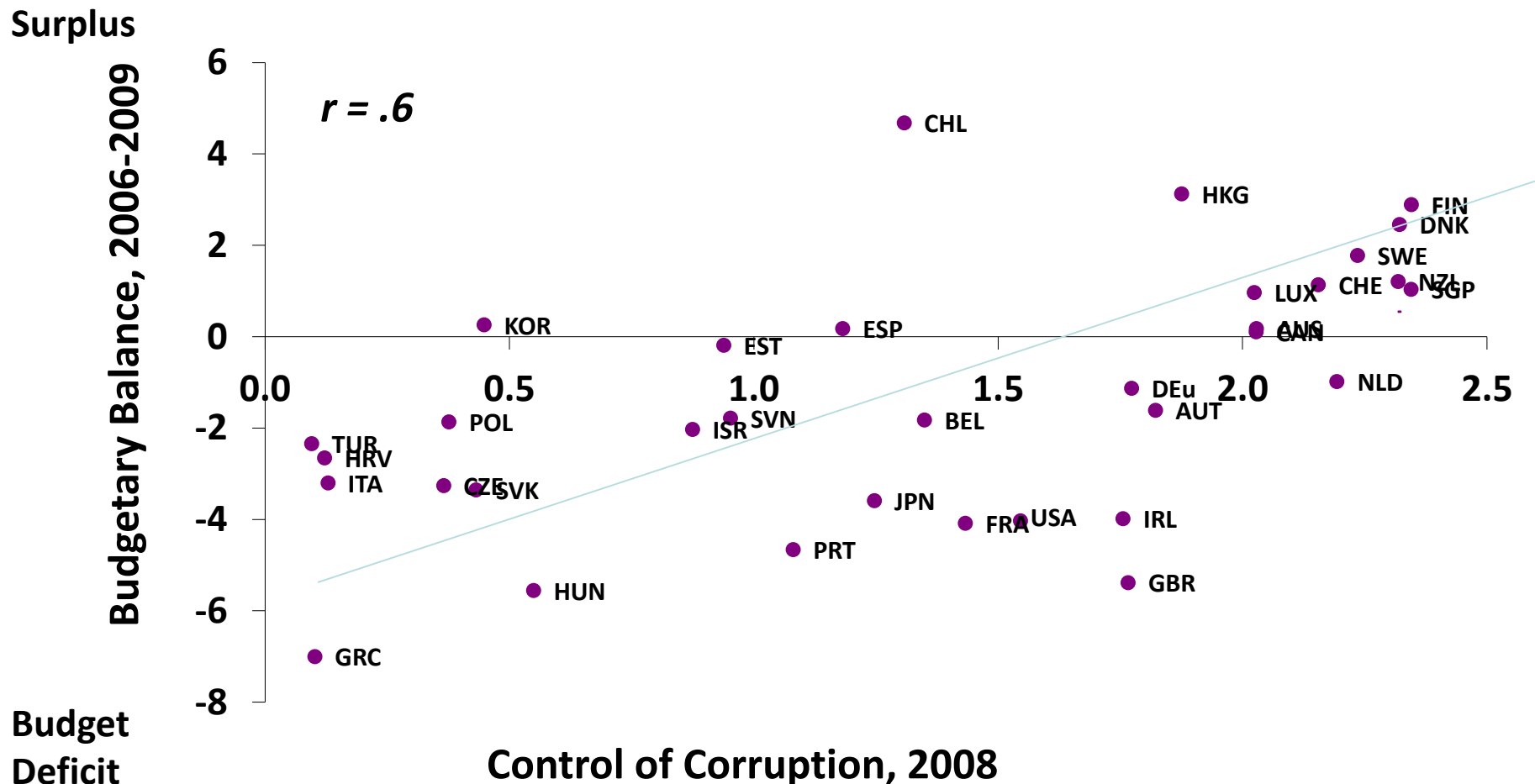


Sovereign Bond % Yield is obtained from countries' 10-year bonds as of February 14, 2018.

Source: Worldwide Governance Indicators, available at: www.govindicators.org and 10-Year Government Bond Spreads, available at:

www.investing.com/rates-bonds/government-bond-spreads.

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.

On determinants of Corruption

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



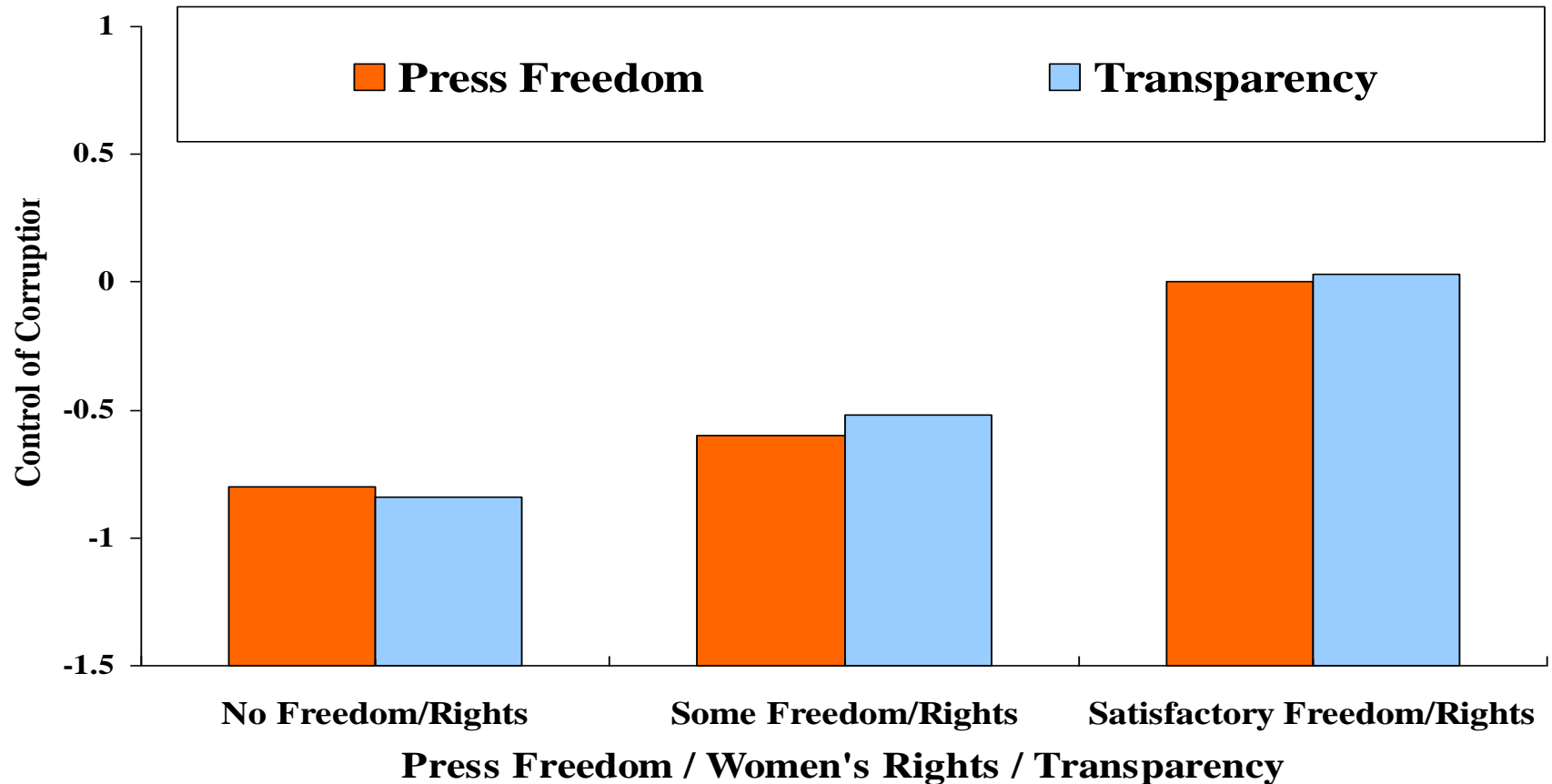
Note: Dots in blue depict countries in East Asia, orange for Latin America, rest of the world is in gray.

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

Freedom of the Press and Transparency is Associated with Corruption Control

(Emerging Economy sample-- 135 countries)

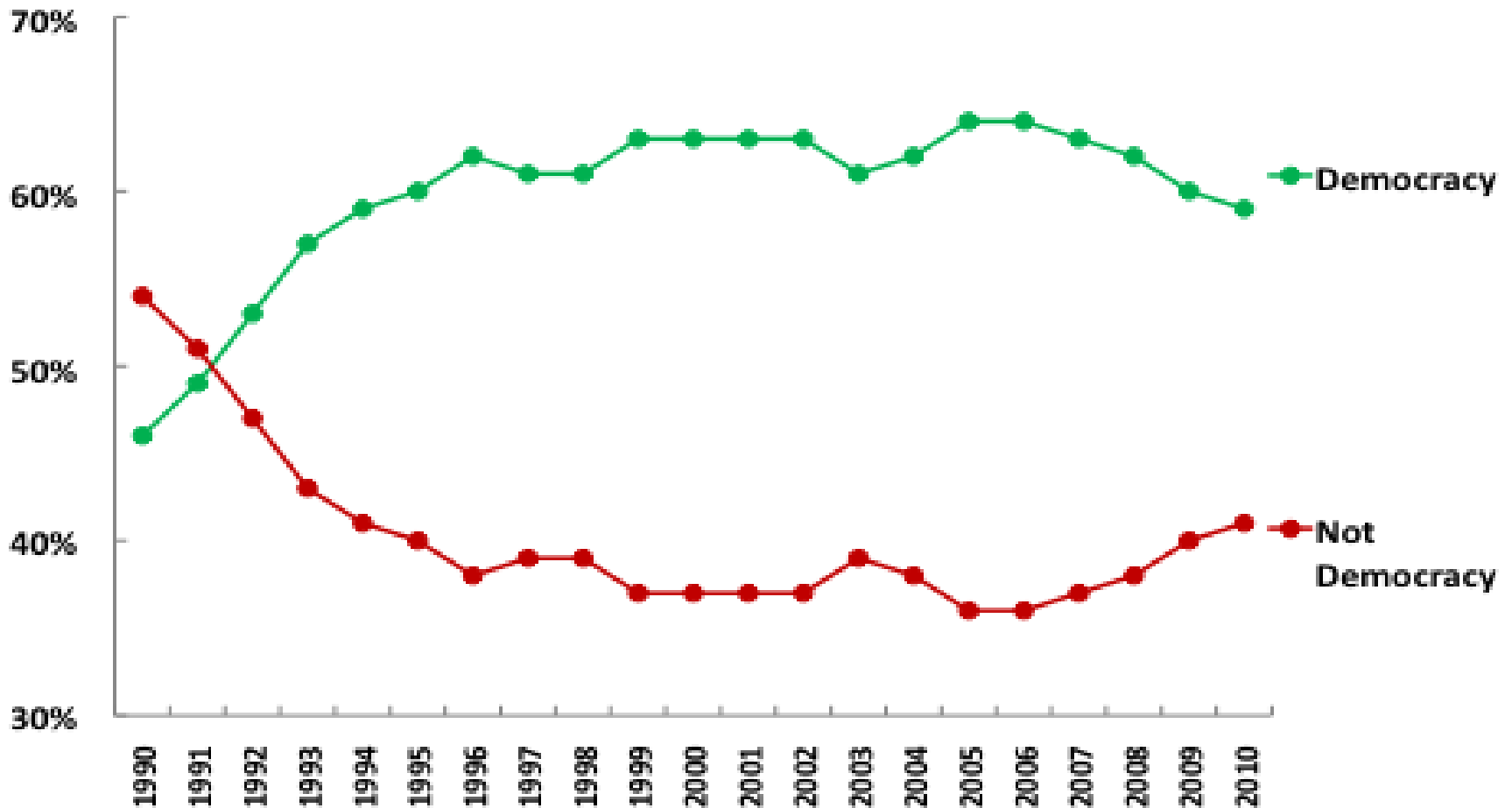
Good



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: 'Transparency Matters: 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:.....

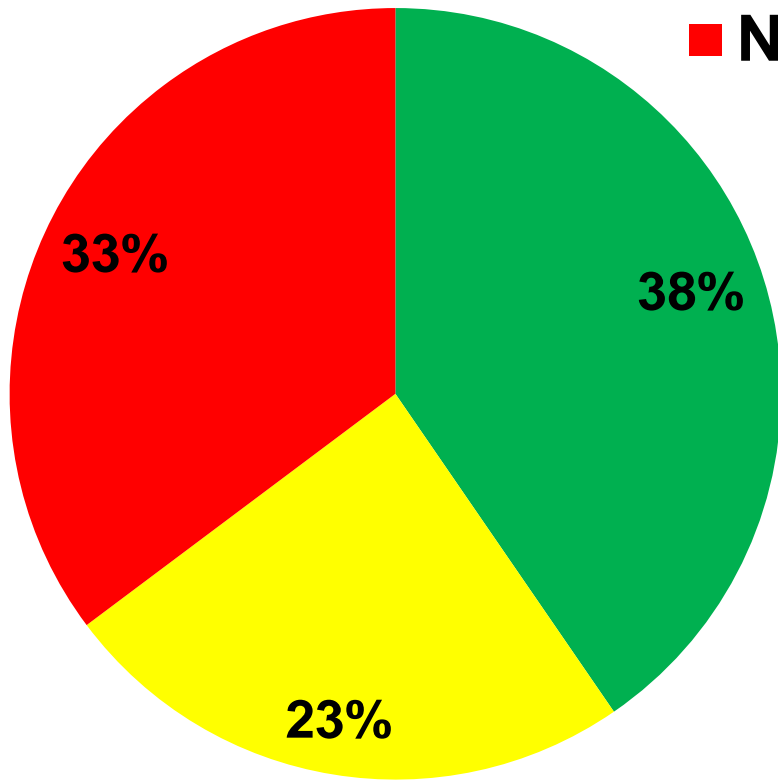
Freedom House, Electoral Democracies: 1990-2010



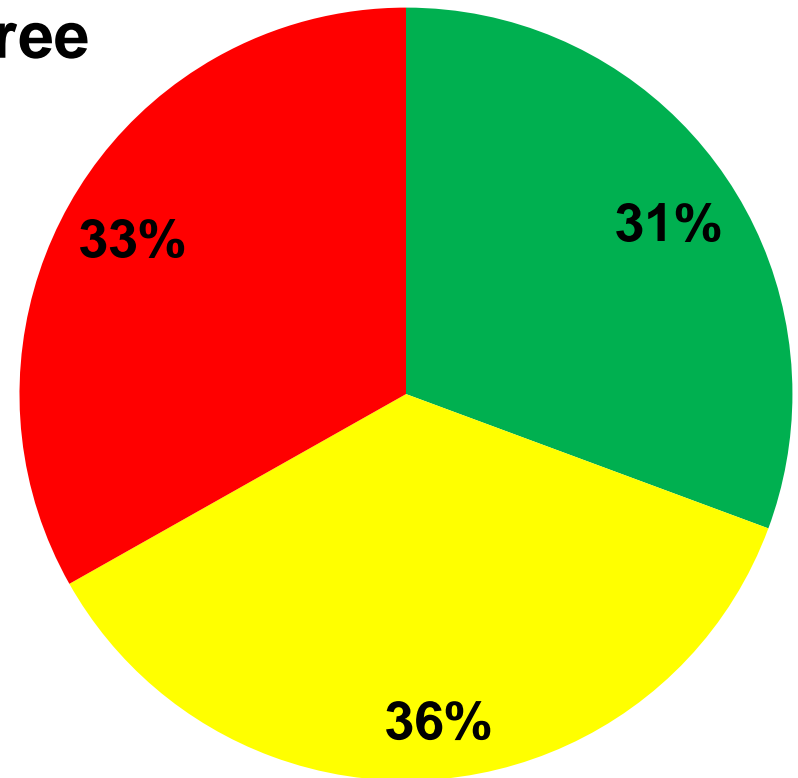
Source: 2011 Freedom House. Line chart measures percentage of countries considered to be democracies and not democracies.

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

- Free
- Partly Free
- Not Free



% of countries in 2002

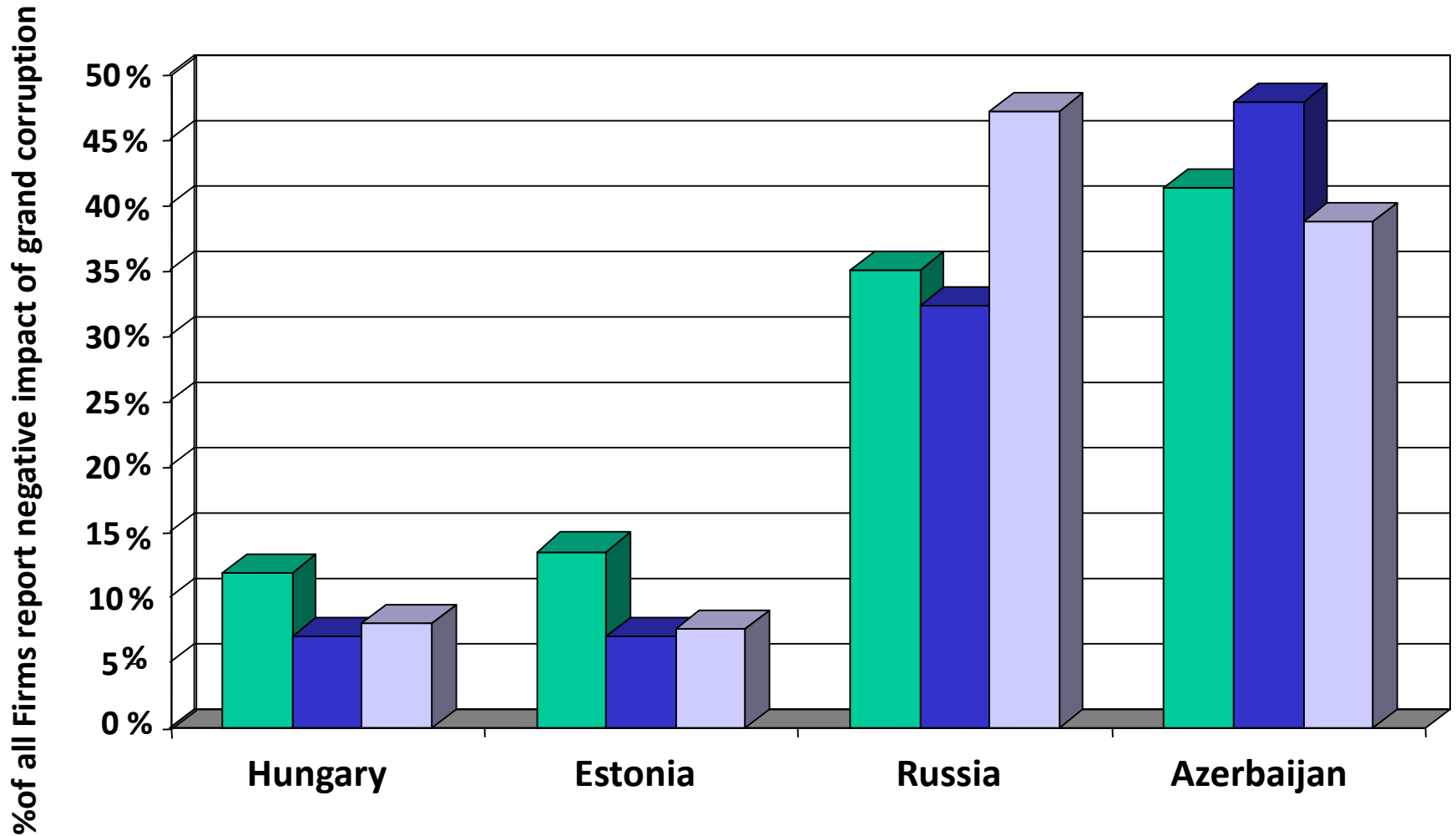


% of countries in 2016

It is the 'P' Word: State Capture & Legal Corruption

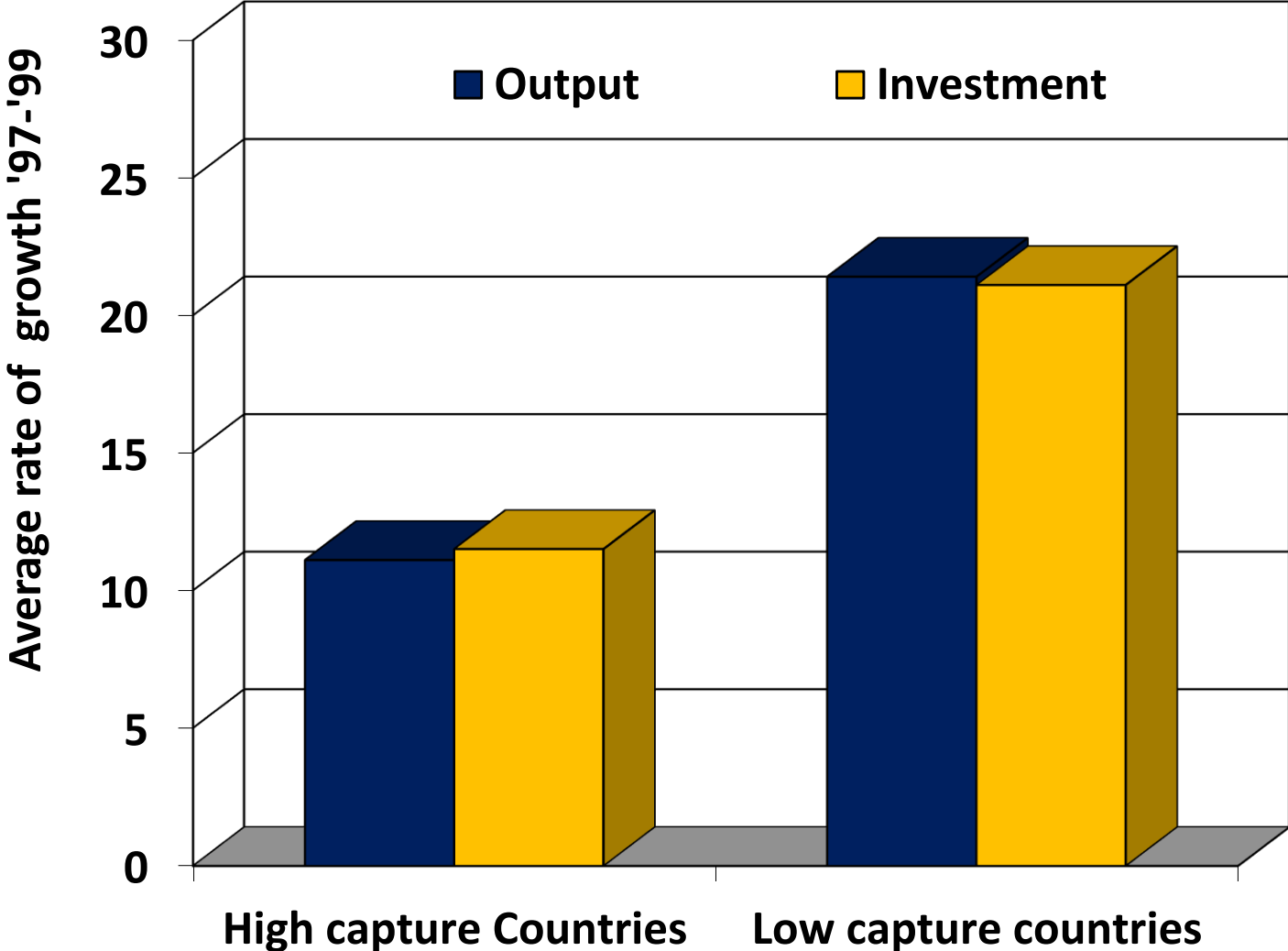
- **Late 90's: ...recognizing that Politics matters** *(not just PE...)*
- **'P': Political High Level Corruption, State Capture – how elites collude and 'privatize public policy'**
- **Redefining Corruption?**
- **Traditional Definition: Abuse of Public Office for Private Gain**
- **Or: The Privatization of Public Policy... ?**

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

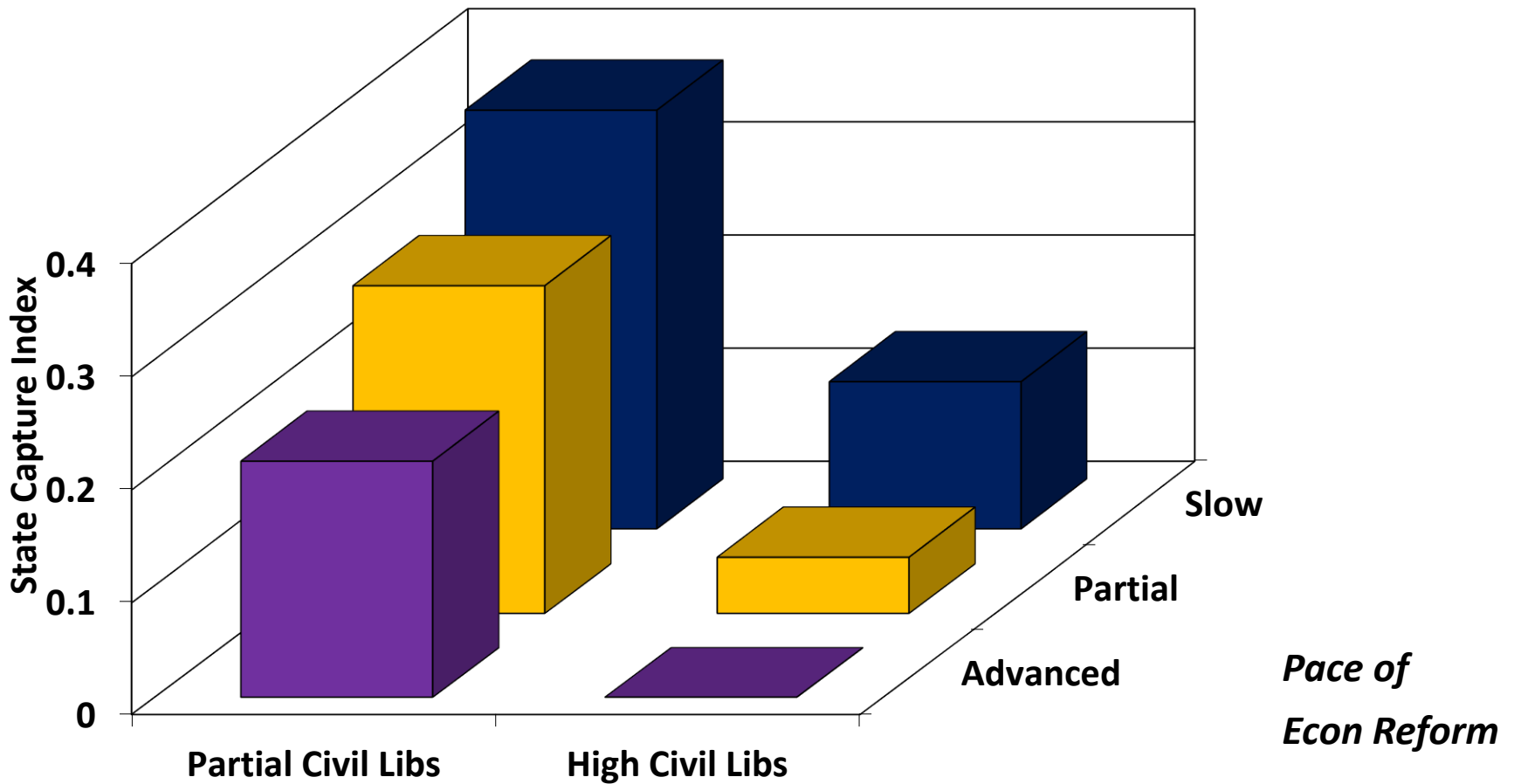


Adverse Impact of 'Purchases' of: ■ Parliamentary legislation ■ Decrees ■ Central Bank Influence

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



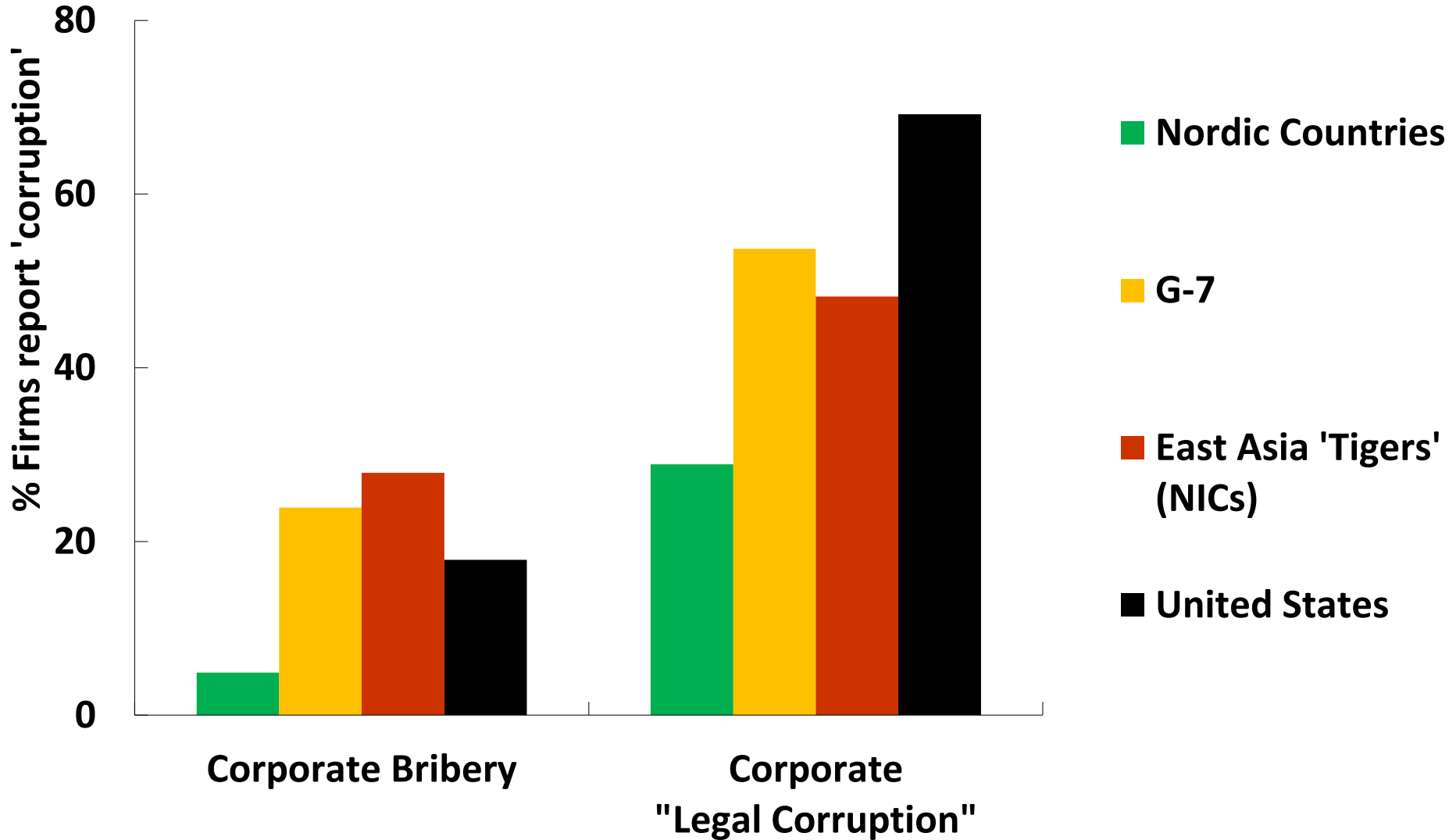
Addressing Capture: Economic Reform, Political Competition & Voice/Civil Liberties Matter



Political/Civil Liberties Reforms

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

% Firms report 'corruption'



On the 'Resource Curse' question

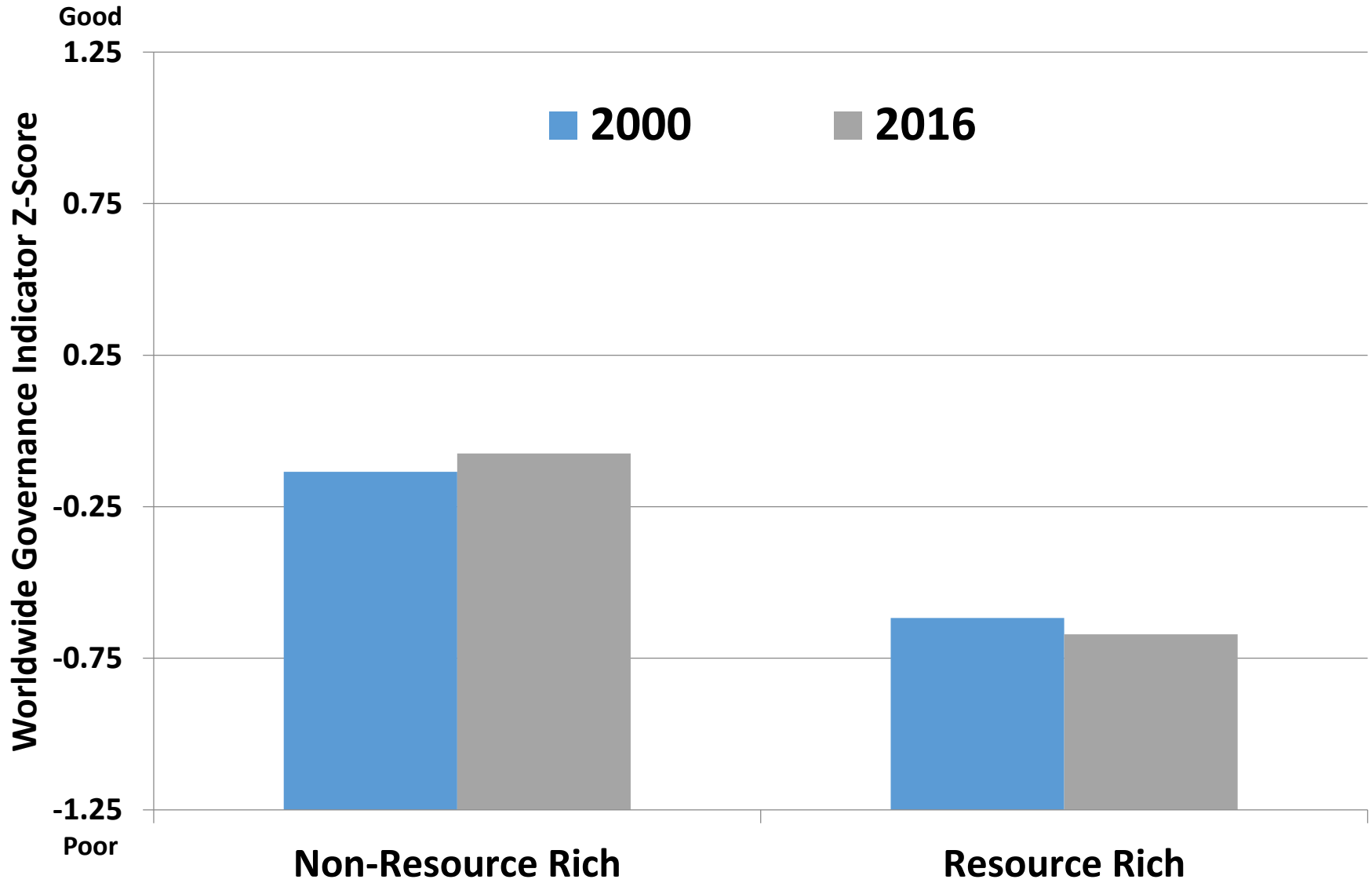
Longstanding question:

1. Do Natural Resources (NRs) foster worse institutions?,
or,
 2. Do worse institutions foster worse NR management outcomes?
 - If 1: resources are a deterministic curse
 - If 2: it can go either way – *it depends*
- Literature & evidence not fully conclusive, but stronger case for the latter (#2): resource curse not deterministic
- Challenge larger when governance already weak, and excessive dependency on natural resources exacerbates governance problems when they exist

Why Misgovernance in Natural Resources (NR)?

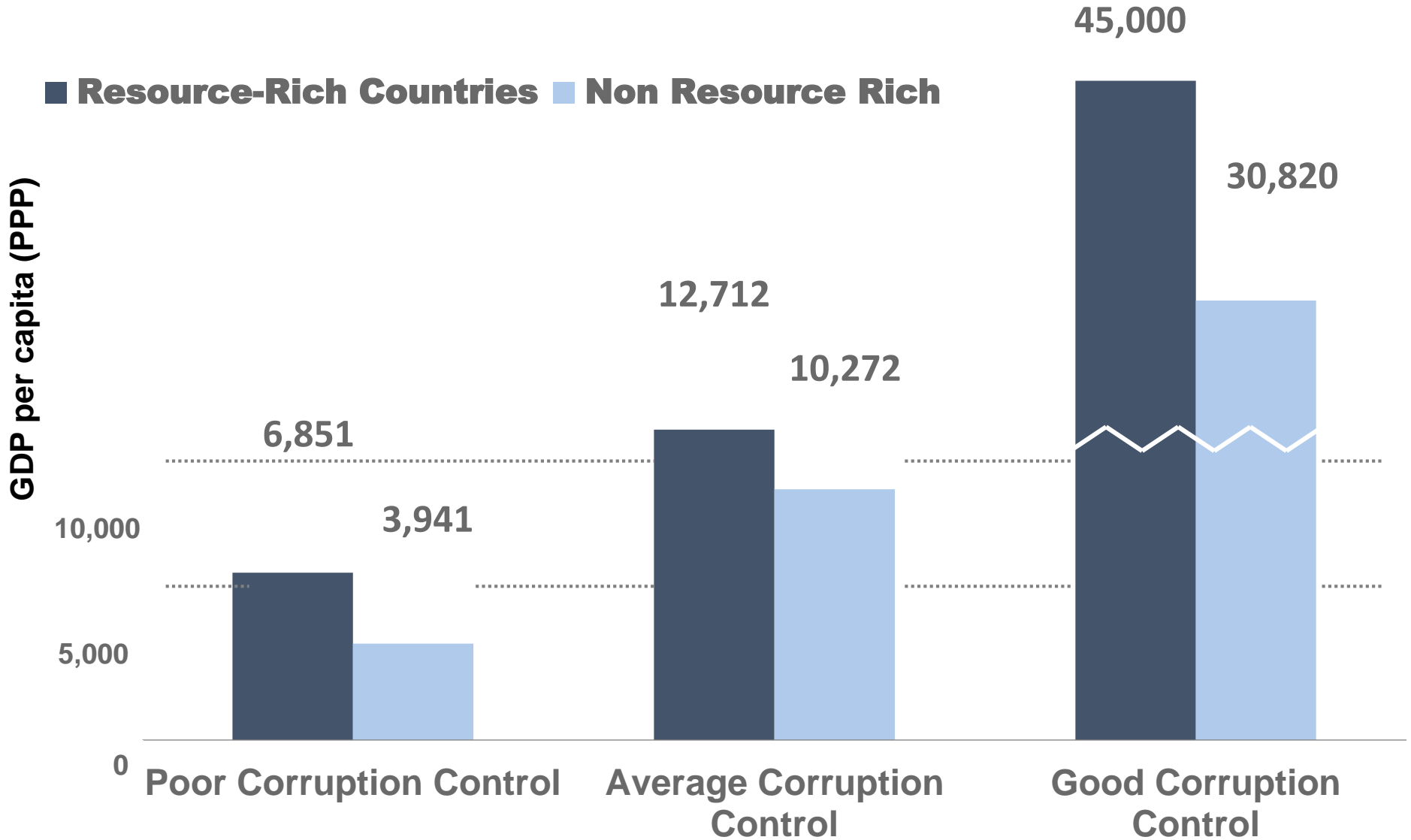
- **Huge rents generated by concentrated NR: magnet for *capture***
These enormous rents contributes to:
 - **Elite capture of rents & fight to maintain control over them**
 - **Disincentive to have regular political transitions**
 - **Increased instability: competing groups fight for resources**
 - **Ability by elite to buy supporters & placate opponents by distributing resource rents. Impairs accountability (*silencing opposition*)**
 - **Gov't relies on extractive revenues, vs. taxes: less accountable**
 - **Instability of oil revenues: governance challenge**
 - **Disincentives to invest in diversification of production and exports, including through 'Dutch Disease' (the macro)**
- Prevalence of each challenge varies by country (& not pre-determined)*

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



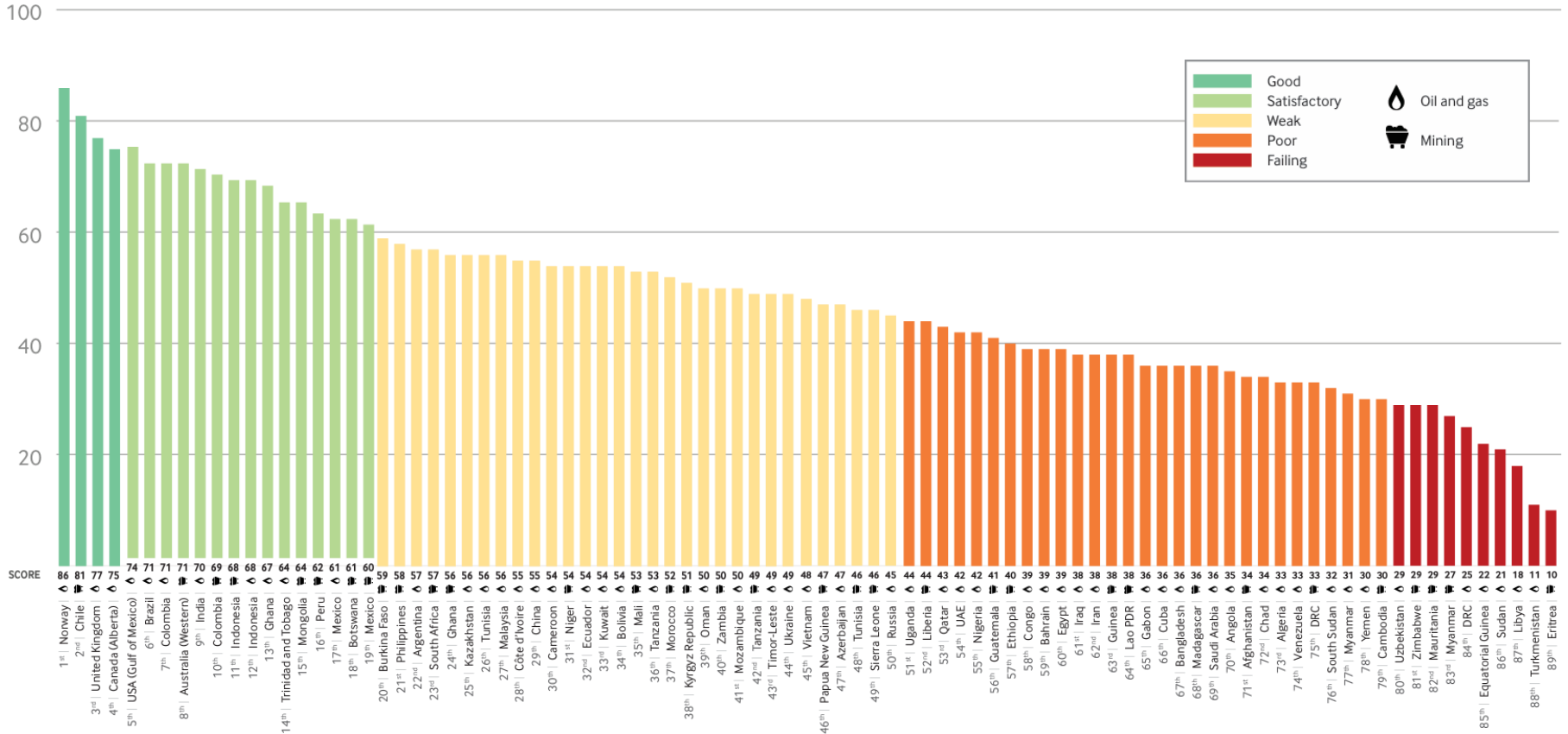
Source: Worldwide Governance Indicators (www.govindicators.org)

El Dividendo de desarrollo de mejoras en gobernabilidad y control de la corrupcion



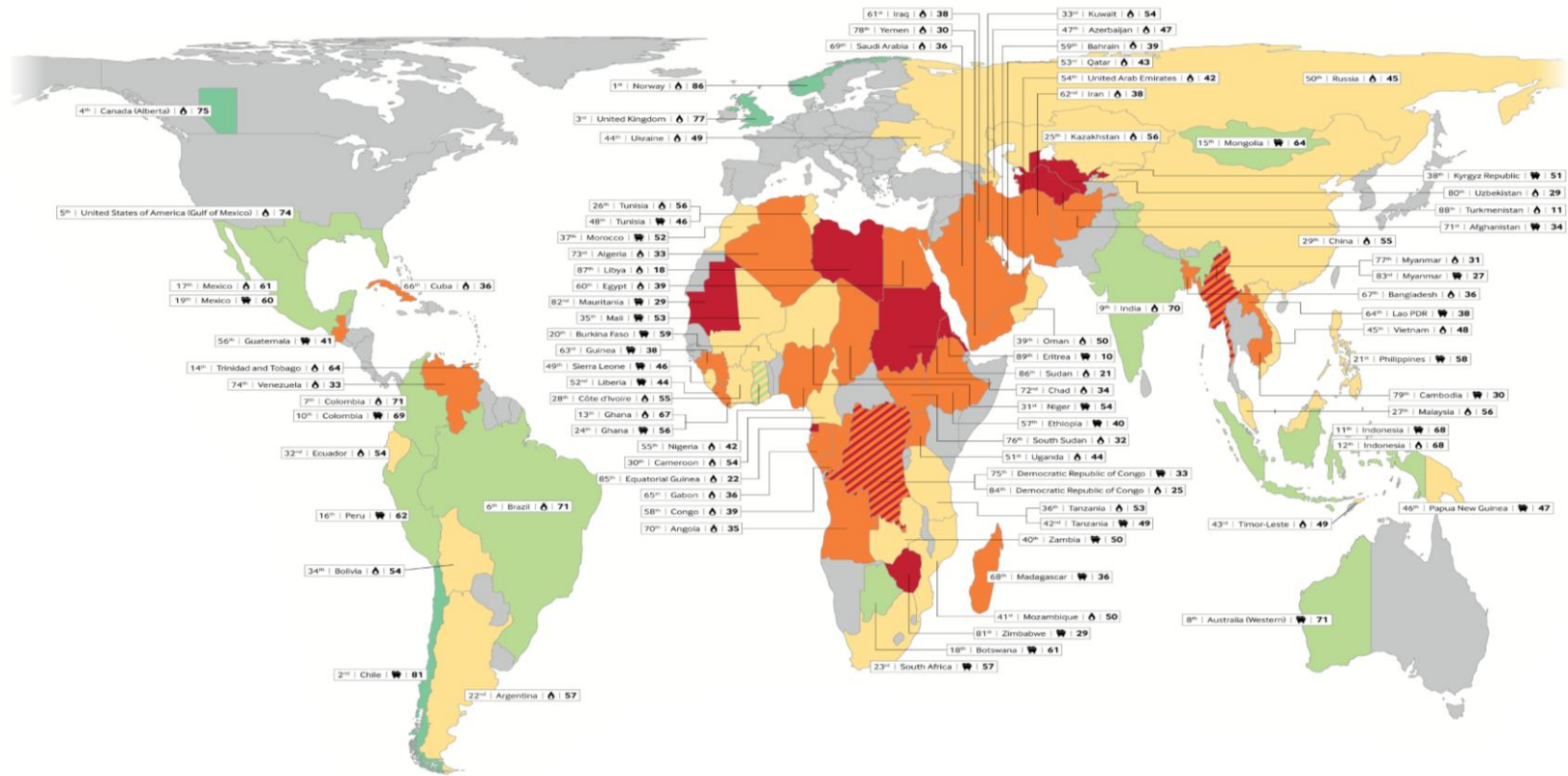
Sources: GDP per capita (atop each column) from World Bank World Development Indicators, 2012. Corruption Control data from Worldwide Governance Indicators (WGI, 2012) Countries grouped into terciles based on WGI Control of Corruption scores. Resource Rich country classification according to IMF (2010).

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	Index rank	Country	Assessed sector	Index score	Value realization score	Revenue management score	Enabling environment score
1	Norway	👍	86	77	84	97	46	Papua New Guinea	👎	47	50	50	40
2	Chile	👍	81	74	81	90	47	Azerbaijan	👍	47	49	43	49
3	United Kingdom	👍	77	70	68	95	48	Tunisia (mining)	👎	46	40	30	67
4	Canada (Alberta)	👍	75	69	59	97	49	Sierra Leone	👎	46	62	35	40
5	United States of America (Gulf of Mexico)	👍	74	66	63	93	50	Russia	👍	45	47	40	47
6	Brazil	👍	71	62	78	72	51	Uganda	👍	44	42	42	47
7	Colombia (oil and gas)	👍	71	59	85	67	52	Liberia	👎	44	59	30	41
8	Australia (Western)	👎	71	65	51	96	53	Qatar	👍	43	33	19	77
9	India	👍	70	75	66	69	54	United Arab Emirates	👍	42	32	16	78
10	Colombia (mining)	👎	69	59	82	67	55	Nigeria	👍	42	50	44	31
11	Indonesia (mining)	👎	68	64	76	65	56	Guatemala	👎	41	42	35	46
12	Indonesia (oil and gas)	👍	68	64	76	65	57	Ethiopia	👍	40	46	38	37
13	Ghana (oil and gas)	👍	67	65	65	70	58	Congo	👍	39	45	44	29
14	Trinidad and Tobago	👍	64	64	57	71	59	Bahrain	👍	39	27	26	63
15	Mongolia	👎	64	63	54	73	60	Egypt	👍	39	45	30	41
16	Peru	👎	62	68	57	62	61	Iraq	👍	38	52	47	16
17	Mexico (oil and gas)	👍	61	64	54	65	62	Iran	👍	38	36	45	34
18	Botswana	👎	61	40	62	81	63	Guinea	👎	38	38	24	37
19	Mexico (mining)	👎	60	62	53	65	64	Lao PDR	👎	38	42	30	41
20	Burkina Faso	👎	59	66	54	57	65	Gabon	👍	36	18	47	44
21	Philippines	👎	58	55	52	67	66	Cuba	👍	36	29	23	57
22	Argentina	👍	57	58	54	58	67	Bangladesh	👍	36	39	35	34
23	South Africa	👎	57	50	40	80	68	Madagascar	👎	36	36	34	38
24	Ghana (mining)	👎	56	61	37	70	69	Saudi Arabia	👍	36	23	24	60
25	Kazakhstan	👍	56	53	54	61	70	Angola	👍	35	50	31	25
26	Tunisia (oil and gas)	👍	56	60	40	67	71	Afghanistan	👎	34	58	31	14
27	Malaysia	👍	56	49	41	77	72	Chad	👍	34	39	43	19
28	Côte d'Ivoire	👍	55	60	60	46	73	Algeria	👍	33	40	25	35
29	China	👍	55	52	54	59	74	Venezuela	👍	33	48	34	17
30	Cameroon	👍	54	59	70	33	75	Democratic Republic of Congo (mining)	👎	33	52	35	12
31	Niger	👎	54	55	60	47	76	South Sudan	👍	32	42	47	5
32	Ecuador	👍	54	51	58	52	77	Myanmar (oil and gas)	👍	31	44	30	19
33	Kuwait	👍	54	44	51	67	78	Yemen	👍	30	50	28	11
34	Bolivia	👍	54	61	51	49	79	Cambodia	👎	30	31	18	40
35	Mali	👎	53	48	70	42	80	Uzbekistan	👍	29	40	25	22
36	Tanzania (oil and gas)	👍	53	65	40	53	81	Zimbabwe	👎	29	37	30	20
37	Morocco	👎	52	56	35	64	82	Mauritania	👎	29	41	10	36
38	Kyrgyz Republic	👎	51	57	51	44	83	Myanmar (mining)	👎	27	33	30	19
39	Oman	👍	50	32	43	76	84	Democratic Republic of Congo (oil and gas)	👍	25	44	20	12
40	Zambia	👎	50	58	35	58	85	Equatorial Guinea	👍	22	29	18	17
41	Mozambique	👍	50	66	42	43	86	Sudan	👍	21	26	26	11
42	Tanzania (mining)	👎	49	54	40	53	87	Libya	👍	18	27	20	6
43	Timor-Leste	👍	49	49	57	42	88	Turkmenistan	👍	11	11	0	21
44	Ukraine	👍	49	61	40	45	89	Eritrea	👎	10	15	5	10
45	Vietnam	👍	48	57	30	59							

Country illustration of index scores: Colombia (mining)

Colombia (mining)

2017 RESOURCE GOVERNANCE INDEX

Score: 69 / 100 Rank: 10 / 89

LAW: 78 PRACTICE: 66

VALUE REALIZATION

59

LICENSING	59	TAXATION	73	LOCAL IMPACT	46	STATE-OWNED ENTERPRISES	.
RESERVES DISCLOSURE	0	PRODUCTION DISCLOSURE	77	EIA/SIA RULES	50	SOE-GOVERNMENT TRANSFERS RULES	.
CADASTER	100	EXPORT DISCLOSURE	77	EIA/SIA DISCLOSURE	20	SOE-GOVERNMENT TRANSFERS DISCLOSURE	.
PRE-LICENSING ROUND RULES	67	COMPANY PAYMENT RULES	0	ENVIRONMENTAL MITIGATION PLAN RULES	100	SOE FINANCIAL REPORTING RULES	.
PRE-LICENSING ROUND PRACTICE	83	COMPANY PAYMENT DISCLOSURE	67	ENVIRONMENTAL MITIGATION PLAN DISCLOSURE	0	SOE NON-COMMERCIAL ACTIVITY PRACTICE	.
POST-LICENSING ROUND RULES	50	TAXATION RULES	100	ENVIRONMENTAL COMPLIANCE RULES	100	SOE FINANCIAL REPORTING PRACTICE	.
POST-LICENSING ROUND PRACTICE	100	TAX AUTHORITY RULES	100	ENVIRONMENTAL COMPLIANCE PRACTICE	0	SOE PRODUCTION DISCLOSURE	.
FINANCIAL INTEREST DISCLOSURE RULES	35	TAX AUTHORITY PRACTICE	100	COMPENSATION TO LAND USERS AND OWNERS RULES	50	COMMODITY SALE RULES	.
FINANCIAL INTEREST DISCLOSURE PRACTICE	0	EITI AFFILIATION AND REPORTING	60			COMMODITY SALE DISCLOSURES	.
CONTRACT DISCLOSURE RULES	100					SOE JOINT VENTURES AND SUBSIDIARIES DISCLOSURE	.
CONTRACT DISCLOSURE	50					SOE CORPORATE GOVERNANCE PRACTICE	.

REVENUE MANAGEMENT

82

NATIONAL BUDGETING	75	SUBNATIONAL RESOURCE REVENUE SHARING	70	SOVEREIGN WEALTH FUNDS	100
ONLINE DATA PORTAL	0	SUBNATIONAL TRANSFER AGENCY RULES	100	SWF DEPOSIT AND WITHDRAWAL RULES	100
FISCAL RULES	100	SUBNATIONAL TRANSFER RULES	50	SWF DEPOSIT AND WITHDRAWAL PRACTICE	100
FISCAL RULE PRACTICE	100	SUBNATIONAL TRANSFER DISCLOSURE	100	SWF INVESTMENT RULES	100
NATIONAL BUDGET DISCLOSURE	75	SUBNATIONAL TRANSFER AUDIT RULE	100	SWF INVESTMENT PRACTICE	100
NATIONAL DEBT DISCLOSURE	100	SUBNATIONAL TRANSFER AUDIT PRACTICE	100	SWF FINANCIAL REPORTING RULES	100
				SWF FINANCIAL REPORTING PRACTICE	100

ENABLING ENVIRONMENT

67

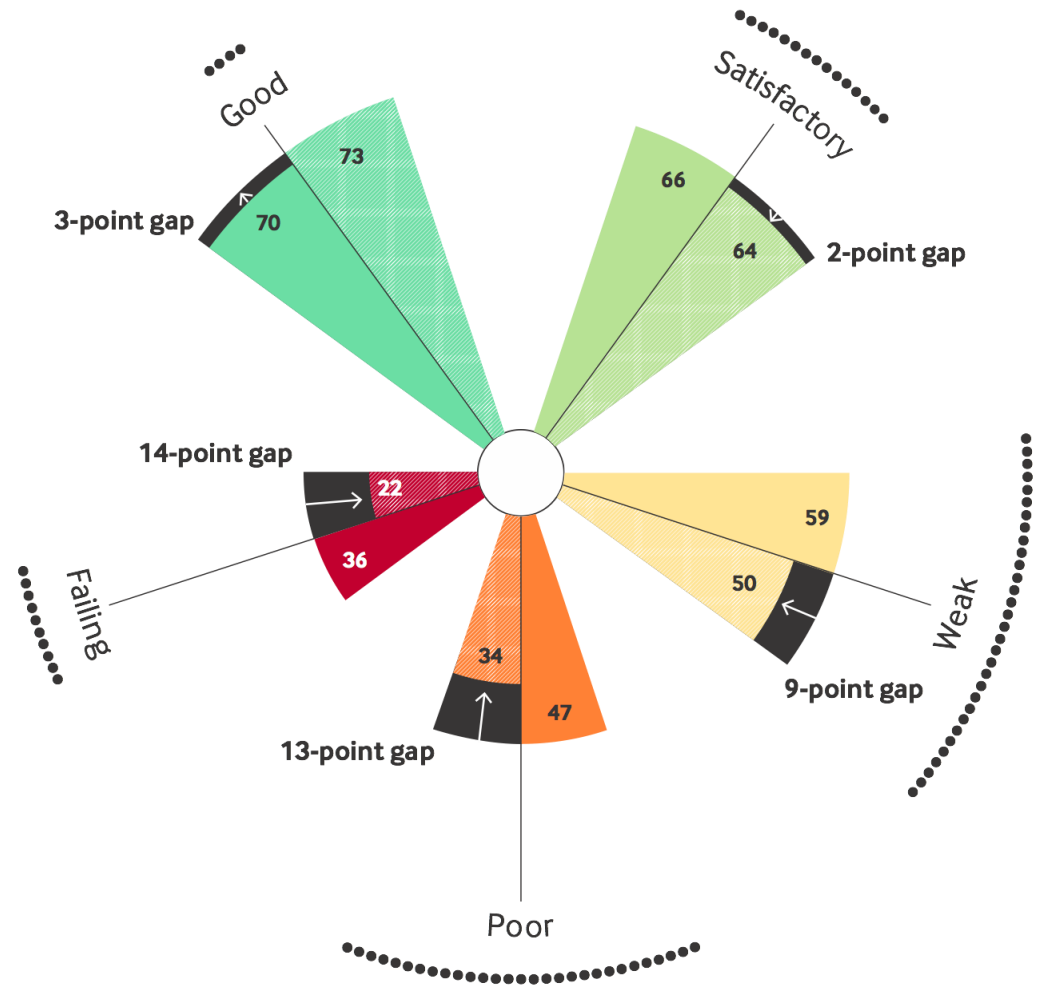
VOICE AND ACCOUNTABILITY	72
GOVERNMENT EFFECTIVENESS	72
REGULATORY QUALITY	83
RULE OF LAW	71
CONTROL OF CORRUPTION	74
POLITICAL STABILITY AND ABSENCE OF VIOLENCE	20
OPEN DATA	81
OPEN DATA INVENTORY	66
OPEN DATA BAROMETER	81
OPEN DATA INDEX	95

Countries don't follow their own rules

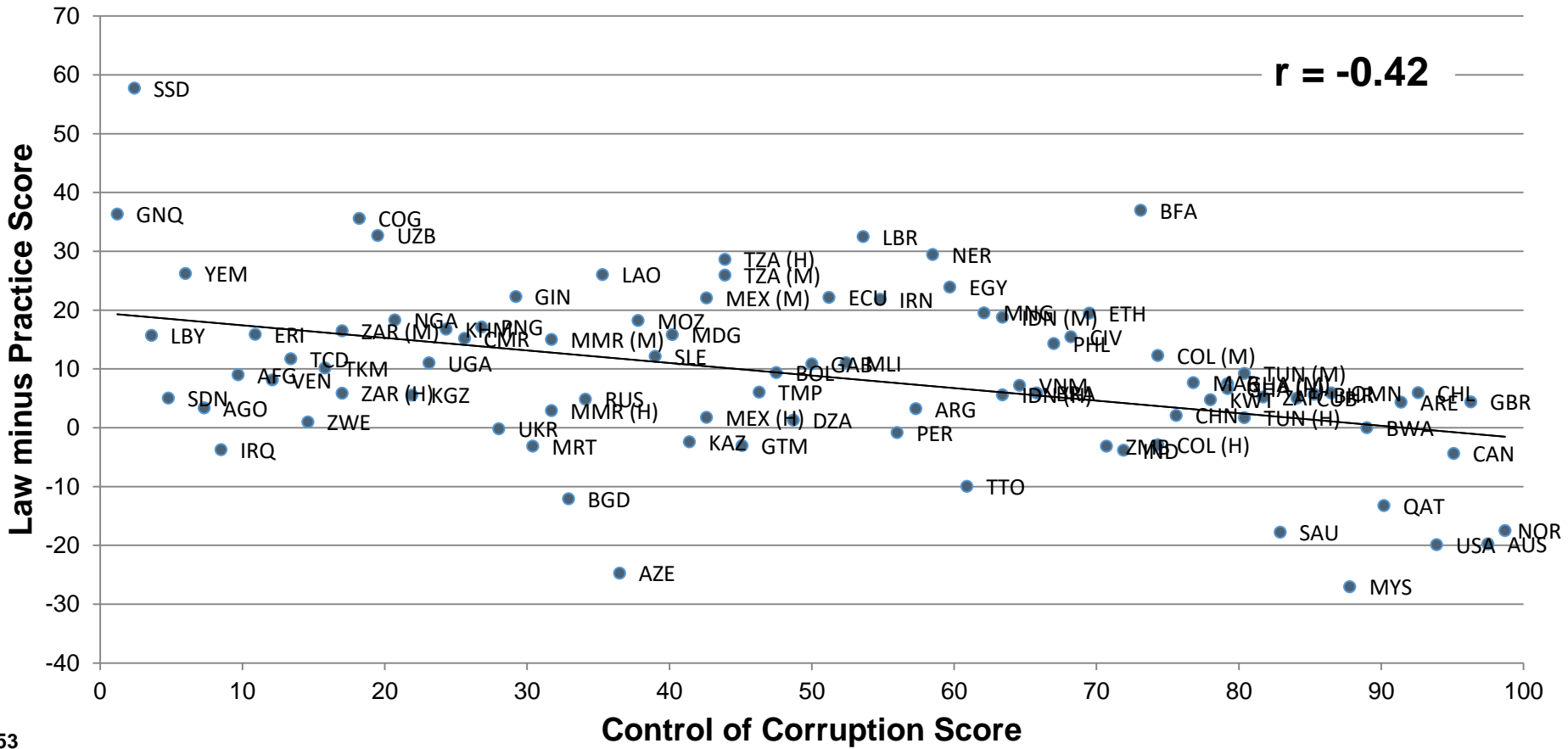
Legal framework average score



Practice average score



Poor control of corruption is associated with a larger gap between legal framework and implementation



State-owned enterprises assessed in the RGI

Country	State-owned enterprise	Gross sales (USD millions, selected years)	Score [/100]
Chile	Codeco	11,693	90
India	Oil and Natural Gas Corporation of India	23,374	87
Argentina	Yacimientos Petroliferos 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 Petroliferos 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 Pétrolière 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 Gas & Petróleo, Empresa Pública	10	50
Kyrgyz Republic	Kyrgyzalтын	485	50
Papua New Guinea	Petromin	76	49

Country	State-owned enterprise	Gross sales (USD millions, selected years)	Score [/100]
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



DOMESTIC
FOUNDATIONS
FOR RESOURCE
GOVERNANCE



INTERNATIONAL
FOUNDATIONS
FOR RESOURCE
GOVERNANCE



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

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

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

Saving revenues
e.g. SocGen (Libya)

The international environment can help or hinder



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?

The Charter governance & decision chain components are translated into 12 specific precepts covering key legal, institutional and policy issues

Domestic governance

1. Forming a strategy & building institutions
2. Ensuring accountability & transparency

Discovery & deciding to extract

3. Exploration & choosing operators

Getting a good deal

4. Taxation
5. Local impacts
6. National resource companies

Managing the revenues

7. Allocating the revenues
8. Smoothing expenditure volatility

Investing for development

9. Improving public expenditure
10. Engaging private sector

International governance

11. Role of international companies
12. Role of international governance actors

Importance of In-Depth Diagnostic and Mapping of Corruption Risks

- **In-Depth, In-Country Diagnostic -- Rigorous, Empirics**
- **Focus on Institutions and on corruption risks at various stages of the chain.**
- **A Nigeria case study specifically focused on the following manifestations of corruption:**
 - i) licensing awards; ii) contract negotiations; iii) subcontracting; iv) State-Owned Enterprises in extractives; v) public procurement; vi) revenue leakages and public expenditures; vii) bunkering, & viii) export/trading.**
- **Input to Reform formulation**

Recommendations to improve resource transparency and accountability

- **Disclose contracts signed with extractive companies.**
- **Ensure that regulatory agencies publish timely, comprehensive reports on oil, gas and mining operations.**
- **Extend transparency and accountability standards to SOCs and natural resource funds.**
- **Concerted effort to control corruption, strengthen the rule of law and guarantee civil and political rights.**
- **Adopt international reporting standards for governments and companies. Importance of EITI**

In Concluding...

- 1. Data Power – Measuring, monitoring & diagnosing governance & corruption worldwide at national, subnational, sectoral levels**
- 2. State Capture: a different lens and approach to view corruption and mis-governance – very costly & with different implications**
- 3. It Matters for Growth, Macro, Social, Political, Institutions**
- 4. To address it: Importance of Demand side of Governance, incl. Voice & Accountability, Media, Transparency, Open Data**
- 5. Governance in Extractives: Major Challenge**
- 6. International Dimension: Challenge & Opportunity**
- 7. Innovations in Reform Entry Points: Transparency, B.O., P.B... etc**
- 8. When an historical opportunity for change and reform?**