

FUNCTIONING, EFFECTS AND PERSPECTIVES OF TRANSPARENCY INITIATIVES

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THE EXAMPLE OF THE EITI IN AZERBAIJAN

Dr. Hannes Meissner

City of Vienna Competence Team Black Sea Region
University of Applied Sciences BFI Vienna,
hannes.meissner@fh-vie.ac.at

1. Introduction

This paper focuses on the functioning, outcome and perspectives of initiatives developed to enhance transparency and efficiency in public finance management in countries which are rich in natural resources (oil, gas, gold, gemstones and other mineral deposits). These countries have significant socioeconomic potential. Ideally, resource wealth is a source for promoting human development, maintaining a country's educational sector and welfare system, its infrastructure as well as for financing long-term investment projects. This, in turn, contributes to social integration and the acceptance and longevity of democratic systems. Several industrialized countries like Norway, Australia, Canada and the Netherlands (etc.) and even some developing or emerging countries like Malaysia and Botswana respectively have demonstrated that resource management to the benefit of a country's entire population is possible.

However, in most resource-rich countries worldwide, the reality looks different. Despite huge resource incomes, the state does not meet basic social needs. In some cases, mass poverty is even increasing. These countries often suffer from authoritarian rule. In other cases, resource production causes, triggers off or expands violent conflicts. These phenomena are known as "paradox of plenty" (Karl 1997) and "resource curse" (Ross 2001). Although the underlying causalities are complex, the main reasons can be identified as follows. Ruling elites systematically embezzle resource profits (also referred to as "rents") – a practice that is known as "rent-seeking". They misuse resource incomes for short-sighted policies, like unreasonable projects ("white elephants") and excessive public sector spending. Regarding violent conflicts, resource profits can provide a financial basis for warfare. The strengthening of authoritarian regimes can be traced back to different causalities again. One of the most obvious examples is that resource incomes are the basis for high security-sector spending. The police and secret service can then be used to oppress the population and opposition. The debate on the "resource curse" has also focused on the role of Western governments, providing political support to corrupt and non-democratic elites. It has also paid attention to multinational

companies, engaged in bribery and embezzlement (cf. Ross 2001: 332 pp.; Basedau 2005: 6; Meissner 2013: 35 pp.).

In the nineties public awareness for these problems started to rise. Ever since, NGOs have increasingly demanded responsibility from governments of resource extracting countries and multinational companies likewise. This has led to civil society initiatives aimed at enhancing transparency and accountability in public resource management. Among them, the “Publish What You Pay Campaign” attained larger attention for the first time. This initiative is directed to the disclosure of all payments by foreign companies to the governments of resource producing countries. After the millennium, public interest in such initiatives further increased. In this context, the “Extractive Industries Transparency Initiative (EITI)” is the farthest reaching activity. Launched in 2002 by Tony Blair, it responds to the “Publish What You Pay Campaign”. In contrast, however, this initiative includes not only NGOs, but also multinational companies, international organisations and governments. The EITI provides an institutional framework for cooperation between these three stakeholder groups in order to ensure transparent company payments („Publish What You Pay“) to governments of resource-producing countries („Publish What You Earn“). Currently, 23 “Compliant Countries” and 16 “Candidate Countries” join the EITI. Over 60 of the world’s largest mining, oil and gas companies have committed themselves to supporting the initiative.

This paper includes both a theoretical and an empirical study. It gives a basic definition on transparency initiatives, identifies underlying concepts, and introduces a basic analysis model. The latter is useful to understand and evaluate the functioning and effects of transparency initiatives in general. The empirical study draws on the EITI. It further provides a case study on its implementation process in Azerbaijan. How do transparency initiatives operate in general? What are the particularities of the EITI? Which conclusions can be drawn from the EITI implementation process in Azerbaijan?

In the first step, this paper delivers a basic definition of transparency initiatives. It furthermore identifies underlying concepts. Step two introduces the analysis model. It is based on four levels, referring to (1) the governance structure of the respective initiative, (2) the constellation of actors in the target country, (3) the initiative’s particular objectives, measures and enforcement strategies and (4) basic aspects necessary to take into account when evaluating the initiative’s effects. While step three of this paper takes a closer look at the particularities of the EITI in general, step four analyses the EITI implementation process in Azerbaijan. It reveals that the EITI has had limited success so far, despite the fact that Azerbaijan is an EITI pilot and pioneer country. The main reason is that the initiative is limited to transparency in the field of resource incomes, while the ruling elite can pursue their rent-seeking interests unrestrictedly on the expenditure side through public investments. In this context, this paper furthermore highlights that the EITI has had some unintended side effects, as the Azerbaijani government misuses the EITI in order to improve its image, to cover up their corruption practices and to strengthen their power. Referring to the lessons from Azerbaijan, this paper finally draws conclusions and

offers recommendations regarding the perspectives of the EITI in particular and transparency initiatives in general (step five).

This study is part of my PhD thesis (Meissner 2013). It draws on publications and archival materials of the Baku based “EITI Coalition”, as well as on expert interviews carried out in Azerbaijan in 2009 and 2010. The theoretical chapters of this paper draw on concepts and terms of different disciplines. In this regard, they particularly refer to the discourses on governance (Risse 2008: 6; Mayntz 2004: 68 p.), good governance (UNESCAP 2011), external democracy promotion (cf. Schimmelfennig 2003: 410; Schimmelfennig 2006: 31) and fragile states (Schneckener 2006a; Weiss/Schmierer 2007).

2. Transparency Initiatives: Definition and Underlying Concepts

Transparency Initiatives are inter- and transnational cooperations between private actors (NGOs, companies etc.) on the one hand and state actors on the other hand. They are directed towards enhancing transparency, accountability and efficiency in public resource management. In this regard they can cover both, the income-side (cf. company payments) and the expenditure-side (cf. state budget, oil funds). The cooperation is based on a programme reflecting a common normative base. It has a fixed structure and takes place according to common rules. To achieve the goals set, the initiative draws on certain measures and strategies.

Regarding their normative content, transparency initiatives refer to the concept of “Good Governance”, originally designed by the World Bank. The concept defines eight guidelines for governance, which in total lead to a form of management resulting in sustainable development (Ziai 2006: 71). In this way they also deliver a benchmark of how governments have to deal with resource incomes. In particular, the guidelines are “Effectiveness and Efficiency“, commitment towards “Accountability“, “Transparency“ regarding decision making acts, the “Participation” of the population in the entire decision-making process, fair framework conditions in terms of the “Rule of Law” for the protection of human rights, “Responsiveness”, compliance with the consensus amongst the population (“Consensus Orientation”) and “Equity and Inclusiveness” (UNESCAP 2011).

The concept of Good Governance refers to multi-levels, as it is not restricted to national and local governance, but as it also applies to international and corporate governance, as well as to interactions with/between other sectors of society. In this way, the concept responds to the increasingly subsidiary role of state activities towards society and the progressing development of global structures in different policy areas. In this context, different regulatory structures coexist. Besides traditional sovereign regulatory tasks exercised by the state hierarchically, partnerships between private actors and the state, as well as purely private forms of self-regulation have taken root (Risse 2003: 6; Mayntz 2004: 68 p.).

3. Structure and Functioning of Transparency Initiatives

In order to develop a systematic understanding of the structure and operation of transparency and efficiency initiatives, it is appropriate to start from the question of what actors foster transparency in (a) given country/countries, in what constellation, with what specific measures and strategies and with what effects. There are four levels of analysis that can be derived from these questions.

(1) Governance Structure of the initiative

The first level of analysis refers to the governance structure of the initiative. The aim is to give an overview on the particular programme and to understand it in its overall context. Therefore, it is necessary to take a closer look at its historic background and its time dimension. It is also necessary to determine the core actors as well as any further stakeholders at the global level. As transparency and efficiency initiatives are cooperations between private and state actors, they do not include civil society only, but state agencies, international organisations and/or companies as well. In this regard there is also a need to outline the structure of the cooperation relationship, its general aims and underlying norms.

(2) Constellation of actors in the target country

The second level of analysis refers to the constellation of actors in the target country/emerging market: The aim is to identify the core actors at national level (local authorities, local NGOs etc.) and to classify the form of relationship between them and the main parties on the global level. It is also necessary to focus on the distribution of responsibilities between external (foreign companies, international organisations, INGOs etc.) and internal players and to ask which conflicts occur.

(3) Objectives, measures and enforcement strategies

The third level of analysis refers to the particular objectives, measures and enforcement strategies. First of all, it has to be asked what particular measures are being taken in order to enhance transparency, efficiency and sustainability in which target area. Such measures can be direct or indirect. Direct measures aim at establishing/reforming the institutional set-up of the initiative itself, monitoring structures and/or the institutional resp. legal framework at national level (state funds, public institutions etc.). They can also be directed towards reforming the legal framework. As direct measures are top-down-oriented aiming at institution-building, they can be subordinated to “institutionalisation strategies” (cf. Schneckener 2006a: 380 p.). In contrast, indirect measures are directed towards changing the societal environment. By strengthening civil society and creating a critical public, the basis for transparency and efficiency should be created “bottom-up” in the long term. For this reason, indirect measures can be subordinated to “civil society strategies” (cf. Schneckener 2006: 378). In practice, direct and indirect measures often go along with each other.

Besides, it is necessary to examine the enforcement strategies foreign actors draw on. Here again, a mix of strategies can be applied. In general, the literature on International Relations hints at a wide range of enforcement strategies, ranging from

weak persuasive instruments to hard approaches relying on force (cf. Schneckener 2006b: 39). However, in practice, a reform actor's strategy choice depends on his/her negotiating power. For this reason, hard strategies are non-relevant in the case of efficiency and transparency initiatives.

Persuasive Strategies are based on the presentation of arguments and are, therefore, part of the theories of constructivism. In this perspective, "unpleasant" rules are not compatible to national regulatory systems. In order to make them compatible, they have to get "socially internalised" (Risse 2003: 119). This is done in discursive processes of negotiation and conviction, finally resulting in the redefinition of the preferences and identities of local actors. Such processes take the form of complex "learning processes", in which foreign actors (companies, international organisations, INGOs) act as socialisation agents (Börzel/Risse 2002: 150; Schimmelfennig 2003: 410; Schimmelfennig 2006: 31).

Incentive strategies belong to the theories of rational action. From this perspective, the implementation of reform measures results from strategic calculations by local actors. In order to induce reforms, external agents offer incentives. However, this succeeds only if the benefits of implementation exceed the costs (cost-benefit-calculation). "These strategies operate through the manipulation of incentives and disincentives to reward rule-conforming and punish rule-violating behaviour (Schimmelfennig 2006: 31)." There are different incentive-instruments. "Enforcement by reward" means that social and symbolic incentives are set in the form of public praise and recognition at the international level (Schimmelfennig 2006: 33). Direct political and material incentives are set in the form of (financial) assistance. Indirect incentives are offered by promising political and economic advantages (foreign investments, market access etc.) (Schimmelfennig 2006: 32, 39).

Supportive strategies are part of "no-fault approaches", as they are based on the assumption that local authorities often do not violate international rules deliberately but due to lacking capacities and structural weaknesses (economic, administrative and legal) (Chayes/Handler-Chayes 1993: 22; Raustiala/Slaughter 2002: 543). "Compliance management" is based on positive, cooperative long-term measures like the transfer of material and ideational resources for building/strengthening capacities and institutions and deeper political/economic cooperation (Börzel/Risse 2002: 147; Jetschke 2001: 39). Other examples are "additional meetings with the agency, the sending of expert and support teams and assurances of respect for the efforts undertaken" (Schimmelfennig 2006: 33).

(4) Evaluation

The fourth level of analysis refers to the evaluation of the initiative's effects. This can be done by a comparison of the actual and target conditions. In other words, the results achieved have to be compared to the targets proclaimed initially. The evaluation has to include the programme's direct and intended effects on target groups/objects ("outcome"). However, it has also to take into account indirect and not-intended effects ("impact"). Non-intended effects can increase the initiative's

efficiency, they can have no effect on the results, or they can be contra-productive (cf. Jann/Wegrich 2003; Wollmann 2003; Stockmann 2004).

4. The EITI

In October 2002, Tony Blair announced the EITI at the World Summit for Sustainable Development in Johannesburg. It was then launched in June 2003 at Lancaster House in London. The EITI is an independent, international agreement on the implementation of global transparency standards in the resource extracting industries. The core idea is that companies “Publish What They Pay” and governments “Disclose What They Receive”. Therefore, the EITI creates a coalition of governments, companies, investors, international organisations and civil society. It is designed to ensure that all people see results from the extraction of their natural resources through a transparent, efficient and sustainable management of the resource incomes (EITI 2010d).

The governance structure of the EITI is marked by its specific feature as a network uniting all three social sectors (state, business and civil society). The “EITI-Board” is the leading body. It consists of 20 members representing implementing countries, supporting countries, civil society organisations, industries and investment companies. The body meets three times each year taking any key decision. Basic choices, however, are made at the EITI Global Conference held once every two years, bringing together all stakeholders of the initiative. The fifth EITI Global Conference at the OECD in Paris in March 2011, gathered more than 500 participants, among them heads of states, government leaders, civil society organisations and companies. During these conferences, a smaller “Members’ Meeting” with the three constituency groups (countries, companies, civil society organisations) takes place, whose main role is to appoint an EITI-Board for the next two years. The administrative functions for turning policy decisions into action and coordinating worldwide efforts in implementing the EITI are carried out by the “EITI-Secretariat” based in Oslo (EITI 2010c; EITI 2012a).

Currently, 23 “Compliant Countries” and 16 “Candidate Countries” join the EITI. More than 60 of the world’s largest mining, oil and gas companies have committed themselves to supporting the initiative. The same holds true for over 80 global investment and financial institutions, among them the IMF and World Bank, as well as inter- and supranational organisations like the United Nations and the European Union. A special role falls to the “Supporting Countries”, providing technical, political and financial support to the initiative (EITI 2012a, EITI 2013).

As at the international level, the EITI unites all three core groups (state, business, civil society) at the national level. For example in Azerbaijan in 2004, the government, extracting companies and the civil society of the country signed a “Memorandum of Understanding”, defining the role of each group as well as the work steps for implementing the initiative. At the beginning of 2010, they established a formal “Multi-Stakeholder Group” and passed a formal working plan for 2010. As early as June 2004, 30 Azerbaijani NGOs formed a coalition “For

Improving Transparency in Extractive Industries”, the so-called “EITI-Coalition”. Until 2010 it grew to 115 NGOs and further 15 individual members. While only about 15 NGOs are actively involved into the EITI-process (Author’s interview with the Chair of the EITI-Coalition, Baku: 3.4.2009; Finance Expert I, Baku: 8.4.2009) the “National Committee on EITI”, headed by the “State Oil Fund of the Republic of Azerbaijan (SOCAR)”, carries out the implementation of the EITI in Azerbaijan (EITI 2009: 2; EITI 2010a).

In order to ensure transparency, efficiency and sustainability in the management of resource incomes for the benefit of all people, the EITI has six programme items (“EITI Criteria”): Firstly, all material payments by companies to governments (“payments”) and all material revenues received by governments from extracting companies (“revenues”) have to be published regularly to a wide audience in a publicly accessible, comprehensive and comprehensible manner. Secondly, payments and revenues are to be audited in a credible and independent manner, applying international auditing standards. Thirdly, a credible and independent administrator has to reconcile payments and revenues, applying international audit standards. The administrator has to publish his/her opinion, in particular regarding discrepancies, should any have occurred. Fourthly, this approach should be extended to all companies, including state-owned companies. Fifthly, civil society takes an active part in the process by monitoring and evaluating the steps taken and by contributing towards public debate. Sixthly, the host government has to develop a public, financially sustainable work plan. It includes measurable targets, a timetable for implementation and an assessment of potential capacity constraints. Where required, the host government can take assistance by the international financial institutions (EITI 2010e).

According to an „institutionalisation strategy“, the EITI is first and foremost directed towards establishing a governance structure between companies, governments and civil society. However, as it also aims at strengthening civil society and creating a critical public, it also includes a civil society approach. The initiative’s overall aim is to ensure transparency and accountability in a field of interaction that has so far been open to the two business parties (foreign companies, governments) only. In other words, this area has so far been removed from public control. However, despite all efforts taken by the EITI, the autonomy of the governments and companies involved remains largely intact. This is due to the fact that civil society must not obtain any possibility to control government resp. company actions directly. Rather, audits need to be conducted by external auditors. This is a frequent point of criticism, as reconciliations only detail whether the amounts reported agree, not whether they are right. In particular, it remains unclear whether a royalty was paid on the right amount of production, or if the government’s share of production was sold at a fair value (etc.) (Goldwyn 2008: 23).

The implementation of the EITI takes place in four phases with 21 steps in total. During the “Sing-Up Phase” (steps one to five), the government creates the basic requirements in order to apply for EITI candidacy. The “Preparation Phase” (steps five to 13) is directed towards institutionalising the governance structure of the EITI. In the course of the “Disclosure Phase” (steps 14 to 17), the disclosure of all

payments and revenues takes place, including the auditing process. The final “Dissemination Phase” (step 18) requires the EITI report to be published in a publicly accessible, comprehensive and comprehensible manner. Step 19 and 20 determine “Review and Validation Requirements”, ensuring that the EITI process is sustainable and that all stakeholders take steps to act on lessons learnt. A country that has met all requirements becomes “Compliant Country”. To retain EITI compliance, countries must maintain adherence to all requirements (step 21) (EITI 2011: 14).

For the purpose of enforcement, the EITI draws primarily on incentive strategies. This takes place in the form of public praise and recognition at the international level, like when the EITI-Board awards compliant status. At the same time, the EITI sets indirect incentives by promising economic advantages: “Benefits for implementing countries include an improved investment climate by providing a clear signal to investors and international financial institutions that the government is committed to greater transparency.” It is further more mentioned that the EITI brings about political benefits as it promotes greater economic and political stability and as it contributes to the prevention of conflict around the oil, gas and mining sectors. Towards investors and extracting companies, the EITI highlights that the initiative mitigates political and reputational risks and that it can help to demonstrate the contribution that a company’s investment makes towards a country. Finally, “benefits to civil society come from increasing the amount of information in the public domain about those revenues that governments manage on behalf of citizens, thereby making governments more accountable” (EITI 2010b). In addition to incentive strategies, the EITI also contains a supportive approach. Countries having difficulties in implementing the EITI due to lacking capacities and structural weaknesses, can ask for assistance. For this purpose, the World Bank administers a special purpose fund, the “EITI Multi-Donor Trust Fund” (EITI 2012b).

5. Lessons from EITI implementation in Azerbaijan

In Azerbaijan, the implementation of the EITI was favoured by the fact that the government regularly expresses its willingness to carry out reforms. At least at the international level, the Azerbaijani president Ilham Aliyev declares his strong support to transparency and efficiency in revenue management to the benefit of the entire population (SOCAR 2008). Azerbaijan is not only one of the EITI pioneer countries, but also a pilot country. At the first “EITI-conference” on 17 June 2003 in London, Ilham Aliyev announced the government’s decision, to take part in the EITI and to actively support all international efforts to enhance transparency in the extracting industries. In line with the government’s commitment to the EITI, representatives of the “EITI-Coalition” consider their cooperation with the government as “pretty good” (Author’s interview with a Representative of Azerbaijan in the EITI-Board”: 30.3.2009). The government, in turn, emphasises that it is willing to cooperate with the “EITI-Coalition” (Author’s interview with A. Mammadov: 13.4.2009). As a result of the rapid implementation of the EITI, Azerbaijan was awarded compliant status as the first country worldwide on 16

February 2009. The audit report concludes “that Azerbaijan has complied with all the indicators contained in the Validation Guide and that additionally, the process is consistent with the EITI’s Principles and Criteria” (EITI 2009): 24).

Despite the EITI’s overall success in Azerbaijan, the audit report also expresses several points of criticism (cf. EITI 2009: 7 pp.). Firstly, up to that time, Azerbaijan had neither established any “Multi-Stakeholder Group”, nor presented any “working plan”. However, this was mainly due to the fact that such formal steps did not exist at the time when Azerbaijan joined the EITI, as the entire process was still in an early stage. Nevertheless, even later on, the Azerbaijani government refused to implement the two regulations, arguing that the “Memorandum of Understanding” would already fulfil the purposes of a “Multi-Stakeholder Group” and a working plan in a non-bureaucratic manner (Author’s interview with A. Mammadov: 13.4.2009). The “EITI-Coalition”, however, saw this conduct as an attempt to maintain the government’s dominance in the EITI-process and to prevent civil society from obtaining another platform (Author’s interview with the Regional Coordinator of a Transparency Programme: 16.4.2009). It was not until the beginning of 2010, the government implemented the two steps due to pressure by the EITI-Board. Another point of criticism was directed towards some minor discrepancies that occasionally occurred in the companies’ reports on their payments to the government. The companies argue that calculation errors cannot be avoided entirely, as they often go back to exchange-rate fluctuations (Author’s interview with Finance Expert I: 8.4.2009; Regional Coordinator of a Transparency Programme: 16.4.2009). Anyway, these discrepancies are comparatively small and, therefore, practically negligible. Against this background, even critical actors emphasise that the EITI has been implemented successfully (Author’s interview with the Chair of the EITI-Coalition: 3.4.2009).

Therefore, it surprises at first sight that there is little euphoria among local civil society experts and foreign observers in Baku. At the beginning of 2009, some founding members of the “EITI-Coalition” had even turned their backs on it or were at least thinking about quitting their membership. Notwithstanding, the vast majority would continue their membership. However, this pragmatic attitude was due to the perception that, if the EITI did not exist, “the entire situation was even worse” (Author’s interview with the Head of an Opposition Party: 6.4.2009). In this respect, civil society representatives argue that unlike in the past, basic information on oil revenues is now available. Moreover, the EITI created a platform, enabling to exchange their own positions with those of the government (Author’s interview with the Embassy Representative of a North-European Country: 15.4.2009; Finance Expert II: 30.3.2009; the Chair of the EITI-Coalition: 3.4.2009). Azerbaijani civil society actors complained to the author that they play no really important role in the EITI-process, due to the lacking opportunity to control government and company actions directly (Author’s interview with Finance Expert II: 30.3.2009; Finance Expert I: 8.4.2009; Regional Coordinator of a Transparency Programme: 16.4.2009). Another reason for their dissatisfaction is that “nobody living in the countryside of Azerbaijan is interested in the opinion of the EITI-Coalition in any way” and that they “do not even realise their activities” (Author’s interview with a Civil Society

Activist: 8.4.2009). However, these are only factors increasing disillusionment further.

In fact, it is a common view that the EITI is inadequate to ensure transparency, efficiency and sustainability in revenue management. As a Western diplomat in Baku pointed out, he “doubts whether the EITI is the right instrument to guarantee transparency (Author’s interview with the Embassy Representative of a North-European Country: 15.4.2009).” The reason is that the EITI is constrained to transparency in the field of revenues, while the ruling elite of Azerbaijan can persist with its corruption and rent-seeking interests in the field of expenditures (Author’s interview with Finance Expert I: 8.4.2009). – In Azerbaijan, systematic embezzlement takes place in the construction sector, as a huge proportion of the state budget and the state oil fund are directed into it (cf. Meissner 2011, 2012). – With this in mind, a representative of Azerbaijan in the EITI-Board criticises that “the EITI relates to one aspect of transparency only”. In fact, “the problems with corruption persist, as the expenditure side is more sensitive.” Overall, however, he welcomes that the government takes part in the EITI and that it has the intention to fight corruption. Moreover, he considers that the EITI is “a good example and important sign” (Author’s interview with a Representative of Azerbaijan in the EITI-Board: 30.3.2009). In contrast, the chair of the EITI-Coalition is more sceptical: “Before the EITI was implemented, the government institutions could do with the oil revenues what they wanted. As the initiative has been implemented now, nothing has changed in this regard. (...) Given that we do not believe that the EITI-process will have a deeper impact on society (Author’s interview with the Chair of the EITI-Coalition: 3.4.2009).”

At the same time, local observers believe that the civil society of Azerbaijan is too weak to use the EITI as a first step in promoting transparency (Author’s interview with a Civil Society Activist: 8.4.2009). As the head of an opposition party mentioned to the author, “civil society has no mechanisms at all to ensure public control over the oil management. We have to admit that there is no real civil society and no transparency. The president (of Azerbaijan) is the one who takes any decision. It (the oil money) is his money (Author’s interview with the Head of an Opposition Party: 6.4.2009).”

Only if the EITI is extended to the expenditure side, it will ensure transparency, efficiency and sustainability in revenue management. However, in this case there is still the question of how to solve the problem how to oblige governments to implement the initiative. The Azerbaijani government, for example, was willing to implement the initiative for the reason that the EITI brings about significant political and economic advantages while, at the same time, not posing any real threat to the ruling elite’s corruption and rent-seeking practises. As a local civil society representative in Baku mentioned to the author, “the (Azerbaijani) government could not wait joining the EITI”, as “they not only recognised its incentives, but also the fact that the initiative is not adequate to tackle corruption and to bring more influence to civil society (Author’s interview with a Civil Society Activist: 8.4.2009).” In Azerbaijan, political and economic incentives at the international level fall on fertile ground, as international recognition is important to the

government to a certain degree (Author's interview with the Country Director of an American INGO: 9.4.2009). Moreover, Azerbaijan shall become economically attractive to foreign investors as a hub between Europe, the USA and Asia (Author's interview with Finance Expert II: 30.3.2009).

According to the executive director of "Transparency Azerbaijan", R. Safaraliyeva, no objections can be made to the fact that the government uses the EITI to boost the image of Azerbaijan (Author's interview with R. Safaraliyeva: 27.4.2009). The EITI actually promotes itself with this incentive. Other civil society experts in Baku, however, critically mentioned to the author that the government rather uses the EITI to boost their own image (Author's interviews with a Civil Society Activist: 8.4.2009; Regional Coordinator of a Transparency Programme: 16.4.2009). "When you are 'number one' in the EITI, it means that you are transparent (Author's interview with a Representative of Azerbaijan in the EITI-Board: 30.3.2009)." As a local finance expert complains about, in this way, the government "misuses the EITI as imitation" (Author's interview with Finance Expert I: 8.4.2009). The regional coordinator of an institute working on revenue transparency takes a similar view, highlighting that the government uses the EITI "as shield against criticism" (Author's interview with the Regional Coordinator of a Transparency Programme: 16.4.2009). The chair of the EITI-Coalition, in turn, points out that the EITI "allows the government to cover its corruption practises" and "to boost its image at the international level." However, there is another problematic aspect in his eyes. "By being committed to the EITI, they send the signal to the population that they are transparent. (..) They demonstrate, even if there are people in Azerbaijan not satisfied with their style of governance, the entire international community supports them (Author's interview with the Chair of the EITI-Coalition: 3.4.2009)."

In other words, the government uses the EITI to legitimise its rule both externally and internally. According to a local finance expert, the best example of this were the events surrounding the illegitimate transfer of power from the former president Heydar Aliyev to his son Ilham by rigged elections in 2003. This was a critical juncture for the ruling elite's hold on power. For this reason, the government tried to strengthen its position at the international level. "For the president, the EITI (that had just been launched) offered an opportunity to integrate himself into the international community (Author's interview with Finance Expert II: 30.3.2009)."

With the government using the EITI for their own purposes, some (former) members of the EITI-Coalition are getting increasingly frustrated. As a local civil society activist complained to the author, the "EITI-Coalition fulfils decorative purposes only" (Author's interview with a Civil Society Activist: 8.4.2009). The head of an opposition party takes a similar view: The EITI-Coalition has not had "any success". It has "just supported the interests of the government and of oil companies. (...) The EITI does not guarantee any transparency, as it is an imitation of transparency. Transparency, human rights, democracy, an open society – that all is imitation in our country" (Author's interview with the Head of an Opposition Party: 6.4.2009). A Western diplomat in Baku shares this opinion. "On the surface, however, the government makes it look good" (Author's interview with the Embassy Representative of a North-European Country: 15.4.2009).

At the same time, the Azerbaijani government uses its pioneer role and commitment to the EITI to influence the EITI-process on the global stage. The aim is to stop attempts to extend the EITI to the expenditure side (Author's interview with the Chair of the EITI-Coalition: 3.4.2009). However, having obtained complaint status, the government's level of commitment to the EITI has recently decreased. According to the regional coordinator of an institute working on revenue transparency, this is a sign that the EITI has reached its maximum extension in the eyes of the government (Author's interview with the Regional Coordinator of a Transparency Programme: 16.4.2009).

A. Mammadov, at that time managing director of the state oil fund and head of the national EITI-secretariat, expresses the government's status-quo position: "The EITI is a big success story. It has achieved its goals. We need to be clear that this is about 'Publish What You Pay' and 'Publish What You Earn'. You cannot call for other problems to be solved under the umbrella of the EITI. This will never happen." In this context, A. Mammadov puts forward three arguments. Firstly, if the initiative was extended, this would overreach it, finally reducing its efficiency. Secondly, the core objective of the EITI is to ensure transparency in a field that has so far been removed from public control. In contrast, on the expenditure side, "there are enough national supervising bodies". Thirdly, if the EITI was extended to the expenditure side, this would mean "an infringement of state sovereignty" and an "intervention into internal affairs" (Author's interview with A. Mammadov: 13.4.2009). According to a Western diplomat in Baku, this argument makes it difficult to extend the EITI, as the accusation of neo-colonialism would be in the air (Author's interview with the Embassy Representative of a North-European Country: 15.4.2009).

6. Conclusions

The lessons from EITI implementation in Azerbaijan reveal that quick and ideal solutions cannot be expected. In reality, transparency initiatives can push local elites to enhance transparency, accountability and efficiency in public resource management only by slow degrees and in the long-run. However, this is again only a best case scenario. As the experiences from Azerbaijan demonstrate, Western actors have to take into account certain aspects in order to be successful in the long-term and to avoid non-intended contra-productive effects in the short-term. These aspects include in particular:

In the short term, the opportunities of institutionalisation approaches lie in creating a cooperation framework, within which companies, the opposition and civil society can work together with the respective government to find solutions of general interest. This is already a significant step forward, since such cooperations are usually weak or do not exist at all in authoritarian environments. In this context, Western actors are particularly responsible for demanding and fostering rule-conforming behaviour between the different stakeholder groups.

In the long term, transparency initiatives have to be extended to both the income-side and the expenditure-side. Only in this case, ruling elites will not have any space anymore, to circumvent an initiative's basic goals. The case of Azerbaijan is the best example of all this. While the EITI is confined to transparency in the field of revenues, the ruling elite can persist with its corruption and rent-seeking practices in the field of expenditures. Only if the EITI is extended to the expenditure side, it will ensure transparency, efficiency and sustainability in revenue management. However, in this case there is still the question to be solved of how to force governments to implement the initiative. The Azerbaijani government, for example, was willing to implement the initiative for the reason that the EITI brings about significant political and economic advantages while, at the same time, not posing any real threat to the ruling elite's corruption and rent-seeking practices.

Regarding enforcement strategies, incentive strategies seem to be most effective in terms of inducing local elites to cooperate. However, Western actors should not lose sight of the fact that such strategies not only rely on praise, but on blame as well. In the case of Azerbaijan, they were ultimately not critical enough, as they did not consider the ruling elite's real and hidden interests sufficiently. With their negotiating power in mind, Western governments have to keep up continuous pressure, thrashing out the country-specific opportunities, pushing respective governments to implement the next action at each step.

In this overall context, there is one particular important factor to consider. For each initiative, Western actors always have to keep the functions of control and strategic guidance. As the case of the EITI in Azerbaijan shows, ruling elites might otherwise use an initiative to pursue their particularistic interests. The results are contra-productive side-effects. In Azerbaijan, the government misuses the EITI in order to improve its image, to cover their corruption practices and to strengthen their power.

In addition to institutionalisation approaches, Western actors should increasingly draw on "bottom-up" strategies. They seem to be most appropriate to change political environments sustainably in the long-term. It is finally the population that is responsible for demanding transparency, accountability and efficiency from their government. In this regard, initiatives have to enhance public awareness and strengthen civil society. Western actors can support this process by providing resources and knowhow. However, it is particularly important that they pressure ruling elites into guaranteeing at least a minimum degree of political freedom, since "bottom-up" approaches cannot work otherwise.

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