Norm Diffusion and Reputation: The Rise of the Extractive Industries Transparency Initiative

ELIZABETH DAVID-BARRETT* and KEN OKAMURA**

Transparency in the extractives sector is widely seen as an important tool for improving accountability and deterring corruption. Yet for those very reasons, it is a puzzle that so many governments in corruption-prone countries have voluntarily signed up to greater scrutiny in this area by joining the Extractive Industries Transparency Initiative (EITI). We argue that EITI serves as a reputational intermediary, whereby reformers can signal good intentions and international actors can reward achievement. International and domestic actors thus utilize EITI to diffuse the norm of resource transparency and to advance reformist aims in a highly problematic policy area.

Introduction

Resource-rich countries tend to perform poorly in terms of economic development despite their natural wealth (Auty 1994; Frankel 2010; Karl 1997). Some scholars attribute this "resource curse" partly to high levels of corruption (Mehlum, Moene, and Torvik 2006; Robinson, Torvik, and Verdier 2006; Sala-i-Martin and Subramanian 2008). Indeed, many countries that are rich in oil, gas, and mineral resources are perceived to be highly corrupt, according to widely used measures such as the Transparency International Corruption Perceptions Index (CPI), and the extractive industries are regarded as among the most corrupt areas in international business.[1] As such, the question of how to reduce corruption in the management of natural resources is of key concern to scholars of corruption and development practitioners.

Many anticorruption measures focus on increasing transparency, reflecting numerous studies suggesting, broadly, that sunlight is the best disinfectant (Kaufmann 2002; Kurtzman, Yago, and Phumiwasana 2004), although many others cast doubt on the relationship (Aaronson 2011; Dykstra 2011; Gillies 2011; Kolstad and Wiig 2009; Van Alstine 2014). As a policy solution, transparency can be difficult to achieve, since it relies heavily on organizations proactively disclosing information. In organizations—including governments—where corruption is rife, such voluntary disclosure seems unlikely to be forthcoming. Why would corrupt individuals volunteer to shine sunlight on their activities knowing that, in so doing, they would invite scrutiny of their conduct and potentially diminish their ability to extract rents in the future?

We suggest that the answer lies in a complex story about how norms spread and take hold in international politics and how indicators of norm compliance come to serve as reputational intermediaries in that process. This creates a context in which governments are motivated to subscribe to a norm so as to build a reputation with other international actors and, in so doing, gain access to social and material benefits. We examine the Extractive Industries Transparency Initiative (EITI) as a case study that

*University of Sussex
**University of Oxford

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sheds light on these processes. Once transparency has emerged as an international norm associated with good governance, EITI becomes an important tool for reformers in government to signal their good intentions, helping them to motivate their peers to comply. International actors in turn seek to assist domestic reformers by rewarding the achievement of EITI objectives with more concrete benefits, including increased aid, so as to help them sustain domestic momentum.

The article proceeds as follows. First, we analyze the way in which transparency in natural resource management has emerged as an international norm and focus on how the EITI grew out of this process as well as providing a mechanism for consolidating the norm. Second, we examine the viewpoints of national governments considering whether to join EITI and international actors seeking to promote better natural resource management as a goal of international development policy. We conduct interviews with stakeholders and analyze WikiLeaks cables from U.S. State Department officials, in which they report conversations with government officials involved in driving forward EITI reforms as well as describing their own objectives and interventions. Third, we develop hypotheses—on why states join and how donors respond—that can be tested with quantitative analysis. Fourth, we discuss our results and conclusions, as well as identifying areas for future research.

The article contributes to the literature on norm diffusion, specifically on the norm of transparency in natural resource management and on how a reputational intermediary such as the EITI can facilitate progress from norm emergence to norm cascade (Finnemore and Sikkink 1998; Gillies 2010). It also furthers our understanding of how voluntary standards systems help regulate the behavior of governments and companies (Abbott and Snidal 2009; Gupta 2008; Prakash and Potoski 2006). This is in line with other work suggesting that governance indicators can exert a form of soft power (Nye 2004) and may influence policy at the national level (Kelley and Simmons 2014).

Transparency as an International Norm

Finnemore and Sikkink (1998) suggest that norm influence in international politics is best understood as a three-stage life cycle of emergence, cascade, and internalization. The emergence of a norm is driven by entrepreneurs who take a leadership role in seeking to convince states and other actors of its value. When a certain number of organizations adopt the norm, a “tipping point” is reached, ensuring progress to stage 2. In this “norm cascade” phase, states imitate one another in seeking to demonstrate that they have adopted the norm, and attempt to socialize other states to become norm followers. In the third stage, norms are internalized such that they are taken for granted, no longer a focus of broad public debate, and may become enshrined in law. Our analysis sheds light on how the norm cascade phase works, particularly on the dynamics within government and on interactions between governments and international actors.

The emergence of transparency as an international norm was driven by a few individuals concerned that international development efforts were being subverted by corruption. In 1994, several former World Bank development economists founded an international nongovernment organization (NGO), Transparency International (TI), to promote transparency as a tool for reducing corruption. TI began to publish an annual CPI, which made it possible to compare corruption levels across countries. Shortly afterward, in 1996, then World Bank President James Wolfensohn gave a speech arguing that the “cancer of corruption” impeded development goals. These initiatives began to erode a taboo that had prevented many individuals in international development from talking about endemic corruption for fear that it would upset delicate relationships with host governments (Carothers and de Gramont 2013).

Transparency became consolidated as an international norm relatively quickly. Its NGO advocates, TI key among them, were highly effective norm entrepreneurs, using their networks and status to persuade the international political elite (Finnemore and Sikkink 1998). Transparency also benefited from being situated at an intersection of several networks, policy entrepreneurs, and norms (Haufler 2010), and was conceptually close to other norms that were already widely accepted (Price 1998). Arguably, the international political elite also felt that it had little to fear from the transparency agenda; the TI Index repeatedly showed that corruption was largely a developing-country problem.

As a norm moves toward the tipping point, states and other international actors grow keen to demonstrate their adherence in ways that other stakeholders will recognize. This created a demand, in our case, for indicators of commitment to transparency, and helped foster a proliferation of anticorruption and transparency tools. Many policy actors, including companies, governments, and NGOs, now voluntarily disclose information about their activities and finances. Recently, the Open Government Partnership has seen 65 countries making a commitment to more transparent and accountable government. By joining such initiatives, actors can build a reputation for transparency and reap benefits in terms of international legitimacy and esteem, characteristics of norm cascade (Finnemore and Sikkink 1998). This is compatible with a realist view of states' motivations, since the consolidation of a norm changes the costs and benefits of compliance. When Grigorescu (2003) suggests that political elites realize that they no longer have a monopoly over information and that their societies will receive information about them directly from other sources, he focuses on the reduced cost of transparency. Equally, though, the establishment of transparency as an international norm means that states benefit from proclaiming their openness. Once the norm passes the tipping point, states face incentives to avoid being "outed" as noncompliant.

The campaign for transparency in the extractive industries can be seen as a distinct goal driven by another set of entrepreneurs, based in NGOs such as the Open Society Institute and Global Witness. In December 1999, Global Witness published a report on the management of oil resources in Angola, which called on companies operating there to be fully transparent about their activities. The goal of this "Publish What You Pay" campaign was to urge *companies*—the "supply side" of corruption, seen as supplying bribes in exchange for business—to disclose the payments that they made to governments. This was intended to shame governments into explaining how they had spent the money and to expose administrations that could not demonstrate that revenues had been spent on public policy measures. In February 2001, in response to this campaign, BP published details of a US$111 million "signature bonus" that it had paid to the Angolan government for an off-shore license. However, the Angolan national oil company, Sonangol, reacted harshly, threatening to revoke BP's operating licence. Thus, when Global Witness and other organizations went on to establish a global civil society network called "Publish What You Pay" (PWYP) in June 2002, most companies were reluctant to sign up for fear that they would lose business from governments that did not want to risk such exposure (Rich and Moberg 2015; Van Oranje and Parham 2009).

Unexpectedly, an even bolder initiative provided the solution. Conceived around the same time as PWYP but officially launched only in 2003, the EITI focused explicitly on the "demand side" of corruption, seeking to persuade *governments* to commit to disclosing the revenues they earned from extractives as well as to require companies that operated on their territory to publish what they paid to the government. Any discrepancies between the two sets of figures would need to be reconciled before an EITI report could be published. Thus, the new initiative spread the burden of regulation across governments and companies, and at the same time improved the effectiveness of disclosure by providing two accounts of the same transaction. This transparency on both sides of the business relationship was expected to deter corruption and, therefore, increase the likelihood of revenues being spent in ways that contributed to social and economic well-being, mitigating the resource curse (Ölcer 2009).

If PWYP had failed to convince companies of the benefits of signing up, it might have seemed even less realistic that EITI would be attractive to governments in developing countries. EITI implementation required governments to voluntarily subject themselves to a significant degree of scrutiny. For corrupt ministers, joining EITI would significantly increase the risk that their misconduct would be exposed and they would be forced to give up a highly lucrative stream of private gain. Yet EITI has proved extremely popular. As of March 2015, the Initiative had rated 32 countries "compliant,"[2] whereas 16 more had attained candidate status and several others had signaled their commitment to implementing the standard (see Table 1). Of the 32 countries that have achieved compliance, almost all (30 of them) have a CPI score of 40 or less, on a scale where 0 means that a country is perceived as highly corrupt and 100 means that a country is perceived as very clean.[3]

EITI as a Reputational Intermediary

The emergence of a natural resource transparency norm benefited from its coherence with wider agendas (Price 1998), including a consensus that natural resource management was prone to corruption and a view that transparency offered an appropriate policy solution. The PWYP network also persuaded key members of the international political elite of the merits of their cause, including then UK Prime Minister Tony Blair, who used his political clout to promote the idea among his peers and instructed his Department for International Development to drive forward EITI in 2002–2003.

The norm has made rapid progress. It already demonstrates some of the characteristics of stage 3, internalization, since some transparency requirements have been enshrined in hard law—for example, in August 2012, to fulfill section 1504 of the 2010 Dodd–Frank Act, the United States imposed transparency requirements on all listed oil, gas, and mining companies, requiring them to disclose payments made to foreign governments.[4] The reform met considerable resistance in the United States, where a lawsuit brought by the oil industry has put implementation on hold indefinitely, but the European Union introduced similar changes in June 2013 as part of a review of its accounting directive. The United Kingdom became the first country to transpose the new rules into national law in December 2014. Oil, gas, mining, and logging companies registered in the United Kingdom must now publish data on all their payments to governments around the world, at project level, in their annual reporting.

Finnemore and Sikkink (1998) suggest that in progressing from emergence to cascade, the motives of adopters and promoters center around concerns to build reputation, legitimacy, and esteem. There is growing scholarly interest in how reputation can have regulatory power over actors. Much of this literature considers how corporations and bureaucracies build their reputations (e.g., Carpenter 2010; Maor, Gilad, and Ben-Nun Bloom 2013), but scholars of international relations also consider the regulatory force of reputation for states (Gillies 2010). Reputation is best conceptualized as relational: Individuals and organizations have a reputation "for something

TABLE 1
Countries at Different Stages of Implementation

Intent to Implement	Candidate Status	Compliant
Australia	Afghanistan	Albania
Brazil	Colombia	Azerbaijan
France	Ethiopia	Burkina Faso
	Honduras	Cameroon
	Madagascar	Central African Republic[a]
	Myanmar	Chad
	Papua New Guinea	Cote d'Ivoire
	Sao Tome & Principe	Democratic Republic of Congo
	Senegal	Ghana
	Seychelles	Guatemala[a]
	Solomon Islands	Guinea
	Tajikistan	Indonesia[a]
	The Philippines	Iraq
	Ukraine	Kazakhstan
	United Kingdom	Kyrgyz Republic
	United States	Liberia
		Mali
		Mauritania
		Mongolia
		Mozambique
		Niger
		Nigeria
		Norway
		Peru
		Republic of the Congo
		Sierra Leone
		Tanzania
		Timor-Leste
		Togo
		Trinidad & Tobago
		Yemen[a]
		Zambia

Note: Data correct as of September 2014.
[a]Compliant status is temporarily suspended.

with someone," and may have multiple different reputations—for different characteristics with different stakeholders (Lange, Lee, and Dai 2011). States may seek to build a reputation *for* creditworthiness *with* international creditors, for example, or a reputation *for* a predictable business environment *with* foreign investors.

Such reputation-building behavior reflects two different types of motivations: pressures from "socialization" and instrumental behavior to gain material benefits. Both are likely to be present in many cases and they may reinforce one another. In terms of socialization, states may alter their behavior out of a desire to belong to the international community "club." Erickson (2014) argues that states value their standing in the international community. Behaving in line with international norms, she argues, "can bring confirmation of states' good international citizenship" and help provide important social goods such as intergroup status, legitimacy, and soft power (182). Another way for states to increase their international standing is to differentiate themselves from their peers, whether geographical neighbors or other members of an economic association. They seek progress on certain performance indicators, including the gamut of governance indicators that has emerged in recent years, or more specific benchmarks in certain policy areas. Examining the effect of the U.S. State Department's Trafficking in Persons reports, Kelley and Simmons (2014) demonstrate that government officials feel intense shame when their countries receive poor ratings as well as pride when they are rated highly, and respond accordingly with efforts to change policy.

States also engage in reputation-building activities with the aim of obtaining material benefits. Tomz (2007) studies how governments' reputations in the eyes of investors—for creditworthiness or financial management—affect the terms on which they can borrow on international markets: States with good reputations can borrow more cheaply. The behavior of governments allows them to ascend or descend the "reputational ladder" according to whether they fulfill or deviate from investors' expectations. Reputation is once again not absolute, but relative to peers.

In the process of norm diffusion, reputation plays different roles at different stages. Early on, it serves as a differentiator: States seek to stand out from their peers by engaging in reputation-building behavior, but as the norm cascades, adherence becomes a minimum standard for legitimacy. The pattern of countries that commit to EITI over time suggests that such considerations are highly pertinent. The EITI secretariat persuaded two major oil-producing states—Nigeria and Azerbaijan—to become early adopters, starting pilot EITI implementation in 2003. These states had the potential to serve as role models in their regions, particularly Nigeria, which one senior civil society actor described as a "big brother" to neighboring states. (Nigeria's sense of its own importance might also have meant that it would have been disinclined to adopt late.) Indeed, countries in West Africa joined in a flurry, perhaps motivated by a desire to mimic their peers or reflecting the transfer of the norm across regional networks. In 2009, norm cascade was demonstrated by 15 countries reaching candidate status in quick succession while, four years later, most G8 countries made serious commitments to implementing EITI. Although these countries were not seen as high risk for corruption, extractives transparency has become so entrenched that G8 countries cannot justify remaining outside the club.

For developing country governments, we suggest that the main audience was the international community of donors, lenders, and peers. By joining EITI, governments could signal intent to reform the management of natural resources and, arguably, a broader commitment to good governance and openness; that is, they could build a reputation for reforming governance with the international community.

EITI implementation provided a way for governments to signal commitment and deliver on goals, motivated by the prospect of social and material benefits. The initiative also helped reformist elements within governments to exert leverage over more corrupt elements. In resource-rich countries, a reformist finance ministry, for example, may wish to increase its power to scrutinize the activities of the mining or energy ministries, where it is the latter that is responsible for granting licenses or selling concessions (and therefore more exposed to opportunities for corruption). EITI allows reformers to signal internally that their intentions are to increase transparency rather than to wrest control over resources to extract their own rents. Reformers who can demonstrate good relations with the international community, meanwhile, can deliver rewards domestically that further increase their authority over less reformist peers.

In Nigeria, for example, the decision to implement the EITI standard was taken by the finance ministry under the leadership of Ngozi Okonjo-Iweala as part of efforts to clamp down on corruption in the oil and gas sector (Okonjo-Iweala 2012). A U.S. State Department cable made available by WikiLeaks details a conversation between Okonjo-Iweala and a U.S. diplomat, in October 2003. The report describes a negotiation process in which Okonjo-Iweala presents the U.S. official with a detailed plan for improving government transparency, including EITI implementation, and explicitly asks for concrete benefits in return:

> She displayed a recently compiled matrix of steps the GON [Government of Nigeria] plans to take, saying that it was in large part a response to legitimate criticism that the GON did not have concrete measures specified in its reform plan. She asked that we consider how we might provide political support to the reformers. Technical assistance, she said, is nice, but she needed more concrete support.[5]

According to the account, Okonjo-Iweala was explicit about the need to build a better reputation for Nigeria:

> She said the best way to convince a sceptical world of the GON's determination to achieve government transparency is to show them the plan and then produce the results.[6]

Okonjo-Iweala's personal reputation as a reformer, and her assurances that she had the full support of then President Obasanjo, clearly strengthened the credibility of her commitment to transparency. However, the account also demonstrates how local reformers seek to use international norms—and the international community's enthusiasm for promoting those norms—to facilitate their goals and gain leverage over government colleagues. Gaining concrete rewards from donors can help individual opinion leaders to stay on a reformist and internationally oriented course despite domestic political pressures pulling in other directions.

One senior Nigerian civil society actor we interviewed saw EITI implementation as an easy reputational win for a government desperate to improve its international standing:

> [Obasanjo] inherited a government that had a huge reputational challenge. EITI at that point in time was something that had international backing. Signing up to EITI presented an easy route to laundering the image of the government. Anything that gave them an opportunity to build international reputation, they would do.[7]

Peter Eigen, one of the norm entrepreneurs behind the creation of TI, recalls that EITI implementation was also regarded as important for building reputation on international financial markets:

> A Nigerian minister, recently commenting for the first time on her country's acquiring an attractive credit rating, attributed a sovereign debt rating in substantial part to the reputational effect of its energetic application of EITI to uncover, for public scrutiny, the previously hidden fiscal flows of the oil and gas industry. (Eigen 2006–2007)

In the early days, committing to EITI was sometimes a step toward gaining Heavily Indebted Poor Country (HIPC) status and thereby becoming eligible for special assistance from the IMF and World Bank (although this was not formally one of the IMF's requirements for HIPC status) (Ölcer 2009). Ölcer (2009) quotes a member of the Cameroon PWYP coalition who thought that the Cameroonian government saw EITI membership as instrumental in this way, while a U.S. state department cable states that

> the pressure from PWYP and the international community (especially in the run-up to HIPC process completion point) was the driving force behind the GRC's participation in EITI. . . .[8]

EITI is still regarded as useful by incoming governments keen to demonstrate their credentials and build a clean reputation. In 2013, Myanmar's Minister of Finance Win Shein told the EITI conference in Sydney,

> EITI will assist us to get in line with international practice for our country. We have been away from the international community . . . but we have a chance to be engaged, to reenter the

> international community. We want to go ahead with international best practices, so we acknowledge that EITI is one of the supportive arms for our reforms.[9]

While the social benefits of a reputation for transparency may be fairly consistent among governments, the material benefits that governments value are likely to vary according to their economic position. For some, debt relief will figure strongly, for others foreign investment or aid. Analysis of WikiLeaks cables suggest that the U.S. State Department has been willing to provide concrete rewards in a variety of forms, including offers to assist with counter-terrorism efforts, technical assistance, support for debt relief, and increased aid.

A June 2007 cable from the U.S. embassy in Yemen reports on a dialogue between the Yemeni government and a group of donors. As well as stating that "one of the primary donor recommendations was that the ROYG [Republic of Yemen Government] join the Extractive Industries Transparency Initiative (EITI) at the soonest possible opportunity," the report notes that "the ROYG is eager to join EITI in order to attract more international investment to Yemen."[10] The U.S. embassy official notes, however,

> As is often the case with new initiatives, we find that the ROYG's door is open to cooperation, but that they will need a great deal of technical assistance and donor support and prodding to make Yemen's full implementation of EITI a reality.[11]

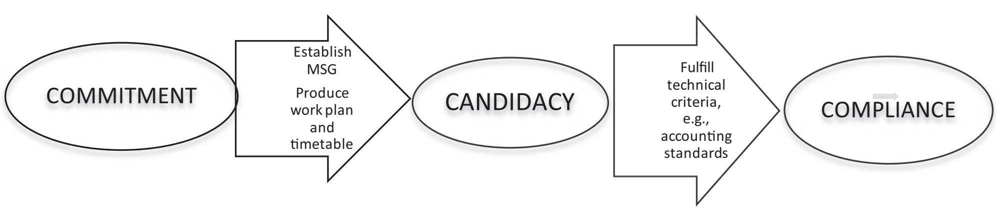
Many other international organizations—including the United Nations, IMF, World Bank, European Union, and African Union—now actively promote EITI to resource-rich country governments as part of their broader efforts to promote reform. For example, the recent National Indicative Programme for 2014–2020 between the European Commission and the government of Kenya notes,

> Kenya's EITI candidacy would go a long way in enhancing the transparency on re-distribution of the fiscal benefits of extractive industries in the country.[12]

That these international actors are motivated to engage in such "prodding," providing carrots and sticks to motivate EITI implementation, suggests that they value EITI. This might reflect "first-order" goals, such as better management of natural resources, or "second-order" goals such as the mobilization and empowerment of civil society (Haufler 2010).

Research on the impact of EITI implementation has found that it is not sufficient for reducing corruption (Kolstad and Wiig 2009). On the other hand, implementing EITI is certainly not "cheap talk": becoming compliant is an onerous and lengthy process (see Figure 1). To obtain the status of "candidate," countries must meet five sign-up requirements, including the establishment of a multistakeholder group (MSG) bringing together the private sector, civil society, and relevant government ministries to oversee implementation. The MSG is tasked with agreeing and publishing a fully

FIGURE 1
The EITI Implementation Process



costed work plan with measurable targets, a timetable for implementation, and an assessment of capacity constraints. As candidates, countries undergo a "validation" process that involves meeting a further set of criteria to functionally prepare the government and companies to disclose payments on accounts audited to international standards, as well as to disseminate reports and encourage public debate.[13] The publication of a report is not itself one of the criteria and some countries publish their first EITI reports only after achieving compliance.[14] Countries can lose their compliant status at any point if they cease to adhere to any of the requirements.

EITI implementation is therefore not a binary measure, but rather offers qualitative opportunities for governments to signal strength of commitment through such factors as their appointments to the MSG or handling of negotiations. The "commitment" phase, requiring a statement from the leadership, signals a degree of political will to carry out reform. However, it remains to be seen at that stage whether the leadership has the backing of other parts of the government, in particular ministries responsible for natural resources, which have most to lose from transparency in terms of foregone rents. A top-level commitment to joining EITI might easily turn out to be mere posturing, or the ambition of a lone reformer who has little clout. By contrast, in subsequent phases, those driving the process must persuade and lobby other stakeholders, overcome resistance, and demonstrate perseverance. To achieve candidate status, the mid-level bureaucracy must provide information to the MSG and learn technical skills related to producing reports, and the government's willingness to engage with civil society organizations begins to become apparent. Yet it is the first report that involves the greatest risk for those in power, since this requires the reconciliation of government and company disclosures and makes results available to the public. It is here that corruption is most likely to be exposed.

The speed with which countries progress may also reflect degree of commitment. Ukraine announced its intent to implement in 2009 but formed its MSG only three years later. By contrast, Honduras announced its commitment to implement in late 2012, formed the MSG immediately, and was accepted as a candidate by mid-2013.

Finding evidence on EITI's capacity to deliver second-order goals is difficult. It seems that EITI implementation mitigates some of the negative effects associated with resource wealth (Corrigan 2014) and, in the right circumstances, may improve engagement with civil society (Smith *et al*. 2012). Even such shaky evidence of benefits might be valued by actors seeking to promote reform in such a problematic area. The WikiLeaks cables analyzed here suggest that U.S. state department officials grasped at any tool that offered a chance to progress the very fragile reform process. In the case of Yemen, one official commented that "there can be little doubt that the Presidency will again treat SNH [the National Hydrocarbon Company] as a personal kitty if domestic and international pressure slackens" but then recommends that "we should also not shy away from saluting the progress already made."[15]

The Strength and Limits of Reputational Pull

If EITI membership is indeed a reputation-building tool for states, it will hold less appeal for states that are less concerned about building a reputation with the international community. This might be the case for states that have considerable natural resource wealth and are therefore less reliant on international aid, credit, or investment, or, perhaps, less willing to trade off the private gains from rent seeking against the more public gains of international reputation. EITI implementation may be an easy win for countries that are perceived to be more corrupt than they really are and hence wish to bring their reputation in line with reality. For governments that are deeply corrupt and/or have little genuine interest in reducing corruption, however, or countries that are wealthier, the promise of social or material benefits would command much weaker leverage. Thus, it is only for a certain set of countries that the expected benefits of implementing the EITI standard will outweigh the costs of implementation. This leads to our first testable hypothesis:

Hypothesis 1: Countries that are highly corrupt and have access to substantial natural resource rents are less likely to participate in EITI than countries that are moderately corrupt and/or have access to lower natural resource rents.

The Concrete Benefits of Implementation

We argue that some states wish to build a reputation for transparency in extractives and hope to receive material rewards in return. International development actors, meanwhile, wish to motivate reformers to pursue transparency in natural resource governance, and thus seek credible indicators of commitment. Yet investors, donors, and lenders face an asymmetric information problem regarding a government's capacity and intent to reform. Donors and lenders have learned that giving money to countries with poor governance rarely pays (Collier et al. 1997; Freytag and Pehnelt 2009; Presbitero 2009), and many have begun to explicitly condition disbursements and loans on anticorruption provisions. The World Bank and IMF have long included such provisions in loan terms, whereas the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) also requires the inclusion of anticorruption provisions in aid-funded bilateral procurement contracts (Sandholtz and Gray 2003). However, these provisions are not easy to monitor or enforce, creating demand for alternative indicators. Eigen writes that

> donor nations and institutions are constantly on the lookout for signals of improved governance as they seek to protect and give good account for the usage of their taxpayers' money. (Eigen 2006–2007)

To date, the main tools used by donors for this purpose have been indices based on perceptions and experience of corruption, such as the TI CPI and the World Bank's Worldwide Governance Indicators (WGI). These reputational intermediaries provide information about a country's track record on controlling corruption. Countries that achieve good governance ratings appear to be "rewarded" by increased foreign aid, whereas governments that are perceived to be corrupt typically receive less foreign aid (Alesina and Dollar 2000; Alesina and Weder 2002; Knack 2004; Neumayer 2002; Wright 2009).

This corruption-related aid conditionality has been advanced by the Millennium Challenge Corporation (MCC), a U.S. aid agency established under the Bush administration. Potential MCC recipient countries must score higher than the median compared with peers in the same income category on at least one-half of a set of governance criteria. Of these, "control of corruption," one of the WGI indicators, has special status as a mandatory prerequisite. The MCC appears to have been effective in promoting corruption control. Research shows that countries with a reasonably good chance of gaining access to the MCC fight corruption more effectively than other potential candidates (Dreher, Nunnenkamp, and Ohler 2012; Ohler, Nunnenkamp, and Dreher 2012). Moreover, the MCC itself has become a reputational intermediary, with other donors granting more aid to countries that have signed compacts with the Corporation (Ohler, Nunnenkamp, and Dreher 2012). One of the cables we analyzed cited the British ambassador to Yemen as having presented a list of measures to fight corruption to the Yemeni government, explicitly mentioning that their achievement would improve the country's performance with the MCC and the World Bank.[16]

However, the MCC relies on external indicators of corruption control. Based largely on perceptions and on "expert accounts," they are vulnerable to charges of subjectivity, lack of comparability across time and countries, and selection bias. Moreover, on an issue where political will and leadership are of key importance, such indicators may not provide a very accurate guide to an individual government's commitment level. By contrast, the elaborate nature of EITI implementation makes it a more useful reputation-building tool.

We test the relationship between EITI implementation and the provision of concrete benefits by analyzing aid flows. Among the many material benefits that might be provided, we focus on aid because it is most clearly in the gift of donor governments and hence represents a sharper tool for assessing conditionality; trade and debt relief are more likely to be subject to a myriad of other effects.[17] It seems plausible that donors would regard EITI implementation as a relatively sophisticated indicator of commitment to reform, and might reward membership with increased disbursements of aid. Moreover, the further a country progresses through the implementation process, the more credible their commitment to transparency becomes and the more willing international actors might be to provide rewards.

This leads us to two further hypotheses:

Hypothesis 2: Countries that commit to implement EITI receive an increased amount of foreign aid.

Hypothesis 3: Donors provide more aid the further the implementing country progresses with EITI implementation.

Methods and Results

Data are from the World Bank World Development Indicators, the World Bank WGI, and EITI. The sample size is a maximum of 185 countries, although data limitations reduce this for many regressions. We do not include developed countries in the regressions for the impact of joining EITI, thus Norway is not part of the sample for countries that are compliant, the United States is not part of the sample of candidate countries, and the United Kingdom, France, and Australia are excluded from the sample of countries that commit to EITI. The data are summarized in Table 2. Developed countries are included in the sample, but their decision to join is not modeled as part of norm diffusion since we believe that their motivations differ.

The aid numbers are for bilateral aid from OECD DAC members and do not in general include multilateral development aid, other than some concessional forms of aid via multilateral agencies.[18] We focus on aid rather than debt forgiveness, since the latter is an order of magnitude smaller than bilateral aid flows.

Are More Corrupt Countries Less Likely to Join?

We use a Cox proportional hazard model (Cox 1972) to examine the factors that determine the decision to participate in EITI over time; these results are presented in Table 3. The Cox proportional hazard model is designed to identify high correlation between the dependent variable and the achievement of a particular goal, that is, a stage of implementation. The model removes each country when it carries out two of the four possible stages, that is, when it publishes its first report or becomes a candidate. In the Cox model, this is known as the time to "failure." We control for factors that have been shown by others to affect the decision to join EITI, such as ethnic fraction-

TABLE 2
Data Summary

Variable	Obs	Mean	Std. Dev.	Min	Max
Ethnic	3,401	0.44	0.26	0.00	0.93
GDP per capita	3,357	14,948.50	18,752.75	142.00	134,000.00
Aid	3,496	276,000,000	687,000,000	–9,550,000	2,200,000,000
Population	3,495	34,100,000	128,000,000	69,700	1,350,000,000
Resource	3,408	10.10	15.36	0.00	100.00
WGI	2,031	–0.08	1.00	–1.91	2.59
LnAid	3,445	15.10	7.63	0.00	23.93
Log GDP per capita	3,357	8.90	1.27	4.96	11.81
LnPop	3,495	15.67	1.87	11.15	1.02
Resource × Inv WGI	1,990	7.80	12.51	0.00	85.63
Inv WGI	2,031	5.91	2.21	0.00	1.00
GDP YoY	3,176	0.03	0.06	–0.62	1.42

Note: Aid is the aid flows from all DAC countries; DAC is the Development Assistance Committee of the OECD. (The Development Assistance Committee consists of 29 members: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Republic of Korea, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom, United States, and European Union Institutions. Development assistance is defined as concessional loans with a grant element of at least 25% and grants made to promote economic development and welfare in recipient countries. It does not include military assistance. It will include aid for disaster relief. It does include ODA expenditures made through multilateral organizations. See OECD (2008) and related links for more information.) This is the most comprehensive measure of Overseas Development Aid (ODA). The net flow of such aid can be negative since it nets repayments of loans from disbursements of loans and grants. Ethnic is ethnic fractionalization of a country, based on Alesina et al. (2003) and supplemented with data from the CIA's *The World Factbook*. WGI is the World Governance Indicators Control of Corruption Index. Commit, First Report, Candidate, and Compliant are categories of dummy variables set at one in the year that a country chooses to commit, publishes its first EITI report, becomes a candidate, or becomes compliant. Resource is natural resource rents as a percentage of GDP is the sum of oil, coal, natural gas, mineral, and forest rents as a percentage of GDP. Numbers are estimated by the World Bank.

alization and the proportion of natural resource rents (Alesina et al. 2003; Pitlik, Frank, and Firchow 2010). We focus on these two stages since they are most representative of the various stages of implementation.

Using the Cox model, we test for the hypothesis that extremely corrupt countries with high levels of natural resources will be resistant to joining, showing that the decision to join is tempered by the level of corruption and the level of natural resources (Hypothesis 1). In other words, countries that stand to lose too much from EITI implementation, in terms of forgone corrupt revenues, will not join. We find that increasing levels of natural resource rents lead to a positive effect on the decision to participate (at all four stages, although only two are shown here), in line with prior research (Pitlik, Frank, and Firchow 2010). This result is statistically significant at the 1% level for publication of the first report and displays the correct sign, but not at a statistically significant level for candidacy.[19] Higher levels of corruption are generally associated with a greater likelihood to participate. Note that here we have inverted the index so that a score of 10 is the most corrupt.

We show in equations 1 and 3 what the effect of corruption is without the interaction term. This allows us to examine the effect of increasing corruption and increasing natural resource rents and with and without the interaction term. The interaction between corruption and resources is negative (reducing the likelihood of failure) and is not statistically significant at the 10%, although only just, at candidacy

TABLE 3
Cox Proportional Hazard Model of Commitment to EITI (Failure)

	Equation			
	4	5	6	7
Dependent	Candidate	Candidate	First Report	First Report
LnAid	1.06 (0.77)	1.08 (0.89)	1.45 (2.33)**	1.46 (2.27)**
Log GDP per capita	0.68 (–2.74)***	0.7 (–2.54)**	0.74 (–1.87)*	0.79 (–1.4)
Ethnic	4.09 (2.02)**	3.88 (2.04)**	5.11 (2.19)**	5.09 (2.19)**
Resource	1.32 (3.79)***	2.73 (2.27)**	1.32 (3.31)***	6.14 (3.14)***
InvWGI	1.14 (0.98)	1.35 (1.84)*	1.14 (0.85)	1.58 (2.29)**
Resource x Inv WGI		0.91 (–1.58)		0.82 (–2.71)***
LnPop	0.94 (–0.65)	0.94 (–0.72)	0.84 (–1.58)	0.85 (–1.54)
GDP YoY	2.63 (1.11)	2.94 (1.21)	0.84 (–0.32)	0.66 (–0.55)
N	1,870	1,870	1,870	1,870
Failures	36	36	28	28
Clustered	Y	Y	Y	Y
Wald Chi^2	95.12	91.54	61.97	65.32

Note: LnAid is the log of DAC countries total aid in real 2011 U.S. dollars. GDPYoY is the year-on-year growth rate of GDP per capita based on real 2011 U.S. dollars, Log of GDP per capita in real 2011 U.S. dollars, LnPop is the log of population, Ethnic is a measure of ethnic fractionalization in the country based on Alesina et al. (2003), Resource is natural resource rents as a percentage of GDP divided by 10, InvWGI is the World Governance Indicators' Control of Corruption index, inverted and rescaled so that 10 is the most corrupt and 0 is least corrupt.
***significant at the 1% level, **significant at the 5% level, and *significant at the 10% level.

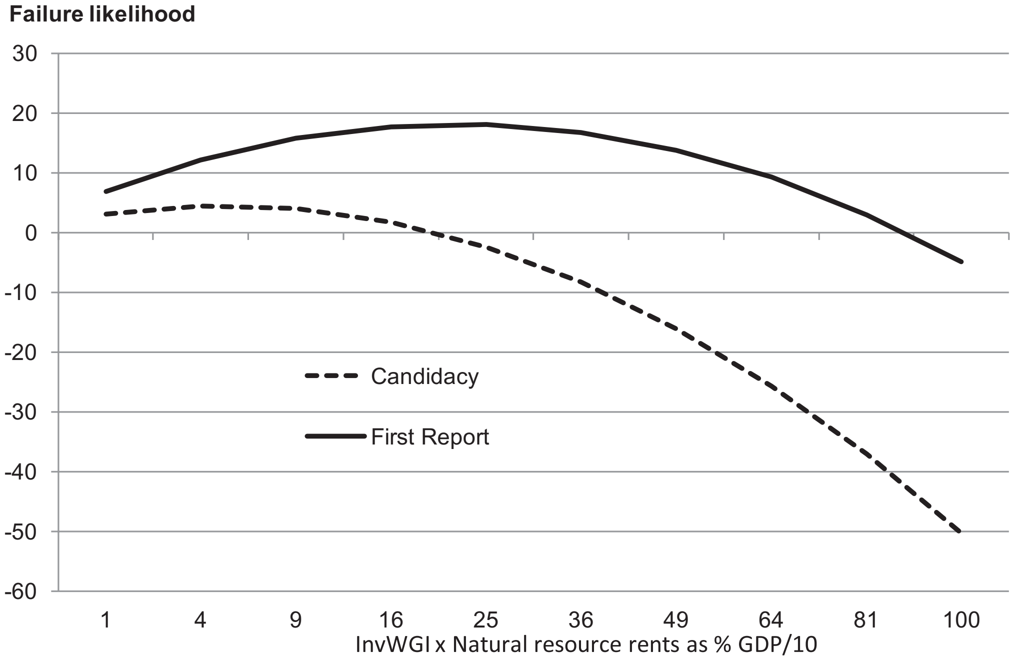
in equation 2 and is statistically significant at the 1% level in equation 4. We find that with the interaction term in equations 2 and 4, the statistical significance of the corruption term (InvWGI) is more statistically significant. In the case of first report we find that the effect of the interaction term does not reduce the likelihood of failure until quite high levels of corruption and natural resource rents, equivalent to having natural resource rents of 50% of GDP (1.4% of the sample) and a corruption level around the mean (score of 5 on the InvWGI). The peak is far lower for candidacy, with the interaction suggesting that only countries that are not very corrupt or resource dependent are likely to become candidates. The aggregate effects are shown in Figure 2, but it should be noted that given the interaction between measures of corruption and levels of GDP per capita and aid levels, the figure should only be seen as indicative of the nonlinear relationship between EITI participation and corruption and natural resource rents.[20] The figure takes into account the coefficients on InvWGI (the inverted WGI measure of corruption), the natural resource rents as a percentage of GDP divided by 10 and the interaction term. Thus, as the product of corruption × resource rents increases, we see the effect on the likelihood of failure.

We find that the likelihood of failure increases between candidacy and first report in the extent of ethnic fractionalization and it is also greater for countries with greater natural resource rents, after adjusting for those that are resource rich and very corrupt. EITI should help to reduce internal tensions in countries that suffer from ethnic fractionalization, higher corruption, and where higher resource rents represent a significant prize.

Is Commitment to Implement Rewarded?

To test Hypotheses 2 and 3, we conduct an OLS panel regression looking at the determinants of the log amount of aid in U.S. dollars with country fixed effects and

FIGURE 2
Mean Effect of Corruption (InvWGI), Natural Resource Rents, and Interaction Term on Candidacy and First Report



clustered standard errors. The results are presented in Table 4. The sample is all potential member countries that receive aid in any given year. We include all four stages in a single regression. Similar results can be found if the regression is broken into four separate equations for each stage, but the effects are as clear if commitment, first report, candidacy, and compliance are collapsed into a single regression.

If we look at the overall sample, equation 5, we find no support for Hypotheses 2 or 3 (apart from a single statistically significant rise in aid in the year of candidacy and a statistically significant drop in the second year after compliance). However, if we break down the sample into countries with significant natural resource rents as a percentage of GDP and those without, we find far more interesting effects. We arbitrarily assign natural resource rents of more than 10% of GDP as significance—this comprises 35% of our sample. With regard to H2, we find that the earliest stage of EITI participation, commitment, is slightly rewarded for countries with no significant natural resource rents with positive aid figures in the year preceding and the two years following with statistically significant numbers the year of commitment and the year after, albeit at the 10% level.

There is no evidence of this effect for countries that have significant natural resource rents. This suggests that the public announcement phase is not regarded as a credible commitment for countries with significant natural resource rents. This is to some extent borne out by evidence, since some governments have publicly announced their commitment on more than one occasion, while making few or only tentative moves toward implementation. Some countries that commit to EITI but go no further with implementation may be seeking to build a reputation for fighting corruption without making the necessary changes. It is possible that donors reward countries with no

TABLE 4
Determinants of Aid

	Equation					
	1		2		3	
Dependent	Aid		Aid		Aid	
$Commit_{t-1}$	0.04	(0.24)	0.19	(1.43)	–0.09	(–0.43)
$Commit_{t0}$	0.11	(0.78)	0.29	(1.91)*	0.11	(0.5)
$Commit_{t+1}$	–0.03	(–0.2)	0.26	(1.96)*	–0.09	(–0.49)
$Commit_{t+2}$	0.12	(1.22)	0.14	(1.25)	0.15	(0.9)
First $Report_{t-1}$	–0.03	(–0.25)	0.07	(0.27)	–0.02	(–0.14)
First $Report_{t0}$	–0.13	(–0.95)	–0.13	(–0.49)	–0.16	(–1.08)
First $Report_{t+1}$	–0.02	(–0.12)	0.04	(0.21)	0	(–0.01)
First $Report_{t+2}$	0.09	(0.65)	–0.02	(–0.16)	0.06	(0.32)
$Candidacy_{t-1}$	0.3	(1.57)	0.02	(0.05)	0.39	(1.86)*
$Candidacy_{t0}$	0.33	(1.93)*	0.68	(1.5)	0.42	(2.08)**
$Candidacy_{t+1}$	0.17	(1.13)	0.11	(0.4)	0.19	(1.13)
$Candidacy_{t+2}$	–0.15	(–1.54)	–0.1	(–0.49)	–0.24	(–1.81)*
$Compliant_{t-1}$	–0.21	(–1.11)	–0.9	(–1.53)	0.18	(0.66)
$Compliant_{t0}$	–0.35	(–0.61)	0.0	(0)	–0.2	(–0.48)
$Compliant_{t+1}$	–0.09	(–0.43)	–0.39	(–0.9)	0.1	(0.48)
$Compliant_{t+2}$	–0.36	(–2.55)**	–0.13	(–0.4)	–0.26	(–1.72)*
LnGDP_PC	2.22	(0.94)	–2	(–0.47)	4.12	(1.48)
LnGDP_PC∧2	–0.15	(–1.06)	0.12	(0.47)	–0.27	(–1.61)
LnPop	7.74	(1.59)	2.09	(0.4)	16.77	(2.3)**
LnPop∧2	–0.29	(–1.91)*	–0.08	(–0.5)	–0.46	(–2.1)**
Resource	0	(0.61)	–0.06	(–2.39)**	0	(–0.21)
WGI	0.36	(2.02)**	0.26	(1.26)	0.49	(1.91)*
Constant	–39.36	(–0.88)	14.91	(0.3)	–145.1	(–2.25)**
Fixed effects	Y		Y		Y	
Year dummies	Y		Y		Y	
N	1,184		761		423	
R^2	0.183		0.254		0.406	

Note: LnAid is the log of DAC countries total aid in constant 2011 U.S. dollars. Commit, First Report, Candidate, and Compliant are categories of dummy variables set at one in the year that a country chooses to commit, writes its first EITI report, becomes a candidate, or becomes compliant to the EITI standards. The subscripts represent years, with t_0 being the year that a country participates in the stage of EITI. WGI is World Governance Control of Corruption indicator, LnGDP_PC is the log of GDP per capita in constant U.S. dollars, LnPop is the log of the population, LnGDP_PC∧2 is the square of the log of the GDP per capita, and LnPop∧2 is the square of the log of the population. The sample only includes countries that receive aid in any given year. Equation 1 is for all countries, equation 2 is for countries with natural resource rents of less than 10% of GDP a year, and equation 3 is for countries with natural resource rents of more than 10% of GDP a year.
***significant at the 1% level, **significant at the 5% level, and *significant at the 10% level.

significant natural resource rents at the commitment stage in order to promote the norm cascade, but for countries with more to gain from resource transparency (or more to lose, if benefiting from illicit control of natural resource rents), donors do not provide aid rewards until later in the process.

Is Progress in Implementation Rewarded?

With regard to Hypothesis 3, it is not until relatively late in the process that we find statistically significant rises in aid—in the year prior to candidacy, the year of candidacy, and one year thereafter, but only for countries that have significant natural

TABLE 5
Time Taken in Years to Progress through Implementation Stages

	Commitment to Candidacy	Commitment to First Report	Commitment to Compliance	Candidacy to Compliance
Mean	1.95	3.37	5.81	3.73
25th percentile	1	3	4.25	3
75th percentile	2.75	4	7	4
N	42	35	26	26

Source: EITI.

resource rents. The first result is significant at the 10% level and second result (signaling yet further progress on implementation) at the 5% level. This suggests that formal candidacy is the stage that is best rewarded—perhaps because it signals a sustained effort involving many stakeholders. Note that the effect on aid for countries with significant natural resources at the candidacy stage is far larger in absolute terms than the aid offered to countries with no significant natural resources at the commitment stage; countries with significant natural resources at the candidacy stage are rewarded with approximately 25% more aid than those with no significant natural resources at the commitment stage. The final stage, compliance, shows mixed but not statistically significant effects. Again, perhaps at this stage, donors have already accounted for implementation.

Table 5 shows the variation in time taken to progress through different stages of implementation. These results are right-hand censored in that many of the group of countries that commit have yet to reach subsequent stages—these also include countries that have progressed in 2013 and 2014 that are not included in the main panel regressions for data availability reasons.[21] The mean country takes two years to achieve candidacy, a further one year to publish its first report, and another two and a half years to achieve compliance. Thus, the panel data analyses of Table 4 will overlap to some extent as countries move swiftly from commitment to candidacy and thence to their first report.

Conclusions

Somewhat against the odds, extractives sector transparency has emerged as an international norm in a short period. This article seeks to understand that process of norm diffusion and to focus on one mechanism that plays a key role by serving as a reputational intermediary. We present evidence that states see EITI as a way of building a reputation for clean and transparent government with the international community. We provide qualitative evidence that some governments are motivated by social benefits related to status and peer pressure, as well as material benefits promised by international actors in return for reform progress. Our evidence here is based on interviews with individuals who participated in MSGs or in other aspects of EITI implementation. While their views are inevitably subjective, and their views of past events colored by subsequent developments, we seek to mitigate the risk of bias by selecting respondents from civil society organizations, government, and business, allowing for some triangulation among responses. We also use records of conversations recorded by the U.S. State Department and divulged by WikiLeaks. Our aim in analyzing such “private information” is to gain closer insights into motivations of actors. Gill and Spirling (2015, 299) argue that such data are more likely to provide candid views of political relationships "precisely because it contains documents that were not designed for public release," although accounts are also subject to the biases of the narrator. Nevertheless, such evidence provides another layer of evidence about how individuals frame arguments and reveals part of the dynamics of dyadic negotiations between donors and government officials.

We support our qualitative evidence with quantitative analysis that suggests that countries in lesser need of a good reputation with international actors are less inclined to pursue EITI implementation. Thus, resource-rich but highly corrupt countries show little interest in implementing EITI—for example, Angola. Such countries are typically not very integrated into the international community and not greatly exposed to anticorruption norms or to social pressures from peers.

International actors, meanwhile, welcome the EITI as a tool to guide governments on a path of reforms over the medium term and have sought to motivate compliance by offering concrete rewards. We provide qualitative evidence that they sometimes provide rewards explicitly to boost the position of individual reformers within target governments. The reformers in turn use the international norm and the EITI tool to improve their leverage over less reform-oriented colleagues. We support this evidence with quantitative analysis of the relationship between EITI implementation and aid flows. We find that countries that commit to joining EITI and make progress in implementing the standard receive increased volumes of aid. Once again, our argument that donors may explicitly reward countries for EITI implementation would be augmented if we had superior data that allowed us to analyze a range of instrumental benefits provided by donor states, including not just aid, but also debt forgiveness and other benefits, such as trade concessions. These represent important areas for future research.

Thus, the emergence of a norm of transparency and the creation of a mechanism for encouraging commitment to the norm have enabled the establishment of a mutually reinforcing dynamic whereby governments seek to build a reputation for transparency while international actors encourage transparency reforms. This model might be replicated in other areas where there is a gap in global and national regulation and the potential for international and national actors to cooperate in closing the gap. Further research is warranted to establish whether and how EITI implementation is succeeding in achieving its first- and second-order goals, and whether implementation yields benefits also in terms of FDI and other investment flows.

Notes

1. On the TI Bribe Payers Index 2011, mining is ranked 15th most corrupt out of 19 sectors, whereas oil and gas is ranked 16th. Mining scores 6.3, oil and gas 6.2, where a maximum score of 10 corresponds to the view that companies from that country never bribe abroad and a zero corresponds with the view that they always do.
2. The two compliant countries that score better are Ghana (a score of 48 in 2014) and Norway (86). Although 32 countries have reached compliance, 4 are temporarily suspended as of March 12, 2015: Central African Republic, Guatemala, Indonesia, and Yemen.
3. See Transparency International Corruption Perceptions Index 2014, https://www.transparency.org/cpi2014. (accessed March 12, 2015).
4. U.S. oil and mining companies were to be required to disclose payments of taxes and other fees in excess of $100,000 made to foreign governments. However, on July 2, 2013, the DC District Court gave a summary judgment vacating this portion of the Dodd–Frank Act, U.S. District Judge John Bates stating that the SEC had not adequately weighed other countries' laws prohibiting disclosure of payments nor used its discretion in evaluating whether some information should be withheld from public release. As of March 2015, the SEC had neither promulgated a new final rule nor issued a new proposed rule.

5. See https://wikileaks.org/plusd/cables/03ABUJA1853_a.html (accessed February 16, 2015).
6. See https://wikileaks.org/plusd/cables/03ABUJA1853_a.html (accessed February 16, 2015).
7. Interview with senior Nigerian civil society activist conducted by E. David-Barrett, by telephone, March 12, 2015.
8. See https://wikileaks.org/plusd/cables/07YAOUNDE386_a.html (accessed February 16, 2015).
9. See http://www.trust.org/item/20130524065527-y91h6/ (accessed October 8, 2014).
10. See http://www.cablegatesearch.net/cable.php?id=06SANAA146 (accessed October 4, 2012).
11. See http://www.cablegatesearch.net/cable.php?id=06SANAA146 (accessed October 4, 2012).
12. See http://eeas.europa.eu/development-cooperation/docs/national-indicative-programme_2014-2020/2014-2020_national-indicative-programme_kenya_en.pdf (accessed October 8, 2014).
13. The exact criteria have evolved over time, with the latest EITI Standard effective since January 1, 2015. This evolution and the rationale are explained in chapter 2 of Rich and Moberg (2015).
14. This is partly a historical artifact. When EITI was first established, the publication of the first report was the main objective of countries that committed to implementation. It is only since 2007 that the formal stages of candidacy and compliance have been introduced.
15. See https://wikileaks.org/plusd/cables/07YAOUNDE386_a.html (accessed February 16, 2015).
16. See https://wikileaks.org/plusd/cables/07YAOUNDE386_a.html (accessed February 16, 2015).
17. Debt forgiveness is significant for a small minority of countries, but as a dependent variable suffers from the fact that the number of zero observations is high.
18. See OECD (2008) for a more detailed discussion of DAC rules on the inclusion of multilateral aid.
19. It is also statistically significant at the time of compliance at the 1% level.
20. When we run the above regressions using the Freedom House Freedom in the World measures instead of World Bank Governance Indicators, we find similar results, but no interaction between repressive regimes and resources. These are not shown here but indicate that it is the corruption level rather than the nature of government that matters, although there is clearly a correlation between repressive regimes and corruption.
21. If we exclude the 2013 and 2014 changes, the numbers do not change materially.

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