Expanding Corporate Social Responsibility in the Petroleum Industry

Improving Good Governance in Oil Exporting Countries

Christopher Allen Sutherland

Master's Thesis – Peace and Conflict Studies

University of Oslo

May 2012

Expanding Corporate Social Responsibility in the Petroleum Industry

Improving Good Governance in Oil Exporting Countries

Christopher Allen Sutherland

M a s t e r ’ s T h e s i s – P e a c e a n d C o n f l i c t S t u d i e s

University of Oslo

May 2012

2012

Expanding Corporate Social Responsibility in the Petroleum Industry

http://www.duo.uio.no/

Trykk: Reprosentralen, Universitetet i Oslo

Abstract

Petroleum has become a greater problem in regard to conflict in the world and resources have often been seen as a curse rather than a benefit. Countries possessing such resources often perform more poorly in terms of government, society and the economy than other countries that do not possess such riches. Resources can be used to greatly increase the living standards of the population of a country, but this has primarily been limited to cases where petroleum resources exist in countries that already have good governance.

Macro-level Corporate Social Responsibility (CSR) can play a crucial role in helping to build better governance and to manage revenue inflows. This thesis argues for an expanded role of CSR in petroleum rich countries which have poor governance. It also asserts that current micro-level CSR is not effective in alleviating the difficulties associated with petroleum wealth and in the end might even hinder good governance.

This thesis supplements existing knowledge by scrutinizing assumptions within the field of CSR and political science, and concludes that expanding CSR at the macro-level will help to improve governance and prosperity which will result in more peaceful societies. These possibilities are illustrated by the seminal CSR work being done by BP in Azerbaijan.

Acknowledgements

I would like to thank my supervisor Lene Bomann-Larsen for her endless patience. I would also like to thank my father Joe Sutherland for all his support.

Index

1 Introduction

1.1 Motivation for the project

Petroleum and petrodollars are important in governance because of the role they play in increasing conflict, corruption and poor governance throughout the world. "Today, with violence falling in general, oil-producing states make up a growing fraction of the world's conflict-ridden countries. They now host about a third of the world's civil wars, both large and small, up from one-fifth in 1992" (Ross 2008). Oil is a factor in a significant number of civil conflicts. The countries which tend to be most prone to conflict are countries that produce 26% of their GDP from a primary commodity (Collier 2000). Improving governance, development and economies affected by or prone to conflict is crucial to lasting stability and peace.

Along with the potential for fueling conflict, petrodollars have adverse effects on the quality of government and institutions within many oil producing countries. The money derived from oil may also be used to buttress autocratic or dictatorial governments that are not accountable to their people. The tremendous revenue inflows from oil also create greater opportunities for corruption and mismanagement of funds. This can lead to the problems associated with the "resource curse" theory, which attempts to explain why many countries that are rich in resources actually end up worse off economically than other comparable countries without resources. The distortion of both the government and the economy is deeply disruptive to countries that do not have proper institutions to deal with oil revenues.

1.2 Scope and Objective

My thesis will examine the interactions between the petroleum industry and countries having petroleum resources within the area of Corporate Social Responsibility (CSR). The purpose of the thesis is to examine the failings of most current conventional micro-level CSR approaches in dealing with the macro-level problems associated with resource extraction. I will juxtapose the standard micro-level CSR approaches with possible macro-level approaches. I will specifically focus on the necessity of using macro-level CSR approaches to deal with the problems faced by such countries. To illustrate these ideas I will use the examples of CSR projects in several countries, especially that of British Petroleum (BP) in Azerbaijan.

This thesis will not attempt to prove a link between the existence of resources and increased conflict, but rather to study what corporations operating in unstable regions can do to mitigate the negative effects of resource revenues on government corruption and how they can possibly assist in improving governance and thereby contribute to stability and peace. "Governance, peace and social stability are interrelated and indivisible issues. Peace and social stability cannot be sustained without good governance," (UNECA). Democratic Peace theory also argues for positive effects for peace of having democratic governments and institutions. These factors have been the subject of much research and it is beyond the scope of this thesis to reiterate them, but it is an assumption of this thesis that better government and institutions will aid peace.

1.3 Methodology

I will compare macro-level CSR approaches with traditional micro-level CSR approaches and discuss the strengths and limitation of both approaches. I will primarily utilize existing research and theory on the "resources curse" and the study of CSR within the petroleum industry. I will examine it within the framework of the problems associated with the existence of petroleum resources and the issues that those resources cause. Through the comparison of cases, I intend to show that broader macro level approaches are necessary in order to more effectively deal with these problems. I will use a limited case study of BP's macro-level CSR role in Azerbaijan to illustrate the possibilities such initiatives may have in alleviating the problems associated with resource extraction. I chose to focus on this example because BP has implemented a broader macro-level CSR approach and achieved better results than most other oil companies using more limited micro-level CSR. While BP's CSR role in Azerbaijan is unique in its macro level approach, it still does not rectify all of the problems accompanying petroleum wealth. With this study I hope to supplement existing research and add to existing knowledge in the creation of more effective and robust CSR within the petroleum industry.

1.4 Organization of the thesis

Chapter 1: Introduction and an explanation of the thesis and the problems of petroleum extraction and CSR.

Chapter 2: A literature review of the concepts and theories, their definition and an explanation of them.

Chapter 3: A review of CSR and the relevance and responsibility of corporations in institution building

Chapter 4: An explanation of micro-level CSR, its uses and limitations, and how it pertains to the problems faced by petroleum exporting nations.

Chapter 5: An assessment of current ideas on macro-level CSR, the potential problems facing its implementation and effectiveness, and the appropriateness of its application to the petroleum industry.

Chapter 6: An examination of the implementation of macro-level CSR by BP in Azerbaijan as an illustration of the theories and concepts previously examined.

Chapter 7: Conclusion, policy recommendations and potential areas for further research.

1.5 The need for CSR within the petroleum industry

As stated above, petroleum has become a greater problem in regard to conflict in the world and resources have often been seen as a curse rather than a benefit. Countries possessing such resources often perform more poorly in terms of government, society and the economy than other countries that do not possess such riches. Resources can be used to greatly increase the living standards of the population of a country, but this result has been primarily limited to cases where petroleum resources exist in countries having good governance and where the revenues are used to benefit the population as a whole. The problems occur where oil revenues are not managed and invested properly to make a difference in the lives of the people and to prevent the revenue inflows from disrupting the economy. It is essential that petroleum companies understand the potential adverse effects that petroleum revenues can have on governments and economies in order know how to devise CSR initiatives designed to improve governance and economic performance.

The petroleum industry has largely accepted the need for CSR, but there has been a divergence in perspective concerning the roles of CSR. Many companies are focusing specifically on micro-level projects addressing local problems while others like BP and Shell have attempted larger macro-level projects to try to address systemic problems. One of the fundamental difficulties within CSR for the petroleum industry is that there is little acceptance of the concept of the "resource curse". For the most part, the industry still believes that resources are primarily a benefit to countries and do not constitute a potential threat to the economy and government of a country. A further understanding of the effects that resources have on an economy and a country as a whole is needed by the industry in order to create more sound and robust CSR strategies.

Macro-level effects from the exploitation of resource wealth have been well documented. The problems affect both the governments and economies of resource rich countries, leaving the people of such countries worse off than their poorer counterparts. The governmental problems include corruption and the failure to institute sound policies and develop properly functioning institutions. This may occur because the large amount of resource revenues may create a “rentier state” mentality where the government receives so much revenue from the exploitation of resources that it is no longer dependent upon tax revenues from its people. Since the government can finance itself and maintain its power through royalties, export taxes or direct revenue from resource extraction, it is no longer dependent upon, and therefore no longer accountable to the people for its actions.

Lewin Ross (2009) revised his claims that that oil exports have a negative effect on democracy within the developing world. He now argues that position with a caveat:

> Despite flaws in the earlier analysis, and many challenges from other scholars, there is strong evidence that oil wealth tends to prolong authoritarian rule. But there are also intriguing anomalies: the undemocratic effects of oil seem to have grown over time, and to have no impact in Latin America… (Ross 25: 2009)

This seems counterintuitive in the view of the often made claim that rising incomes should increase demand for democracy. However, Kevin Morrison (2009) found that existing governments, whether democratic or autocratic, were reinforced by oil revenues. This means that such revenues can be detrimental to a move towards better and more representative government where it does not already exist. This is in addition to the documented cases of the increase of conflict within resource rich nations.

The economic effects of resource wealth are also well understood, but often ignored by CSR within the petroleum industry. “Dutch disease” refers to the economic problems that Holland suffered in the 1960’s due to their exploitation of natural gas discoveries. These include high levels of inflation and stagnation of non-resource based economic sectors. This latter effect causes economic hardship when resource wealth is exhausted and leaves behind an uncompetitive economy with undeveloped human capital and manufacturing industries. Too great a dependence upon resource revenues can also result in “boom or bust” economies resulting from the price volatility of the resource or its depletion.

1.6 Evolving CSR Approaches

Petroleum companies have engaged in various CSR activities in an attempt to help prevent or ameliorate the problems associated with their activities in developing countries. While petroleum companies initially focused on micro-level CSR as a means of aiding local communities through the development of educational and health facilities, in recent years there has been more emphasis on macro-level CSR activities aimed at addressing the broader, systemic problems associated with petroleum extraction in developing countries. On an international scale, the creation of the Extractive Industries Transparency Initiative (EITI) has been a step toward limiting corruption by bringing about greater transparency to the receipt of revenues by countries, although it does not require disclosure of how those revenues are spent.

Azerbaijan is the best example of this new emphasis on macro-level CSR because BP has implemented the most extensive macro-level CSR program in the world. Azerbaijan also shows the intricacies and difficulties in creating a CSR program tailored to the needs of the host country. Each country faces a unique set of problems that must be understood and addressed within the context of the country's history, government, economy and geopolitical situation. While many of the problems endemic to resource based economies still exist within Azerbaijan, the relationship between and Azerbaijan does represent a new paradigm in CSR and indicates a possible way forward in the evolution of CSR within the petroleum industry. Companies and governments must do more to mitigate the effects of petroleum revenues, and the relationship between Azerbaijan and BP can be instructive in the creation of broader more effective CSR initiatives.

2 Theories concerning the exploitation of natural resources

The fact that petroleum export driven economies can experience lower economic growth than other countries has been well documented by earlier studies (see Rodriguez and Sachs (1999), Gylfason et al. (1999), and Bulte et al. (2005) Gylfason (2001) Sturm et. al (2009)). (Some methodological errors with these studies have been pointed out by Leong (2010).

> Real GDP growth of oil-exporting countries has been below levels in emerging market economies, except at times of relatively high oil prices, such as in the early 1980s, following the second oil shock of 1979, in 1990/1991, due to a spike in oil prices resulting from the Iraqi invasion of Kuwait, and since the beginning of this decade, mainly as a result of surging demand for oil from emerging market economies. Even at such times their growth rates have barely matched and hardly ever exceeded those of emerging market economies. Average real GDP growth since 1981 was 2.6% p.a., compared with 4.2% in emerging market economies, confirming evidence that natural resource-rich countries tend to grow at a slower pace than countries endowed with fewer or no natural resources. This is known as the "resource curse". Economic growth has also been more volatile than in emerging market economies in general (Michael Sturm, François Gurtner and Juan Gonzalez Alegre 2009).

Until recently, the "resource curse" theory has been widely accepted as describing the causes of these problems, and a majority of earlier studies have shown the existence of a correlation between the exploitation of resources and poor economic performance in developing countries. But more recent studies have cast doubt on this. The more recent studies have shown that the abundance of resources itself leads to positive growth and that the poor economic performance of resource rich countries can be attributed to other factors rather than merely to the abundance of resources. While the debate over the quantitative data continues, the problems connected with resource dependence, whatever their causes, can still be mitigated by CSR.

This thesis will point out how petroleum revenues can significantly distort the economies of oil producing countries and show that effective macro-level CSR initiatives can help ameliorate these problems and turn resources into a blessing.

2.1 The resource curse and competing theories

The “resource curse” theory generally seeks to explain the paradox of why countries that are rich in natural resources often do worse, in terms of democracy, governmental corruption, the economy and development, than their regional counterparts that do not have such extensive resource wealth.

The theory is based upon several hypotheses:

(1) Revenues from the extraction and sale of the resources may create an even greater possibility for corruption as those in control of the government and economy siphon off even greater portions of the national wealth for themselves, (Sturm, et. al 2009).

(2) It may create “rentier states” or states that are not dependent on tax revenues and thus less accountable to their people, because the government does not depend upon taxes for major support, (Ross 2009)

(3) Investment in the resource sector at the expense of other sectors which could sustain the economy after the resources have been depleted, (Sturm, et. al 2009)

(4) Revenue inflows cause the Dutch disease which posits that the influx of resource export revenues will cause the country’s currency to appreciate and make it more difficult for it to sell its manufactured and other goods abroad, (Sturm, et. al 2009)

(5) It may make the economy susceptible to the effects of volatile commodity prices and create a “boom, or bust” economy, (Cavalcanti et al. 2011c)

(6) It can exacerbate conflict as different groups seek to seize the increased revenues for themselves through armed conflict. (Collier 2000)

(7) Large amounts of income make countries complacent and they fail to plan adequately for a future where there are not revenues from petroleum. (Gylfason 2001)

The European Central Bank lists the primary contributing factors for the resource curse: “There are four main explanations of the resource curse: the Dutch disease hypothesis; reduced incentives to develop the non-resource part of the economy; high volatility of resource revenues; and political economy effects of resource income, in particular with regard to institutional quality," (Sturm, et. al 2009).

Recent studies critical of the recourse curse theory have argued against this view:

> The correlation between resource dependence and slow growth and conflict, therefore, does not imply causation from the former to the latter. Instead, causality appears to be running from weak institutions and conflict to resource extraction as the default sector, which produces resource dependence as the final outcome. Resource dependence appears as a symptom, rather than a cause of underdevelopment. (Brunnschweiler and Bulte 617: 2008)

Brunnschweiler and Bulte argue that if one considers resource abundance as opposed to resource scarcity in the economy, one finds positive growth in resource rich countries over countries that lack recourses. They go on to argue that it is weak government and civil strife that causes a dependence on resources for supporting the economy as other forms of industry are driven away by conflict while natural resources are geographically linked to a territory and therefore much less likely to be abandoned due to conflict. Weishu Leonga et. al , infra, in his study also found that resources can be a blessing provided institutions are effective and efficient.

While the new studies of quantitative data have cast doubt on certain aspects of the resource curse theory (i.e., the abundance of resources itself) as the cause for poor economic performance, they also confirm that the volatility of resource prices has a negative effect on economic growth. All studies have argued that lack of good governance and institutions negatively impact potentially good outcomes.

> [T]he recent empirical literature seems to provide evidence against the conventional resource curse literature and argues for the positive effect of resource abundance on development and growth, see for instance Arezki and van der Ploeg (2007), Cavalcanti et al. (2011a), and Esfahani et al. (2009). Moreover, while Cavalcanti et al. (2011c) and van der Ploeg and Poelhekke (2010) show a direct positive effect of resource abundance on growth, they provide evidence for the negative relationship between resource volatility and growth. Cavalcanti et al. (2011c) also demonstrate that volatility exerts a negative impact on economic growth operating mainly through lower accumulation of physical capital.
>
> Several recent empirical works have also focused on the mitigating role of institutions. Using a cross-sectional approach, Mehlum et al. (2006) and Béland and Tiagi (2009) show that the impact of natural resources on growth and development depends primarily on institutions, while Boschini et al. (2007) illustrate that the type of natural resources possessed is also an important factor. These authors argue that when controlling for institutional quality, and including an interaction term between institutional quality and resource abundance, a threshold effect arises. Therefore there are levels of institutional quality above which resource abundance becomes growth enhancing, (Leong 3: 2011).

For the purposes of this paper, however, causation has little importance though it appears that a bulk of the literature is moving away from the traditional concept of the "resource curse". Ultimately, it does not matter whether or not the abundance of resources has created dependency on those resources because their tremendous profitability distorts the economy or whether the existence of poor governance and civil conflict within the region have created that reliance upon resource revenue because capital has fled from all other industries from which it could be withdrawn. Both theories conclude that the creation of diversified economies with functioning governmental institutions are required to move beyond strictly resource dependent economies. The mitigating factors in assuring growth remain consistent throughout all of the studies, and those factors are effective governance, properly functioning institutions and economic diversification.

2.2 "Dutch disease"

The condition known as "Dutch disease" was hypothesized by W. Max Corden and J. Peter Neary in a 1982 paper and refers to large scale changes in investment and resource allocation. It gets its name from problems that Holland faced in the 1960's when large amounts of natural gas were found. The most notable change in the economy is the shift away from investment in manufacturing and the production of other tradable goods into the resource sector and non-tradable services. The exploitation of natural resources produces large amounts of revenue that can distort traditional economies and currency exchange rates. "Dutch disease" is still seen as a threat to good performance by resource rich countries, although there are mitigating factors that can help countries avoid it.

"Dutch disease" effects the economy in the following way. The rapid inflow of money into the country to invest in the petroleum sector produces inflation. The increase in investment in the petroleum sector creates increased demand for a country's currency, which causes it to appreciate against other currencies. The other sectors of the economy, which could provide more employment, are hurt in several ways: (1) There is a lack of investment in manufacturing and other sectors because the oil sector is far more profitable; (2) The service sector booms due to the increased demand coming from the resource sector and this pulls labor away from other sectors, which have difficulty competing with the rising wages; (3) Manufacturing is hurt by rising inflation rates in the country, which make manufactured goods more expensive to produce; (4) As a result in the appreciation in the country's currency, manufacturing and other industries become less competitive in selling their products internationally and exports decline. If the petroleum resource is depleted or prices drop, other sectors of the economy, which have been neglected in favor of the resource sector, are unable to pick up the slack in the economy caused by the decline in petroleum revenue.

There are ways, however, to ameliorate the effects of the "Dutch disease". Generally these solutions are seen as macro in nature. A new quantitative study by Cosimo Beverelli, Salvatore Dell'Erba and Nadia Rocha has reaffirmed the quantitative existence of the "Dutch disease". They found that "Countries that export the overall amount of natural resources extracted are more at risk from suffering from Dutch disease than countries consuming such resources domestically," (Beverelli et al. 2011:150). Beverelli et al. hypothesize that the creation of a domestic manufacturing industry that is centered around the abundant resource is crucial to escaping the Dutch disease. In the case of oil, this can be oil refining or manufacturing industries, such as chemical plants, that have a relative advantage because they use the abundant resource heavily in production. Thus, diversification and broad growth in all sectors of the economy is critical for preventing the "Dutch disease".

Another way that pressures from the inflow of resource revenue can be managed is by creating sovereign wealth funds to manage the resource revenues. Norway's sovereign wealth fund has attempted to mitigate the inflationary pressures from having a huge amount of oil wealth pumped into the country's economy by stipulating that such funds cannot be invested inside Norway. This has had the effect of limiting inflationary pressures within the country and, by limiting the demand for its currency internationally, has prevented it from appreciating greatly against other currencies.

Sound and transparent management is critical for the proper functioning of the sovereign wealth funds. Without this, the large investment funds can be misused to plug temporary holes in governmental budgets or go to finance corrupt activities. If the funds are misused in this way, the sovereign wealth funds will not serve their purposes and cannot be effective in avoiding the potential economic and political damage of vastly increased revenue inflows. Within the area of sovereign wealth funds, CSR has been used to effectively help and maintain sound economic planning.

2.3 Rentier States

The term 'rentier state' as defined by Donald Loseman refers to "a country that garners a substantial portion of its income from external sources, most generally from the sales of resources such as oil and gas... Importantly, the label "rentier state" requires that governments (or their agencies) be the direct recipients of these external rents" (428: 2010). Economic dependence on outside income has traditionally meant "rent" is paid for land or resources without improvement or investment in the land (Loseman, 2010). The country is not necessarily improved by such a transaction. Coupled with the fact that governments become less dependent on their people for tax revenues, this can be very detrimental to the establishment or maintenance of governmental institutions. First, it can cause governments to refrain from setting up efficient means of collecting taxes, as is the case in Azerbaijan. This, ultimately, will be extremely harmful to the government, because when oil revenues dry up, the government will have little means to fund itself through tax collection. Second, it will mean that governments will be less accountable to their people, since the government receives little revenue from them. The government also has less incentive to ensure their population's economic growth as the government is not dependent on the increase in tax revenues. Conversely the population has fewer expectations from the government because they do not fund it. The government and the people become insulated from each other because they are not interconnected through revenue collection.

Kevin Morrison found that "nontax revenue should be associated with less taxation of elites in democracies, more social spending in dictatorships, and more stability for both regime types," (2009 : 1). This increase in regime stability has a potentially detrimental effect on the establishment of democracy within undemocratic states. While increased social spending can mollify populations of autocratic regimes and thus support the existing regime, this social expenditure is not sustainable and does not offer hope for permanently bettering the lives of peoples within the state. Investment in the population must be done in ways that diversify and develop the economy to provide long-term, sustainable employment rather than merely temporarily pacifying the population with handouts. The cutting of taxes in democracies also damages governments and institutions as they become more dependent on revenues from resources to plug gaps in their tax proceeds. Since tax cuts usually go to aid the rich, this has little effect on growing the economy, but rather constitutes a means of aiding elite groups to the detriment of the economy as a whole. It should be noted that Norway, a country that has successfully administered its petroleum wealth, has resisted the urge to cut taxes, and by maintaining a large tax base it has reduced its dependence on resource revenues. Within democratic countries the need to resist creating windfall tax policies is crucial to the maintenance of sound governance.

Rent-seeking behavior in countries can be extremely damaging to their economies. Successful economic development and diversification creates a reduction in rent that governments receive from the export of natural resources because of the increase in domestic consumption of those resources. Since economic development means an increased internal usage of oil, it has the effect of reducing the amount of money the government receives from oil exports, thus creating a governmental disincentive for economic development. (Al-Ubaydli 2009)

Restructuring local economies to move away from rent-seeking behavior is crucial for the economic development of a nation and the survival of functioning governmental institutions. Omar Al-Ubaydli argues that, democracies are not as motivated to limit economic growth because there is a potential for election losses if this is done, but limiting economic growth can be potentially beneficial to those in power in authoritarian states. This is because as economies grow they demand more resources and the external rents paid to governments are reduced, thus leaving governments worse off than they were before there was economic growth. It is therefore crucial to populations that live in authoritarian states that their governments move away from the rentier state system and implement broad tax reform that will allow for a transition from rent-seeking to taxation as the major source of revenue as the economy grows and export revenues decline.

Rentier states have also been shown to have a different relationship with their population in regards to civil liberties and civil rights. A 2011 study by Rabah Arezki found that:

> [W]ithin-country increases in oil rents lead to significant within-country increases in corruption, significant within-country decreases in political rights, as well as significant within-country increases in civil liberties. On the other hand, we find that on average within-country increases in oil rents did not have a significant overall effect on the risk of civil conflict. (Rabah Arezki 17: 2009)

While civil liberties were increased because a crack down on dissent was not necessary to maintain regime stability, there was a decrease in political rights because government stability was shored up though external revenues. This has clear ramifications for good governance as governments face less pressure to reform their practices as long as the population can be bought off.

If rent-seeking governments use the resource revenue to buy off the population until such time as they can no longer do so because resource revenue has decreased, there will be insufficient time and resources to significantly alter the economy and tax structure in order to bring about broad economic growth in the future.

2.4 The importance of Good Governance

Good Governance is defined by the UN as having 8 characteristics. “It is participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law,” (UN website a).

Good governance is one of the crucial factors in controlling problems associated with resource exploitation. Well-established democracies with functioning institutions have had a good ability to deal with resource wealth and have not seen a substantial weakening of democratic institutions due to the influx of wealth and have been better able to weather resource volatility.

The creation of governments that follow the principles of good governance is essential for the effective management of resource revenue and the economy. At the same time, the sudden wealth created by resource development may have the direct effect of lessening good governance, so external expertise and assistance is crucial in assuring "good governance" in countries where it is not already well established. According to work done by Sambit Bhattacharyyaa, and Roland Hodler (2010), the increased corruption experienced by countries with high levels of natural resource wealth is correlated with the quality of their democratic institutions. Their "game-theoretic model predicts that resource rents lead to an increase in corruption if the quality of the democratic institutions is relatively poor, but not otherwise," (1: 2011).

Good governance is in fact the most crucial element of insuring that resources are used effectively to aid economic growth and development of a country for the benefit of its entire population. This has been clearly postulated since "The 'resource curse' is primarily a political and not an economic phenomenon," (Karl, 256: 2009).

2.5 Reliance upon petroleum revenues and democracy

Some quantitative studies have found that oil exports have a statistically significant negative effect on democracy within the developing world.

> Among the petrostates, successful transitions to democracy are rare. Venezuela's 1958 transition is at the top of the list. The next four leading producers to democratize were Russia (1991), Nigeria (1979), Ecuador (1979) and the Congo Republic (1992); but all of these transitions were later reversed. This highlights the unusual quality of Venezuela's success: since Venezuela's 1958 transition, no country with more oil income than Mexico in 2000 has become sustainably democratic.

> One result of this pattern is that since the early 1980s, oil states have made up a growing fraction of the world's remaining authoritarian states. In 1982, long-term oil producers made up about 22 percent (27 of 122) of the world's autocracies; by 2002, this same group of oil producers made up about 34 percent (24 of 71) of the remaining autocratic states. For democracy advocates, the effects of oil have become increasingly salient. (Ross 6: 2009).

This means that petroleum wealth, far from raising people from poverty and giving them the desire and ability to have a greater say in their governments, might often have the opposite effect. However; again some new research casts doubt on oil hindering democracy. New studies argue that prior research has mistaken correlation with causation. Stephen Haber and Victor Menaldo find in their 2011 study that reliance upon petroleum resources does not necessarily create anti-democratic conditions over the long term:

> Our results indicate that oil and mineral reliance does not promote dictatorship over the long run. If anything, the opposite is true. These results hold even when we search for a host of conditional effects suggested by the literature. This is not to say that there may not be specific instances in which resource rents might have helped to sustain a dictatorship. It is to say, however, that there is a big difference between pointing to these instances and making sweeping, law-like statements, (Haber and Menaldo 25: 2011).

Recent work is making scholars re-examine previous assumptions about the role of resources within countries. However, it must be pointed out that the recent studies have been anything but consistent in how and if democracy is promoted. Cesari (2011), also, finds a negative correlation between democracy and oil resources in the quality of institutions. So while it is possible that oil in the aggregate might promote democracy itself, that is not to say that it will strengthen such institutions there are also difference in regions that should be controlled for, Ross (2009) found that with the exception of Latin America there was not a sustained move towards democracies in the oil exporting world:

> An important study by Dunning [2008] shows that Latin America seems to be unaffected by the anti-democratic powers of petroleum… [Of] the ten top oil producers that have transited to democracy since 1950. All of the countries that made successful transits were in Latin America: Venezuela (1958), Mexico (2000), Argentina (1983), and Bolivia (1982). Conversely, all of Latin America's oil producers (like almost all of its non-oil producers) are now democracies. In fact, Latin America's long-term oil producers (Argentina, Ecuador, Mexico, Trinidad, and Venezuela) have generally been more democratic than its non-oil producers, although today there is little difference… [O]il-rich autocracies were more likely to democratize in Latin America, but less likely to democratize in the rest of the world. (Ross 8: 2009)

Almost all studies have shown that democratic governments and institutions are vital in limiting corruption and rent-seeking behavior.

> When natural resources are plentiful, dictators have a guaranteed income and can afford to hamstring the economy to maintain their grip on power. Conversely, when natural resources are limited, the cost of repressing associational freedom is high and so dictators have to balance their desire for longevity with their desire for wealth.
>
> In democracies, on the other hand, the pressure of the electoral process does not give politicians an incentive to repress the economy. The result is that natural resources damage development and democratization in authoritarian regimes, but not in democracies. I test these predictions using an international panel from 1975 to 2000 and find support for the model, (Al-Ubaydli 3: 2010).

This is a critical understanding for the proper design and implementation of CSR programs. Without the implementation of effective policies to counteract the negative effect on civil liberties and the economy, the existence of petroleum resources may produce poorer and less democratic governance.

3 The Role CSR in Government

There is no one accepted definition of CSR, but an analytical paper by Alexander Dahlsrud found that of the 37 common definitions, the "definitions are to a large degree congruent". The definition by the Commission of the European Communities is the most common definition found on the internet and is broad enough to give a general sense and encompass the ideas traditionally associated with CSR - a company's voluntary undertaking to aid stakeholders and mitigating costs that are externalized to the community. The CEC defines CSR as "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis," (Dahlsrad 7: 2006). For the purposes of this paper, it is also necessary to understand that CSR also has a developmental component to it that is common through many of the definitions. Essentially, CSR is corporate action for the betterment of society.

3.1 CSR is a voluntary undertaking by a company

CSR is voluntary action that a company takes in order to aid the "stakeholders", or those directly affected by the company's actions. This action is above and beyond what is legally required and is therefore often associated with occurring because of outside pressure from stakeholder groups, other NGO's, or governments that use publicity in order to induce firms to either to change their behavior to avoid directly hurting communities or to aid in the development of communities. Since CSR is a voluntary undertaking, it must be consistent with the self interests of a company. A corporation's primary motive remains the making of a profit for its shareholders, and while CSR has been so ingrained in the western business model that it is now an assumed part of a business model (Bondy et. al.), the primary object of a corporation is not social change. In order for a corporation to engage in CSR, it must believe that its activities in some way promote its own self interests. Thus, it is important to realize that, when advocating for an expanded role of corporations in the betterment of society, there are profit motive constraints on corporations' CSR activities. Corporate assistance in building schools and hospitals cannot be seen as a purely altruistic undertaking, since the incentive may be to decrease unrest or dissatisfaction in a local area in order to make corporate operations safer and more efficient or to enhance their ability to hire employees.

While it has been argued that CSR in and of itself can make a company more competitive and profitable, this has not been conclusively shown. Bryan Husted and David Allen found that the academic study of CSR and profitability has yielded mixed results, because of the complexity of company profits: "financial performance comes at the end of a long chain of mediating and independent variables. In other words, too many variables influence firm financial performance for us to isolate effectively the impact of CSR activities," (595: 2007).   While objectively proving the returns of CSR to companies is well outside the scope of this paper, it is an important limitation on corporations' CSR efforts.

The complexities of economies, governments and peoples that are affected by CSR initiatives have also made drawing firm conclusions about "effective" CSR policies difficult. Academic study has not produced a blue print of successful CSR (Husted and Allen 2007). This lack of a clear blueprint contributes to the difficulty in creating a single specific definition of CSR, because each situation where CSR is applied is case specific to a company, a region and those affected by the company.

Michael Blowfeld criticizes modern CSR in the following way:

> CSR has established an orthodoxy that has gone largely unnoticed by other disciplines despite the way it is shaping the private sector's relationship with the rest of society at national, international and global levels. This orthodoxy is at the root of contemporary CSR's failure because the discipline has yet to develop the means for internal critique, and as a result is unable to recognise its own assumptions, prejudices and limitations. (173: 2005)

Blowfeld's criticism of CSR shows the need for improvement in both the number and rigor of studies of CSR. While the role of CSR and its merits need to be rigorously challenged, corporations' role as "social actors" also must be defined. International corporations can exert tremendous influence and power in shaping policy, but their accountability and justification as social actors is far less clear than their ability to effect change.

3.2 The relationship between CSR and the legal system

CSR is not a substitute for a country’s laws and regulations, however it can supplement them. For example, CSR can render assistance in areas where the government does not have a robust presence. There is some reason to believe that CSR might aid in the creation of such laws, in that “’firms’ voluntary efforts contribute to the intangible resources that will, in any case, be necessary to support any binding rules that may emerge,” (Gordon 13: 2000).

CSR does have a place in regulating activity; “Public suspicions of voluntary efforts undertaken by businesses and NGOs may be based on a somewhat unrealistic view of the alternative -- public regulation. No system of social control of companies is perfect and many, including a large number of public schemes, are highly imperfect,” (Gordon 13: 2000).

She goes on to say that:

> As the business community itself often points out, these voluntary efforts can only be, at best, a highly imperfect substitute for a uniform, appropriate policy framework supported them -- there is a need to reap the benefits of synergies between voluntary and binding approaches. Such a framework would have to include not just international standards, but also supporting domestic institutions (e.g. school systems, public sector reforms, better corporate governance systems, and improved enforcement capacity), (14: 2000).

It can also be argued the other way around, that effective and dynamic legal obligations can help CSR.

> Regarding the sometimes complex differentiation and complementation of soft- and hardlaw, the present article has also emphasised that, although there is a wide consensus that CSR activities are, by definition, voluntary and CSR policies soft in character, this does not mean that governments cannot (co-)develop binding minimum standards and quality assuring procedures for issues currently being discussed under the heading of CSR. There are two reasons for this. First, the CSR minimum standards may only be binding for those who apply them voluntarily; and second, if they become new mandatory legal standards for all, CSR

> policies will simply be turned into conventional social or environmental hard-law regulations (for examples of this, see Rasche et al. 2008). According to an EU research project on the 'Rhetoric and Realities in CSR', conventional social and environmental regulations not only curtail the scope of voluntary CSR but also provide crucial points of orientation: 'companies proved more active with regard to voluntary sustainability activities when ambitious policies provided clear points of orientation' (Barth et al. 2007, p. 34). (Steurer 16: 2010)

CSR cannot be viewed as an alternative to effective laws and regulation, but needs to be viewed in a complementary light. The activities of a corporation which are in compliance with or not prohibited by the law can still have a detrimental effect on the lives of people and thus CSR might be necessary to go beyond the current legal standard.

As the above passage points out legal standards can give companies a starting point and direction for their CSR operations. CSR by itself cannot take the place of government regulation in setting minimum standards of acceptable behavior, but it can point in the direction of better policies for the government to adopt. In this way, CSR can have the effect of helping to improve the quality of governmental policies and practices.

3.3 Corporate moral responsibility within CSR

While generally it is seen as the obligation of companies to deal with the direct effects of their actions, such as paying for environmental damages or damage to property caused by the company, there has been less of a demand by the public that companies mitigate the indirect effects of their business activities. For example, the firearm industry is not generally seen as being responsible for acts of violence involving the firearms which they manufacture and sell. CSR goes beyond the type of thinking that companies have only the moral responsibility to correct the negative effects of their actions or to avoid activities which are harmful. CSR initiatives often demonstrate a company undertaking a positive moral responsibility to ameliorate conditions within society. In his examination of the moral basis of CSR, Claus S. Frederiksen found that it was most often based in what he termed "common-sense" morality:

> Supporters of common-sense morality believe in the existence of both negative rights and positive duties. In relation to CSR, supporters of the common-sense orientation believe that companies have a moral obligation not to violate anyone's rights and that they also have positive duties towards certain groups, such as employees, the local community and others closely related to the company, (359: 2010).

It is easy to see how this ethic fits in well with what is found in most CSR campaigns. As I will discuss in later sections, CSR has gone well beyond negative rights - that is well beyond the principle of "do no harm"- and has moved into positive rights, like building schools and health clinics.

When dealing with industrial operations that threaten to distort whole economies, the stakeholders have a right not to have their livelihoods and economy disrupted or their governmental institutions corrupted as a result of resource development. While the extractive industry may not be the direct cause of government corruption or misspent revenues, it is a foreseeable and understandable byproduct of the companies' payments. Thus, from a negative moral perspective (people's freedom from harm) such corporations have a moral obligation to assure that they do not facilitate governments in violating the rights of the stakeholders.

Stakeholders also have positive rights, since it is the people of a country that "own" the resources, not the government. The petroleum industry should fairly compensate the people for their resources. While the government is often the one that sells or leases the mineral rights to the industries, the resources truly belong to the people. Government officials can only act legitimately as the representative of the people in such transactions[1] if they are acting in the population's interests. If an oil company obtains these rights illegitimately from corrupt government officials, who are not acting in good faith for the benefit of the people, then the transaction is suspect. Thus, the company then has a positive moral obligation to see that the resources are used for the benefit of those who are the true owners of the resource.

The role and responsibilities of corporations in the area of governance is expanding. Although some might argue that this is outside of the proper function of corporations,

[1] People have to right to self-determination, and therefore must be holders of governmental power.

CSR seems to have adopted the “common-sense morality” approach which includes concern for both the positive and negative rights of a country’s population, including both positive and negative rights for the population. While the intrusion of corporations into the area of governance has some troubling implications, the CSR ethic seems to be broad-based and expansive in the sense of giving corporations a lot of leeway in designing and implementing programs to further positive rights obligations. In the later chapters, I will argue that macro-level CSR is well suited to promoting good governance as it works to better governance without supplanting government, like micro-level CSR can.

3.4 The legitimacy of corporate involvement in matters of governance

Corporations play an ever expanding role in international business affairs.

> Transnational Corporations, business and industry association, corporate foundations and wealthy business executives are playing stronger international public roles in at least three significant ways. First, they are supplanting or supplementing government and multilateral foreign aid programs through philanthropy. Second, they are involved in international standard setting and voluntary participation in self-regulation and private certification arrangements on social, human rights and environmental issues. Third, they play a key role in framing and shaping international policies both inside and outside of the conventional processes of government decision making (Rondinelli 394: 2003).

The term “Corporate Citizenship” is often used to describe a corporation’s role in society or, particularly its responsibilities to contribute to the betterment of society without reference to its own benefit. While the term Corporate Citizenship has expanded in its use and there are many beneficial aspects to it, there are also legitimate concerns and questions as to whether the term ‘citizen’ is applicable to corporations since they lack some of the attributes commonly associated with ‘citizenship’.

> All political models of citizenship share the assumption that citizens stand in some sovereign relationship to the government and the direction of the activity of governing or ‘governance’. This raises immediate questions about the appropriateness of the term for corporations. We have seen that there are no strong grounds for applying the minimalist conception of citizenship to corporations as they fail the legal and political status test. They are manifestly not bearers of the political rights that are characteristically seen as fundamental to liberal citizenship (Moon, et al 17: 2003).

Even though there are many ramifications of corporations' legitimate or illegitimate role in influencing government, D. A. Rondinelli concludes that their influence is here to stay and will further expand. This influence may help or hinder good governance. Historically, corporations have attempted to influence governments to increase their profits (such as decreased regulation or taxation or to obtain government contracts). Lobbying and pursuing their political interests is an active part of corporations' business strategy. What is changing now is that corporations are being asked to assist governments and to contribute to society in ways that do not directly improve their profits.

Since CSR is seen primary as a public relations tool for corporations, there is reason to believe that corporations' role within society where it does not have a vested corporate interest might be less harmful than its more traditional role of influencing governments in ways designed increase their profitability. It also should be noted that it has primarily been pressure from NGOs that has pushed companies to expand their CSR activities and move outside of traditional business practices. An expanded role of corporations into humanitarian activities and institution building is often sought by corporate accountability movements, thus negating some of the objections to such actions (Rondinelli 2003).

Corporations generally have not been eager to expand their role in government beyond their narrowly defined self-interest within the realm of CSR. "American corporations have been keen on getting involved in various development initiatives in education and health, but 'for instance, we couldn't get companies involved in party-building activities in Zambia'. In the words of one interviewed oil company manager, 'we cannot be government,'" (Fryas 165: 2010). Petroleum corporations, in particular, have been reluctant to become involved in governance issues.

> Most oil company executives tend to reject the notion that they could play a constructive role in helping to address governance failures and they have a legitimate concern over corporate involvement in the political process. However, such a stance denies the reality that (1) multinational companies already intervene in the political process to attain corporate objectives (e.g. lobbying for new legislation) (Frynas et al., 2006; Shaffer and Hillman, 2000); (2) corporate activities such as tax avoidance and lobbying may be contributing to governance failures (Henriques, 2007; Utting, 2007) and (3) under certain circumstances, multinational companies may benefit commercially from governance failures in developing countries (e.g.

> non-enforcement of certain government regulations or the ability of companies to negotiate more profitable agreements with governments) (Frynas, 1998; Frynas and Mellahi, 2003). (Frynas 174: 2010)

However, there still remain some issues with respect to the legitimacy and appropriateness of corporate CSR activities in the area of governance. After all, petroleum companies were never designed to be governments or impartial advisors to governments. They are private organizations designed to make a profit for their shareholders and are not subject to scrutiny in the way that governments are. While there should be concerns about corporate involvement in governance, they do have the experience and ability to contribute to good governance in constructive way.

3.5 Avoiding cultural imperialism in CSR

There is some danger that Western corporations might impose "Western ideas" of corruption on countries that do not except them, but this can be avoided by using a broad definition of corruption. The UN borrows Transparency International's definition of corruption-- "the abuse of entrusted power for private gain"(Transparency International). Using this as a broader definition it is clear that gaining advantage by using means outside of the power or legitimacy of one's public office can be seen as outside the scope of their power and therefore a misuse of entrusted power. Societies are free to give officers more power if they wish, but unless it is done within confines of the law and within the limits of the office, misuse of entrusted power can be seen even across cultures as corruption.

Within this context, corporations insisting on anti-corruption measures, transparency and "good governance" can be fully compliant with the rights of countries and populations to have self-determination. According to Habermas (2001), even the imposition of good governance by the company can be consistent with democracy or self-determination as long as it further strengthens democratic systems and the right of self-determination. It should therefore be understood that companies acting unilaterally need not be a hindrance to democracy, whereas democracy itself can violate its own axioms and become undemocratic. While people need to maintain the right to self-determination, neither the companies nor the people themselves can choose to violate that right, and still be deemed democratic or in compliance with the right of the people to self-determination. While it can be considered circular logic that outside companies and people impose democracy and good governance, the imposed structure is still democratic and consistent with good governance as long as it does not violate fundamental rights of democracy and good governance. The imposition of reforms by outside groups, corporate CSR activities in this case, need not be undemocratic or as undermine the concept of self determination.

Where questions of legitimacy are concerned some of the issues can be solved by involving international organizations and NGOs in the process. With the comprehensive peace building approach, the UN works with both governments and other development organizations.

> The UN's integrated approach concept should thus be understood in a wider international context where coherence is pursued at the national level among government departments (whole-of-government), and internationally among donors (harmonization); between donor and recipients (alignment); within the UN development, humanitarian and environment dimensions (system-wide coherence); and among the peace, security, human rights, humanitarian and development dimensions of the UN system at country level (integrated approach and integrated missions). (Cedric de Coning 6: 2009)

BP has involved the UN, specifically the UNDP, in its plans to aid in poverty elimination in Nigeria. Not only does this approach bring together a greater variety of expertise, but the involvement of various organizations means that they can act as a check upon each other. Together they can all have input and a greater ability to effect governmental change, and also have a greater legitimacy because the role of the UN and other international organizations is to foster good governance and development.

It is necessary to have the UN and other international aid and development organizations integrated further into the processes so that the legitimacy and the merits of the proffered advice can be scrutinized. Having such organizations involved and attending meetings brings a needed transparency to assure the legitimacy of the process. While programs like the EITI ++ (discussed in Chapter 4) will add organizations like the World Bank into planning and the managing of money, it is less clear how integrated they will be with the companies themselves. Moreover, the participation of the IMF and World Bank are also open to question since their roles are often seen as benefitting banks and other lenders at the expense of the population. The involvement of the UN and other international aid and development organizations would not have this disadvantage, since their only motive would be to benefit the people.

While the comprehensive approach does have its drawbacks since adding another agency and another bureaucracy to the mix can delay action and add to the costs, it would give some assurance that the macro-level CSR activities of corporations are actually doing what they are supposed to do, that is to help to create better governance and stronger institutions.

4 The uses and limitations of micro-level CSR initiatives

In this chapter I will explain the basic assumptions of and problems that exist with micro-level CSR and why it is particularly ill-suited for dealing with the problems associated with the extraction of petroleum in developing countries. In order to understand the need for a macro-level approach, it is critically important to understand the failings of the current CSR initiatives on the micro-level. I will explain the fundamental difficulties that companies face when trying to solve broad societal problems without taking a holistic approach and how this is especially true with respect to the petroleum industry. I will also briefly discuss environmental issues as they can often be the most obvious and dramatic issues affecting the local community. While the environment in not a major point of the thesis, it can illustrate broader CSR principles. Micro-level CSR may help alleviate problems in local communities, but it cannot deal with the broader systemic problems such as poor governance or corruption affecting an entire country or region. Macro-level CSR is necessary to deal with such problems.

4.1 What is Micro-level CSR?

Micro-level CSR is generally what is thought of as community projects within CSR. Often these are touted by companies as examples of their helping a community. Projects often include the creation and funding of health centers, schools, clean water projects and the like. What makes something micro-level is that it is working on smaller community problems rather than broader systemic problems, but there is not a hard line between micro and macro level projects. It has been hypothesized that micro-level projects especially programs like funding of education, can have macro-level effects, by improving human capital within the country and thus alleviating broader societal problems and by creating economic development and diversification. There is some reason to doubt these claims and little evidence to support them.

Micro-level projects developed in terms of CSR as a response to the direct impact felt by stakeholders from company actions. This can mean helping the community alleviate environmental degradation caused by the company or access to healthcare or education as a form of compensation for resources.

While CSR has traditionally been an attempt by companies to better their image within society, community based projects are not without their controversies and detractors:

> [E]ven if some developmental benefits can be derived from CSR, CSR does not address crucial questions of governance. The reason why companies such as Shell in Nigeria have been asked to build schools and hospitals is that the government has failed in its developmental role. When governance fails, local people often turn to oil companies to provide development projects, and this phenomenon can be seen in extreme form in Nigeria, where Shell has been regarded by many as a quasi-government. But the development projects funded by oil companies are often inadequate… And even if CSR in the oil industry were to develop best practices and deliver development effectively, then there would be even less pressure on governments in countries such as Nigeria to provide such benefits. And yet it is the government which tends to receive the lion's share of oil revenues from oil companies, sometimes amounting to 70–80 per cent of those revenues. In other words, even the best CSR initiatives can access only the 20–30 per cent share of oil revenues accruing to oil companies, and cannot address how the remaining 70–80 per cent should be used for the country's development. By implication, it is arguable that CSR may provide a lose–lose outcome for a country's governance: governance failures lead to calls for a role of CSR in development; usually CSR is unable to play such a positive developmental role, but even if CSR could play such a role, this would ease the pressure on the government to undertake a developmental role itself, (Frynas 596: 2005).

There is also a sustainability problem since companies extracting non-renewable resources will probably not have a long term presence in the communities. Thus, as companies move on, projects and money for those projects can dry up as companies no longer operate in the area, and the government lacks the will or ability to sustain the projects. Micro-level CSR has an inherent sustainability problem that is difficult to resolve without macro-level changes to the government.

While these are legitimate criticisms, community based CSR projects might be vital for emergencies and as short-term aid to communities. However, they might have a lasting detrimental effect in obfuscating the correct role of the government within a country.   History and existing conditions will influence how CSR initiatives are perceived in different countries. Gjølberg states that:

> CSR is inseparable from pre-existing models of state-market-society relations. Thus, the outcome of the present extensive promotion of CSR as an instrument in national and global governance by governments and multilateral institutions will be highly contingent upon the pre-existing socio-political models where CSR is introduced, (Gjølberg 223: 2010).

Efforts must be made to assure that CSR projects are understood in their proper role. If the government has never provided educational or healthcare services to an area, the populace may not expect it to provide them. In that situation, as the quotation by Frynas in the previous section states, Shell was seen as a quasi-governmental organization and was depended upon to build basic infrastructure and facilities in Nigeria. This has relieved pressure on the Nigerian government and has enabled the government to neglect its fundamental duties. As community development, heath and education projects fall within the realm of government, micro-level CSR raises troubling issues as to why companies are relied upon to fill the role of providing basic governmental services.

Local CSR projects, by relieving the government of the necessity to provide essential infrastructure and services, can create a distorted environment for governments and weaken or hinder the establishment of necessary governmental institutions. In Nigeria, the government receives a lion's share of the oil revenues, leaving only a small fraction of revenues for Shell to make profit and to fund local CSR programs, (Frynas 2005). Local CSR projects might take the place of legitimate government projects and expenditures that are well within the role of government.

BP has stated that it hopes that is local projects have a greater and longer impact that lasts after it has ceased operations in the area:

> We aim to make these programmes contribute to sustainable development, rather than end their beneficial impacts when BP funding ceases or we leave a location.
>
> The programmes we support fall into three broad categories: building business skills; supporting education and other community needs and sharing technical expertise with local governments. (BP website a)

Some countries' governments will not be able to fulfill all of their legitimate obligations, because of a lack of institutional capacity or resources. Here companies might have to step in but, this should never be a long term solution. According to Kevin Morrison (2010), companies taking the place of government can have a detrimental effect on the government's ability to manage its obligations, for the reason that the government does not need to learn how to provide basic services for its citizens since those obligations have been taken over by international companies. It also may create a different problem - if money that would otherwise be required to be spent on hospitals, schools or other infrastructure is no longer required because companies or other organizations are providing those needs, the government has the ability to spend that money on less vital or perhaps detrimental areas (Feyzioglu, Swaroop, and Zhu 1998) like the military.

4.2 Co-ordination and oversight of projects

A problem in any environment is proper co-ordination of projects. This can be a problem with development aid when projects are undertaken that either overlap or do not have the requisite support to succeed. A clear example of this was in Nigeria where two parallel roads were built by two different aid organizations (Frynas 2005). Even if the proper infrastructure is built, the local community might not be able to utilize it to its full advantage. For example, the government may lack the resources to maintain the road, or lack of capital or permit requirements for starting businesses may prevent it from creating economic development. Projects that exist in a poor policy environment have a much greater chance of failing (World Bank 1992; Easterly 2002). So there is a necessity for high levels of organizational oversight and integration of projects.

The greater number of projects, the greater the difficulty the government has to oversee them and how they fit into a broader development strategy. The increase in the costs of oversight strains weak institutions (Knack and Rahman 2007).

> This study provides a formal analysis and empirical evidence suggesting that competitive donor practices, where there are many small donors and no dominant donor, erode administrative capacity in recipient country governments. In their need to show results, donors each act to maximize performance of their own projects, and shirk on provision of the public

> sector human and organizational infrastructure essential for the country's overall long-term development…
> Evidence of unintended damaging effects of aid does not necessarily imply that the net effects of aid on development are negative. Donors' use of human resources, however sub-optimal, may sometimes be more efficient than the government's use of them. Rather, the implication of this paper is that donor practices produce less damaging side effects when donors have a higher share of the aid market in a recipient country or when they are more altruistic (i.e., motivated more by development concerns). (Knack and Rahman 24: 2007)

Too many projects which cannot be easily overseen can be detrimental to the growth of good government. While large multinational corporations acting as dominant donors can help lower cost of government monitoring, there has been a shift away from top down development aid in CSR which might increase project maintenance costs. The strain of monitoring projects in turn raises costs of governance and the opportunity for funds and resources to be misappropriated or misused.

While single organizations can be given funds and put charge of large portions of the aid market, building a bureaucracy is often thought of as something to be avoided within aid organizations. This is because they want to be as efficient as possible, but a lack of bureaucracy might be detrimental to long-term aid effectiveness and monitoring. Thus, the need for local CSR projects to be integrated into a larger framework is clear and necessary not only for the efficiency of spending, but also to decrease strain on government institutions. Economic growth and development often require integrated systems of support and supplying one piece of the puzzle alone might not make a sufficient impact on development. Crucial to any such long-term development will be the strength of institutions and the government's ability to take over the care of its people. The government must be prepared for this challenge and involved in the oversight of local projects while still having their institutions protected from the potential strain of monitoring a vast number of local projects.

4.3 Micro-level CSR educational projects

The development of human capital is extremely important for economic growth within resource rich countries (Nelson and Phelps 1966; Lucas 1988; Romer 1990; Mankiw et al. 1992). Other empirical studies have also shown that the stock of human capital and the level of investment in education is positively correlated to growth (McMahon 1998; Keller 2006).

Many corporations have education projects at the forefront of their activities, but the effect of education on economic growth is more complicated than the mere assertion that it is beneficial. In evaluating these educational projects, one must take into account what type of aid is being given, to which level of education, and the amount of development in the recipient country. Even controlling for these factors, there is disagreement as to where aid is best spent, and the studies that have been done have been done on a macro scale, so it is difficult to drawn any conclusions about the effectiveness of investment in local educational projects.[2]

The quantitative studies that have been done are on foreign aid, and have not been focused on CSR initiatives. Among those done on foreign aid there have been contradictory results. Asiedu and Nandwa (2007) find that in low income countries, investment in primary education has a positive effect on economic growth, while investment in secondary education has no effect on economic growth. A study by Katarina Keller might help to understand why this is so, as she found that aid to secondary education was not utilized unless enrollment was also increased.

It should also be noted that Asiedu and Nandwa found that investment in education in middle income countries had a negative affect. Middle income countries often had sufficient primary and secondary education systems in place and aid was given usually in the form of loans, which had to be repaid. This increased debt without substantially aiding the countries.

[2] Many of the studies on education focus on the United States and other developed countries where the education systems and demands from the labor market very greatly from the developing world. While education in the first world might lead to one outcome, it is less clear that the economy in less developed nations is capable of providing opportunities for the more educated. Also studies from the developed world are not often translatable to countries where there is not a preexisting “basic” educational system, as it ubiquitous in the developed world.

It is important in implementing CSR that the particular needs of the country are assessed because educational projects are not a universal solution to all ills of a society everywhere, but can be effective in certain instances. Keller found that:

> Education indirectly affects other development goals. Primary and secondary enrollment rates and expenditures per primary school pupil significantly lower fertility rates. Primary enrollment rates attract investment in physical capital, and secondary enrollment rates promote openness and decrease inflation. College enrollment rates and expenditures thereon are important to political rights. (Keller 32: 2008)

Keller also found that:

> Policy favorable to growth should raise student enrollment rates and allocate public expenditure increases mainly toward the lower education stages, while ensuring that expenditures per student are kept up with any increases in student cohorts. The quality of education needs to be kept high at the lower stages while increasing enrollment rates from the bottom-up, in order to benefit most students and to make the next education stage beneficial to growth. DCs (Developed Countries) have expanded and improved education from the lower stages up. (Keller 33: 2008)

These findings should help inform us on the use of micro-level financing of schools through CSR. The fact that primary education might help in reducing fertility rates of the population, is important. Increased primary education not only creates the potential for further education and qualifications, but also has the effect of stemming birth rates; and while it does not have a direct effect on growth through job preparedness, it does aid the population in making better choices and this creates the opportunity for better economic growth. On the other hand, the creation of secondary schools is not an asset unless there exists a significant enough population that has received satisfactory primary school education to utilize it and enrolment is increased. It is not until the tertiary level of education that more political rights are fostered.

While primary and secondary education are necessary to prepare students for tertiary education, it is only at the tertiary level that education results in fostering the desire for greater political rights. Micro-level education programs usually stop well short of tertiary education. Tertiary education is necessary to encourage good governance which in turn is the key to counteracting the negative effects from resource dependence. Thus, for less developed countries, it is a very long term project of building human capital from the ground up. This process will often be too long to assure that the relatively short term revenues inflows that come from the petroleum industry are spent for the benefit of the population. If an education system is set up though a company grant, it would be years before students could reach the tertiary level of education and begin effecting good governance. By this time, much of the resource revenue would have already been misappropriated or used in less efficient ways.

As it is best to have strong institutions before the start of resource extraction, education seems to be an implausible solution to the issues of good governance for the near future. While education is critical for continued economic growth, it cannot be counted on, in the short term, as the driver for governmental reform and therefore will not have the macro-level effects that are necessary for monitoring and implementing robust policies for regulating the economy.

Communities might benefit from local educational projects but, in order to see real society wide benefits, education must be implemented on the macro-level and must be done in a systematic way. These factors, coupled with the previously mentioned disadvantages that it enables the government not to fulfill its educational obligations through the development of more robust institutions, lead to a question of the ability of micro-level education projects to have a profound effect on society at large.

It has been hypnotized by Gylfason (2001), Birdsall et al. (2001) and Behbudi et. al (2010) that the existence of revenue flows from natural resources can even lead to diminished spending by governments on education, because there is a tendency for policy to favor the elites and complacency in implementing policy:

> For example, the OPEC countries send 57 percent of their youngsters to secondary school compared with 64 percent for the world as a whole and they spend less than 4 percent of their GNP on education on average compared with almost 5 percent for the world as a whole (the figures refer to 1997). Blessed by an unusually rich and reliable rent stream, Botswana is an exception: its expenditure on education relative to income continues to be among the largest in the world. (Gylfason 3: 2001)

Micro-level education spending is highly unlikely to take the place of government spending in education. Skjærseth et. al, (2004) argue that it might be possible for micro-level educational projects to bridge the gap and affect the country on a macro-level. This is unlikely to happen though because there is a tendency to cut educational spending. Thus in effect micro-level education spending will likely be an insufficient solution to educational demands. Therefore macro-level governmental policy can be hurting future economic growth.

> From the literature, we know that there is an inverse relationship between oil dependence and the level of spending in education, all other things being equal, mainly due to overconfidence in the future and less of a need to invest in human capital (Gylfason, 2001). Rajkumar and Swaroop (2008) demonstrate that efficiency of public spending in education is affected by the quality of governance (measured mainly by quality of bureaucracy and the level of corruption). (Devarajan et. al 17: 2010)

Levels of corruption and the quality of institutions must be controlled in order to improve investment in education. Funding of education must be approached on a macro-level, since micro-level educational projects are not a plausible solution.

4.4 Micro-level CSR healthcare Initiatives

Healthcare initiatives not only make the local communities more healthy but, there is a great body of evidence showing that access to health care also improves economic development. (Behrman and Rosenzweig 2001; Thomas 2001; Shariff 2003; Bell, Devarajan, and Gersbach 2004; Bloom, Canning, and Jamison 2004; Thomas, et al. 2004; Smith 2005; Thirumurthy, Graff Zivin, and Goldstein 2005; Jamison 2006). These findings go beyond the previous true assumptions, that economic development would help access to healthcare. Nutrition and increases in access to healthcare for children has also boosted educational attainment amongst children (Bloom, Canning, Jamison 2004; Jamison 2006). In addition, Haacker (2004) found that the provision of good health care was imperative to promoting investment since HIV/AIDS, as well as malaria, hurt the economy by limiting investment because of companies' fears about absenteeism and high turn-over rates.

Providing better health care through CSR can be vital to improving economic performance as well as bettering the lives of the population by decreasing infant mortality, improving family planning and cutting rates of maternal death. All of this bodes well for local CSR projects geared towards community health and the potential impact these could have on the economy and lives of people. One caveat must be noted: These studies have not been restricted to resource rich countries. Their findings may not be totally applicable to resource rich countries. Increased access to healthcare in the presence of an economy distorted because of revenue inflows might not create similar growth as in less resource rich countries. An economy is extremely complex and merely creating a better environment for investment through provision of increased healthcare might not counteract the difficulties of dealing with increased inflation, poor local governance and generally less competitive sectors outside of the resource sector. Healthcare is an important factor in development economic growth and also a rising standard of living, but it is only one pillar and must be managed in a larger system.

4.5 Institutional constraints to micro-level CSR

The most difficult problem with local projects is that often they do not come to fruition. Local projects can be beneficial to local communities, but the end results are often far different than proposals and the rhetoric does not match the reality.

> [A] report commissioned by Shell but prepared by independent consultants, makes depressing reading. Shell has not made it public. Having looked at 82 of the 408 projects on Shell's books—ranging from the electrification of villages to building schools and hospitals—the team concludes that less than a third have been successful. Farm projects and those that aim to make villages more self-sufficient by giving them the means to earn more do least well. The micro-credit schemes run by women do best.
>
> The report finds that the company has still been decreeing too many projects from on high. Although it has tried, it is still essentially buying off the locals with gifts—some of them forced out of it by ransom-demanding kidnappers and protection-merchants—rather than helping people to develop their future, (Economist 2001).

"Successful" here means completed. Less than a third of the schools, hospitals or other local projects that were slated to be built actually were completed. The potential benefit of local CSR projects is not as great as the rhetoric would indicate.

There are many of reasons why CSR programs have failed.

> Why, then, do companies such as Shell in Nigeria fail in their developmental efforts? As argued above, one key reason is the primacy of the 'business case' and the incompatibility of corporate objectives with developmental objectives. During the research for this article a number of other important constraints on the implementation of CSR were identified:

> • country- and context-specific issues;
> • failure to involve the beneficiaries of CSR;
> • lack of human resources;
> • social attitudes of oil company staff and a focus on technical and managerial solutions;
> • failure to integrate CSR initiatives into a larger development plan.
>
> Again, this list is not exhaustive, but it can serve to point out the limited developmental potential of any CSR initiatives, (Frynas 588: 2005).

These limitations present great problems to the implementation of CSR, but should also inform the study of CSR workers and planners. Projects can often be created for public relation reasons, or to make workers feel better about their positive impact on community, and can ignore more beneficial projects that might not generate the same amount of good feeling or positive press.

There have been attempts to reform the system of CSR though it is unclear if these have been particularly effective.

> This evolution can be witnessed in the case of SPDC in Nigeria. SPDC has recently reorganized its community development unit into the Sustainable Community Development (SCD) unit, with a new emphasis on sustainability and the long-term perspective for all its projects. The company has moved away from its focus on infrastructure projects such as hospitals towards more promising smaller projects such as micro-credit schemes. SPDC has entered into partnership with external development agencies such as USAID and various NGOs, which have greater expertise in implementing development projects on the ground and which now do so on behalf of SPDC. SPDC has also introduced various guidelines for implementing development- related projects to ensure some consistency. Some of SPDC’s schemes—notably microcredit schemes for women implemented by NGOs—are considered relatively successful from a micro-level developmental perspective. Therefore, Shell in Nigeria is an instructive case for investigating the multiple potentials of CSR for development. However, Shell in Nigeria is also a good example of the constraints faced by even the most sophisticated use of current CSR practices within firms. While SPDC—or, more specifically, its SCD unit—has been ahead of other oil companies in terms of its development thinking, there are still major flaws in Shell’s development work, and the results of that work are likely to remain disappointing. Even a number of senior Shell staff and consultants have admitted in private conversations that the creation of the SCD unit is unlikely to have a major impact on the company’s behaviour in local communities. (Frynas 588: 2005)

This is not to say that there have not been positive developments in local CSR initiatives. There have been some benchmark applications of CSR, but much of that has taken place outside of the direct control of oil companies.

4.6 Micro-level CSR initiatives may have unintended detrimental effects on the population

Although the academic literature has yet discuss the point, it is important to understand that micro-level CSR projects, while well-intentioned and temporarily useful, can have the unintended effect of supporting authoritarian or corrupt regimes by pacifying the population and discouraging them from asking for a greater voice in and greater benefits from their government. Ultimately, this creates the potential for harming the long-term interests of the population.

Kevin Morrison, in his work on non-tax revenue (2009), found that resource revenue could be used for greater social expenditures in dictatorships in order to pacify the populations and give them less reason to push for expanded rights. However, none of the studies have gone on to point out that corporate micro-level CSR projects might have a similar effect in pacifying the populace and creating less pressure for social change. Creating hospitals, schools and basic infrastructure to relieve some of the more critical problems might actually make pressure for greater social change more unlikely. Here the government and the corporation might gain through regime stability, but the population would be hurt in the long term.

Karl Marx argued against the creation of the welfare state, because it would only delay the population's eventual revolution. While the services provided by local CSR initiatives can be said to be supplying "goods" in terms of greater access to healthcare, education, or basic infrastructure, it is possible that they may have the effect of pacifying the population and discouraging them from seeking or obtaining even greater "goods" from their governments. The population's long-term goals might be undermined by short-term pacification. If the population organized and were better represented in government there might be a better chance of long term development.

It is crucial both for the moral rationalization for and effectiveness of CSR that it not be permitted to be used to further strengthen oppressive or unrepresentative governments. This is a great concern when CSR is not engaged directly with governmental reform. While Frynas argues that calls for CSR alleviate pressure on the government to take on a developmental role, he might not go far enough by omitting to say that CSR also relieves pressure on the government itself to institute greater governmental reforms.

Corporations should be mindful of the potential for these adverse effects and try to be sure that CSR projects are used to mitigate the detrimental effects of corporate activities on the population and not to prop up corrupt or ineffective governments.

4.7 Micro-level CSR projects: antagonism between communities

Frynas argues local CSR projects in some communities can cause other communities that do not receive such projects to feel animosity towards the favored communities, because there is competition for resources and jealousy concerning resources that are given to some but not to others.

> Preference for one community may breed jealousy from other communities and give rise to intercommunal conflicts. In one extreme case narrated to the author, members of one community burned down a relatively successful 'host community' (which was located closer to oil company premises than their own) in order to benefit from host community status themselves. This is perhaps the most extreme example of the grave effects that can result from adopting a micro-level rather than a macro-level perspective in implementing CSR.
> Most basically, perhaps, as oil companies are not development agencies, they do not tend to prioritize overall development goals, so there are inherent limitations on the contribution social initiatives can make to the greater whole. (Frynas 593: 2005)

When a micro-level CSR approach is taken, corporations can be seen to be favoring certain groups or communities over others.   Such projects are likely to be undertaken only in those areas where the oil company has operations, rather than equitably across the country. Also, oil companies most likely will have limited experience with local populations and local issues, meaning that they can easily inflame tensions or exacerbate problems by their actions. A more effective solution would be to have the oil company assist the government and local organizations in designing and implementing such programs in order to alleviate these problems.

4.8 Best practices in micro-level CSR

One project started by Statoil that has proven to be very effective is its Akassa project in Bayelsa State in Nigeria. The project was designed by a local NGO named ProNatura, which had extensive experience within the development field and was allowed to run the project without input from the oil company. It was based entirely on local priorities, and conceptualized by individuals on the local level. ProNatura had studied the local population extensively and over a long period of time where staff members lived in the local community and understood local needs. The program was also community led, involving not only the local chiefs, but also the larger community including representatives of women and youth. ProNatura was designed to help local people to help themselves by setting up new institutions including a development foundation and community development councils along with training and advice for local people. This project was also integrated into the larger Akassa clan, which contains over 30,000 people. (Frynas 2005)

The program boasts the following accomplishments:

> • Human resources development - 18 health posts have been established and 32 health post attendants have been recruited;
> • Natural resources management - An inventory has been made of the forest resources of Akassa and the Akassa Forest and Wildlife Regulation has been amended;
> • Poverty alleviation/micro-credit - Successful registration of 60 micro-savings and credit groups with a 100% recovery rate in 2003-4; the micro-credit agency will serve the Bayelsa State and the UNDP as a micro-credit training and extension agency;
> • Infrastructure/micro-projects - Rehabilitation of health centres, construction of wooden bridges, rehabilitation of primary school buildings all were achieved;
> • Institutional development/capacity building - A number of development institutions have been established and its members have received training aimed at improving their capacity for good governance. (World Business Council 3: 2005)

This project is widely seen as the benchmark for effective local CSR and is being emulated by other companies including Total and a Canadian firm Nexen, (Frynas, 2005).

Even if this process can be replicated, it will not solve all of the problems. “CSR does not solve some of the most fundamental problems arising from oil operations, namely the negative impact of the oil industry on the environment, society and governance,” (Frynas 2005). The damage to the environment and to society can exist throughout the entire chain of oil production from drilling the wells to transportation and refining, thus creating problems much larger than localized areas.

4.9 Case Specific issues of countries with resource wealth

One of the failings of CSR has been a failure to understand case specific variables, which has often lead to a one size fits all approach which does not work in the real world. Different countries face very different problems and have very different needs based on the level of development, type of government, and history. CSR responses must bear this in mind. The petroleum industry must also recognize that the stresses and demands from countries in which they operate can be very different from the CSR needs of countries with other types of industries. The petroleum industry has yet to take responsibility for the distortive effect that the sudden revenue increases can cause.

> [W]hy the companies do not fully accept the `paradox of plenty problem' and what can they do if they accept a causal relationship between oil revenues and poor social performance. The answer to the first part of this question may actually lie in the second part: there are considerable dilemmas confronting the oil industry when it comes to defining the limits to corporate social responsibility, e.g. interference in domestic affairs of host countries, and investments/disinvestments in areas with poverty and unrest. For the companies claiming to have a broader social responsibility, e.g. 'a force for good' (BP) and 'building a better world' (Shell), the paradox of plenty directly affects their legitimacy as corporate citizens. (Skjærseth et. al 14: 2004)

While doubt has been cast on some aspects of the "paradox of plenty" or the "resource curse", there is good evidence for having "resource concern", or the realization that resources might not be an automatic good. It should be easier for companies to understand this and deal with it now that the resource curse is no longer thought of as a law of nature, but it will require significant insight into their role within countries. The petroleum industry as well as other resource extracting companies must accept that they have a different role to play than other types of corporations.

5 Macro-level CSR and dealing with problems associated with resource exploitation

Many of the problems facing petroleum producing countries tend to be macro in nature. The primary macro problems arising from resource exploitation are the result of the inability of the existing national institutions to properly manage the tremendous inflows of revenues produced by the development and sale of the resource. The availability of these revenues tend to lead to increased corruption, stress on governmental institutions and distortion of the economy. These problems are systemic in nature and must be broadly addressed. Some oil companies, notably BP and Shell (Skjærseth et. al, 2004), are moving away from micro-level CSR and are attempting to address these systemic problems with macro-level CSR initiatives. Macro-level CSR programs are based upon the premise that petroleum and other extractive industries should not only engage in projects to ameliorate the direct effects of their operations upon local communities, but should also assume some responsibility for the larger, indirect consequences of the large inflows of revenues they create upon the government and economy.

These macro-level initiatives consist primarily of promoting transparency with respect to the amounts of oil revenues the government receives and advice to the government about improvements in governance and the management of these revenues to benefit the population. The purpose of this chapter is to discuss the concepts and initiatives that have been used by macro-level CSR programs in an attempt to improve governance and the use of revenues produced by petroleum and other minerals.

5.1 Micro-level CSR initiatives to promote good governance

Although the governance and economic problems associated with resource revenues are intertwined, it is useful as an analytical tool to approach them separately. Here, I will first set forth the macro-level CSR efforts to improve the quality of governance through transparency, and in the next section deal with CSR efforts to assist the government in managing resource revenues to avoid or mitigate their effects upon the economy.

5.2 Extractive Industries Transparency Initiative (EITI)

The movement to bring more transparency to the payment of oil revenues to the governments resulted in the creation of the Extractive Industries Transparency Initiative (EITI) in 2003. EITI is a broad based macro-level CSR initiative that was created by the British government in partnership with petroleum companies from the OECD. EITI's first principle states that, "We share a belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction, but if not managed properly, can create negative economic and social impacts," (EITI a). EITI's primary goal is to increase transparency in governance. To further this principle, EITI records and publishes the amount of revenues that governments receive from extractive industries.

> Each EITI implementing country commits itself to six EITI 'criteria', which include independent audits of all extractive sector payments received by the government and a work plan for the government, 'including measurable targets, a timetable for implementation and an assessment of potential capacity constraints'. As of July 2008, the EITI was formally supported by 16 oil and gas companies (Extractive Industry's Transparency Initiative (EITI), 2008).
>
> A key strength of the initiative was that it would involve all companies in a member country, which avoids collective action problems that BP faced in Angola. Another strength was the

> requirement to involve civil society and independent auditors, which helps to properly oversee the implementation of the EITI in a given country.
>
> The establishment of a 'revenue savings fund' is one example of how revenue transparency can help towards reducing 'resource curse' effects. For instance, the creation of the State Oil Fund of the Azerbaijan Republic (SOFAZ) has to some extent protected the local economy in Azerbaijan from extreme currency appreciation and oil price fluctuations, by depositing a part of the country's oil revenues in an overseas account. SOFAZ became (in the words of the Economist Intelligence Unit) 'the most transparent government body in Azerbaijan' (Economist Intelligence Unit, 2006, p. 26). The establishment of SOFAZ was conducive to EITI membership and the EITI helps to ensure the publication of annual data on Azerbaijani revenue flows. (Fryas 168: 2010)

EITI recognizes that resource revenues can have detrimental effects and lead to negative results, if not properly managed. This initiative has forced petroleum companies to come into line with policies that attempt to mitigate the negative effects of resource revenue, even if many of them have not admitted to themselves that resources can be a mixed blessing (EITI).

As of now thirteen countries have fully implemented the policies of the EITI, while one other country (Yemen[3]) has been suspended. Another 20 countries are now candidate countries, while one other country (Madagascar[4]) has also been suspended from candidacy.

In order to be a compliant member, all a country need do is publish the amount of revenue it receives from extractive industries. The EITI has no role beyond publicizing the amount of wealth that is generated and received by the country. Even if all of the revenue went to graft a country would still be fully compliant with the EITI if the total amount of the revenue it received was disclosed. The way the EITI is now implemented it can only have a limited impact due to the narrow scope of its initiatives.

---

[3] "[T]he Board (of the EITI) agreed to temporarily suspend Yemen from the EITI process on 9 June 2011 citing concerns that it was "not satisfied that the full and active participation of civil society and other actors in EITI implementation could be maintained"'. (EITI b)

[4] "On 25 October 2011, the Board (of the EITI) suspended Madagascar noting that it did "not believe that the relationships necessary for effective EITI implementation in Madagascar are currently possible and capable of being sustained". The suspension will hold "until the current international situation is resolved. We trust, however, that on a national level the multi-stakeholder group will continue as best possible"'. (EITI c) http://eiti.org/Madagascar

> [M]ost studies on transparency suggest that a number of conditions must be fulfilled in order to maximise the positive impact of transparency. Based on the literature, at least three conditions are necessary: (1) free media; (2) involvement of civil society and (3) timing of introducing transparency. In other words, the success of the EITI depends on these three conditions, (Fryas 169: 2010).

While the EITI is a good starting point, it needs to be expanded as it is only one side of the equation of corruption, and there is no way of distinguishing the difference between governments that are effectively using funds and those that are not based solely on EITI data.

In its 2008 report, the World Bank (which now oversees a trust fund designed to aid in compiling country reports) argues that countries that have implemented EITI policies have signaled to the world community a commitment to good governance and eliminating corruption.

> By producing regular EITI reports on payments and revenues, a country may be able to improve the creditworthiness of the government and of companies. Sovereign credit ratings are based on a country's quality of governance and its medium-term ability to meet financial obligations. As information in the public domain about revenues becomes more reliable, the ability of financial institutions and rating agencies to assess a country's creditworthiness is enhanced. Improved creditworthiness will in turn enhance a country's likelihood of attracting loan and equity finance, and will lower the cost of such finance, (World Bank 8: 2008).

Other possible benefits of such transparency are cited by the World Bank, like the creation of trust between governments, NGOs and civil society. The World Bank also views EITI as a stepping stone to greater governmental transparency. As of yet there is little evidence to support the claims of the World Bank or others who assert it will lead to positive outcomes.

> Previous research measured the transparency of individual countries according to quantitative indicators such as macroeconomic forecasts (Gelos and Wei, 2005), the publication of IMF reports on the macroeconomic performance of countries (Glennerster and Shin, 2003) and the quality of government budget documentation (Alt and Lassen, 2006a). All of these studies imply that the quality of decision-making on spending is crucial, in terms of complying with international norms and accounting standards, publication and independent verification of government budgets, and the actual outcomes of decision-making.
> Not a single study quoted earlier focused specifically on the transparency of revenues; indeed, there appears to be an assumption among researchers that transparency of revenues is a secondary concern. (Frynas 173: 2010)

While some are hopeful that the EITI initiative will be helpful in limiting corruption, it is still too early in the process to tell if it will be successful. Frynas further states that, "In summary, there is no scientific basis for the assertion that revenue transparency leads to better social or economic outcomes," (Frynas, 177: 2010). There are large limiting factors, like the fact that reporting by the countries can vary widely in their quality and validity. Also the publication of reports does little good if there is not an active civil society to access and evaluate the reports. Without a robust civil society, there is no one to utilize the reports to pressure governments or bring about better governance.

> Transparency, or access to information, can have an effect on corruption. Transparency can reduce bureaucratic corruption by making corrupt acts more risky, by making it easier to provide good incentives to public officials, and by easing the selection of honest and efficient people for public service. Transparency can reduce political corruption by helping make politicians more accountable to the public. More generally, transparency can facilitate cooperation over opportunistic rent-seeking and help maintain norms of integrity and trust.
>
> However, transparency has an effect on corruption only under certain circumstances. Agents whose access to information is increased, must also have an ability to process the information, and the ability and incentives to act on that information. The impact of transparency therefore depends on the level of education of an electorate, the extent to which key stakeholders have the power to hold a government to account, and the private or collective nature of the goods about which information is provided. Transparency reform may also backfire if the type of information provided eases identification of the relevant officials to bribe. Moreover, since government officials may obtain large rents due to informational advantages, transparency reform may be hard to implement. (Kolstad and Wiig 22: 2007)

The EITI takes for granted that a civil society exists to be able to use the numbers and figures provided, but this is often not the case in many of the countries that report to EITI. It also poses conceptual difficulties since it myopically deals only with transparency with respect to incoming revenues rather than with respect to expenditures.

> More fundamentally, though transparency can have an effect on corruption, this does not necessarily imply that increasing access to information should receive the highest priority in addressing corruption in resource-rich countries. Arguably, priority should be given to the types of reform that have the greatest effect in reducing corruption and alleviating the resource curse. The resource curse literature provides evidence that proper institutions that constrain rent-seeking and patronage, are the key to avoiding a detrimental effect of resource rents. In this perspective, it is not immediately apparent that transparency reform should receive priority. At the very least, the effectiveness of improving transparency should be more systematically evaluated vis-à-vis other policy options.
>
> If transparency in some form is sufficiently important as to merit priority, increased access to information should focus on the areas most important to curbing corruption and alleviating the resource curse. Current approaches, such as the EITI, have tended to focus on transparency in public revenues. Given the centrality of public expenditures in patronage politics in resource-rich countries, the focus on revenues is not necessarily the most effective one in addressing corruption. In view of the resource curse literature, the emphasis of the EITI on revenues rather than on expenditures, thus appears misplaced. (Is Transparency the Key to Reducing Corruption in Resource-Rich Countries?) (Kolstad and Wiig 22: 2007)

Another problem with EITI is its focus on governments rather than on companies. Frynas states that this creates the following problem:

> The EITI focuses on the cooperation between the UK government and host governments in developing countries; the initiative does not assign an active role to oil, gas and mining companies in improving governance. The failure to assign a clearer role to companies constrains the pressure on host governments, because the UK government or the World Bank sometimes have less influence over host governments than the multinational companies. (Frynas 174: 2010)

While it is a positive development that transparency may result in governments facing pressure from both their populations and NGOs to use oil revenues better, it is also crucial that the petroleum companies not be seen as being without responsibility. Companies still have an immense amount of power and resources at their disposal to make sure that the exploitation of resources in a country does not lead to a degradation of the quality of life of the people living there.

Despite the problems with the EITI, some hope that it ultimately will lead to broader and more comprehensive reforms from the international community. To date, there is little evidence to substantiate this hope, but the EITI might lead to initiatives that are demonstrably effective like the publication of revenue spending which has been shown to limit corruption (Frynas). Terry Lynn Karl (2009) argues in favor of the EITI by saying that transparency is the first step needed in order to create effective governance, because it allows other actors to see what is happening. It should therefore be seen as a useful step towards building better governance. It has also helped to ameliorate one of the major problems which was the lack of collective action.

All major OECD petroleum companies are members of the EITI that support its initiatives and this makes it more difficult for a country to avoid reporting revenues by picking a non-member company to develop its resources. Lack of collective action is one of the biggest problems facing CSR, because without collective action, there can be a race to the bottom where the company that does not require transparency has a competitive advantage over those that do. In order for EITI member companies not to be placed at a competitive disadvantage, universal adoption of initiatives like the EITI is required to even the playing field as well as to increase pressure on governments to increase reporting of revenues and implement changes.

5.3 Development of the EITI ++ (Plus Plus)

The EITI ++ is a plan that is still in development, so full details are not yet available, but it plans to be a comprehensive approach to aiding governments manage their resource wealth.

> Broadening the focus of EITI's revenue transparency agenda, EITI++ will cover the entire breadth of the resource chain, from extraction, to other stages such as processing, managing revenues, and promoting sustainable and efficient utilization of resource wealth. The EITI ++ will seek to support committed governments, notably in Africa, in implementing good policy and practice throughout the whole process of natural resource utilization. (World Bank website)

The EITI ++ also states the importance of all aspects of petroleum extraction and related government activity.

> The entire chain of managing extractive industry resources is important—from how access to those resources is granted, to monitoring operations, to collecting taxes, to sound macroeconomic management and distribution of revenues, and to spending resources effectively for sustainable growth and poverty reduction, (World Bank website).

While these initiatives are important and focus on macro-level issues associated with resource wealth, they do fail to engage one of the primary actors in petroleum extraction - the companies themselves. The reality in countries with fragile institutions and weak governance is that there has to be pressure from multiple sources and a uniform commitment to dealing with the problems. This means that companies must have a robust commitment and plan for assisting in the solution of these macro-level issues. It is not enough for other governments to apply pressure on countries with poor governance and weak institutions.

By involving the petroleum corporations who are the direct source of the revenues, in these measures, more pressure can be applied on governments. The important role that corporations play in the countries economies and policies cannot be ignored, and it must be integrated into programs to try and strengthen institutions.

5.4 Macro-level CSR initiatives: Planning the economy

In addition to macro-level CSR initiatives designed to promote good governance, companies may also have a role in providing advice and expertise to assist governments to properly manage their resource revenues to avoid or mitigate some of the most common adverse effects upon the economy. Since macro-level CSR initiatives are in an early stage of development, there are not many examples of corporate CSR being used to advise or assist countries in managing their economies. However, one important groundbreaking example of this is BP's involvement in the operation of SOFAZ, the state run oil fund in Azerbaijan, which is discussed in detail in Chapter 5.

Economic problems can occur because the government does not have enough expertise or established institutions to deal with them, but can also happen because governments are lulled into a false since of security. They fail to plan for a future after their resources are depleted. Oil companies can help countries realize the importance of investing for the future, especially the importance of human capital. Human capital is key to diversifying the economy and insuring future growth.

Many of the economic stresses that resource rich countries face are well known and it is understood how they should be dealt with. Problems with respect to Dutch disease can easily be prevented or remedied by proper management.

> The real fear of the Dutch Disease, in short, is that the non-oil export sector will be squeezed, thereby squeezing a major source of technological progress in the economy. But this fear is vastly overblown if the oil proceeds are being properly invested as part of a national development strategy. If the proceeds from oil are used not for consumption but for public investment, the negative consequences of real exchange rate appreciation can be outweighed. (Sachs 184: 2007)

Problems like Dutch disease are not endemic to petroleum producing countries as the "resource curse" theory would have us believe, but can be controlled given good planning and institutions. The problem lies in creating those institutions where they do not already exist.

Another issue experienced by resource rich countries is the volatility of prices for their resources which can lead to “boom or bust” type expansions and contractions in resource revenues, but this too can be dealt with in several ways, primarily by maintaining even amounts of spending over the long term. The most popular way to deal with the issue is to establish a sovereign wealth fund which can store wealth when commodity prices are high and augment government revenue in lean years. This was successfully done in Chile with Copper Stabilization Fund (CSF). “The fund has generally accomplished its purpose, and budget expenditures have not closely followed revenue variability, as was the case prior to the CSF,” (Morrision 4: 2010). And, as previously mentioned, the Norwegian sovereign wealth fund has achieved good results.

Countries with good governance and functioning institutions, or those that are on the path to establishing them, have been the most successful in handling the problems associated with resource development. Botswana is an example of this:

> By the time the diamonds came on stream, the country had already started to build a relatively democratic polity and efficient institutions. The surge of wealth likely reinforced this. Because of the breadth of the BDP [Botswana Democratic Party] coalition, diamond rents were widely distributed, and the extent of this wealth increased the opportunity cost of undermining the good institutional path, (Acemoglu, Johnson, and Robinson 105-6: 2003)

The success stories with regard to development and natural resources tend to be confined to areas that were probably going to be successes anyway, because of their commitment to good governance and well-functioning institutions. Countries that managed revenue wealth successfully had been doing it previously. (Davis et. al 2001; Pegg 2006; Independent Evaluation Group 2009). There have not been many examples of countries which have turned around government institutions and economic growth where they were once dysfunctional.

5.5 Chad and the World Bank: Managing the money

One of the most complete and comprehensive macro-level programs that has ever been tried was in Chad. The project, including international monitoring, advice on spending and investment, was overseen by the World Bank. All of the programs and institutions were set up before money from petroleum started to arrive.

> Despite the Bank's "unprecedented system of safeguards assuring that the revenues are used to reduce poverty," there were major problems of noncompliance with the Bank's various desires (Pegg 2006; Gould and Winters Forthcoming). Chad's President Idriss De´by spent $4.5 million of his country's $25 million "signing bonus" on his military. The IMF (2003) found that the government was not allocating sufficient funds to health, education, and other priority sectors. And the group that monitors Chad's compliance with environmental and social safeguards found that the government was not following the country's own stated poverty reduction strategy (International Advisory Group 2004). In 2005, De´by amended his country's revenue law to spend more on the military, in direct violation of Bank conditions. While the Bank protested initially, it eventually capitulated. In March 2008, De´by used a state of emergency decree to suspend Chad's compliance with the remaining Bank conditions with regard to poverty spending. Finally, in September 2008, the Bank decided to cancel the project.
>
> In other words, the most elaborate measures designed to date to change the way a government uses its natural resources were unsuccessful. A recent evaluation of the project by the Independent Evaluation Group of the World Bank concluded that the project's fundamental objective of reducing poverty and improving governance was not achieved. Just as significantly, the review concluded that "no alternative program design or closer supervision would have allowed to achieve [sic] the program's development objectives in the absence of government commitment" (Independent Evaluation Group 2009, p. viii). (Morrison 11: 2010)

The experience with Chad has proven that one of the fundamental problems in developing resources within countries that lack proper institutions is the lack of will of governments to reform. The World Bank was in agreement with the independent evaluation of the project which found:

> [W]e agree with IEG (Independent Evaluation Group) findings that the lack of government commitment was the key obstacle to the success of the program. A project of this sort cannot succeed without Government commitment and responsibility. No alternative design or supervision could have delivered substantially more favorable development impacts in the absence of real and sustained government ownership. Capacity could not be enhanced if the Government was not truly motivated to build institutions such as the College. Faced with increasing security concerns and increased oil prices which made aid flows much less important, the Government of Chad reneged on the agreements that had framed the project. Efforts to build implementation capacity were stalled and systems improvements in areas such as procurement were reversed or ignored by the authorities. (Independent Evaluation Group xx: 2009)

The lack of governmental support poses the biggest fundamental problem in implementing effective macro-level CSR; it can only work where governments are committed to making it work.

> Overall, we share IEG's (Independent Evaluation Group) recommendation that the Bank Group should remain engaged in helping our clients to better manage extractive industries and large-scale infrastructure. As we do so, there are important lessons from the Chad Cameroon Pipeline, most notably on the need to place ample emphasis on capacity building and to ensure country ownership and commitment to good governance, transparency and reforms as a critical underpinning to such potentially transformational project. (Independent Evaluation Group xxi: 2009)

While it is discouraging that there is little external organizations can do to force compliance with programs that will better governmental institutions, the fact of the matter is that programs and review management schemes can be designed to effectively mitigate the resource curse. There is enough knowledge as to what works in order to effectively eliminate issues and lead to better governance and development. While government officials might not be willing to implement these programs, these programs in and of themselves represent a paradigm shift in the understanding of resources and their effect on developing nations. “[T]he Oversight Management Plan and the Revenue Oversight Committee, reveal potential designs for institutions in the future,” (Karl 275: 2009). So knowledge as to proper economic policies is increasing and are being used more effectively even though the implementation of those policies is still reliant on a country’s government to be a willing participant.

Morrison, in his 2010 research, draws from lessons from foreign aid in dealing with the resource curse and revenue from extractive industries. He finds that there are comparable lessons to be learned from foreign aid. He cites studies that have found there is no systematic evidence that aid influences governmental policies (World Bank 1992b; Mosley, Harrigan, and Toye 1995; Collier 1997; Alesina and Dollar 2000; Burnside and Dollar 2000; van de Walle 2001; Easterly 2005; Heckelman and Knack 2008). Money alone can often not influence a government to make policy decisions it would not normally make. Morrison argues that this means that companies and governments should not expect to have a great influence over policies that the government does not fully embrace and, if they did embrace “prudent” policies, many of them should already be in place. If government officials thought that “good governance” was in their interest, why would they not be pushing for it regardless of incentives from outside forces? Government officials are unlikely to enforce policies, even if they have enacted them, that they view as against their interests personal: Even in situations like Chad where there is international monitoring, there is a strong incentive to cheat. Within that context corporations and NGOs must understand whether they are dealing with legitimate representatives of the government or government officials that are corrupt and self-interested.

This creates a fundamental challenge to the effectiveness of macro-level CSR and what should be done with countries that do not have governments that will act in their people's best interests.

> If states are unable or unwilling to take such steps, then the best solution may well be to leave the oil and gas in the ground. The fact is that oil in the ground is a nonwasting asset. Although leaving oil in the ground means that interest is forgone, the ground just might be the safest place for the asset, especially if there exists the risk that governments may use revenue for their purposes rather than for the good of society, as has happened so often already. In such cases, the people may benefit some, but clearly not as much as if the money were spent in ways that were directly intended to enhance their well-being. A judgment call is required, and not solely by the government of the host country, which often lacks the political will necessary to postpone extraction of natural resource reserves. (Humphreys et. all 15: 2009)

The challenges of dealing with the resource curse and managing revenues are a "problem of historical consequence," (Karl 275: 2009). Norway, which is one of the countries that has done the best job of managing its oil revenues, did so from a position of already having good governance, efficient bureaucracies and well thought out and thorough financial planning (Karl, 2009). Countries that have yet to develop these institutions face the large hurtles to creating good governance before oil is extracted. It should be noted that progress can be made even after oil has begun to flow, and it might be a misconception that all countries must follow Norway's "best practice". That being said, "Where serious deficits exist that block the free flow of information, monitoring, and the participations of the population, petrodollars simply cannot be spent efficaciously," (Karl 273: 2009).

Karl argues for a sequenced approach for improving governance.

> Greater access to information sets the framework for producing better monitoring, and both information and monitoring create incentives for involvement of those who currently are (but need not be) adversely affected by petroleum exploitation," (267: 2009).

She then argues that the next step is the creation of a tax system that allows the government to not to be solely dependent on petroleum revenues. There is a tendency amongst petroleum producing democracies to lower taxes, but this should be avoided because it causes income inequality and narrows the tax base. "Direct taxes promote not only more efficient bureaucracies but also liberal governance, and they do so as Mahon (2005) has shown, within a very few years of their implementation," (Karl 281: 2009).

5.6 Problems with macro-level CSR

Large oil companies are trying to increase transparency through programs like the EITI and should be commended for publishing the amount they pay to governments, as previously those numbers where difficult to obtain and dubious at best when obtained. However, there is still a great lack of transparency concerning the corporations' own CSR practices. Through its macro-level CSR activities, a corporation may be able to improve the governance of a country and the rights of self-determination of its population.

However, because a corporation's macro-level CSR activities in advising and assisting the government are usually not public, there is a question as to what advice it is giving and whether that advice is beneficial to good governance. Because of the secretive nature of corporations, there is an issue of the ability of people to evaluate their CSR actions. Corporations can be either positive or negative forces, much like the resource revenues they provide. The issue becomes: How can these CSR actions be evaluated in terms of the benefit they provide?

> The key finding of the Transparency International report was that the majority of the 42 analysed companies 'do not make sufficient efforts to report on their payments to host governments on a country-by country basis or to disclose the accompanying information on their operations and anti-corruption programmes' (Transparency International, 2008, p. 24). Therefore, while companies publicly support transparency, they appear only to select a few areas for openness and they continue to be secretive about other areas. Indeed, CSR reporting and 'transparency initiatives' play a key role in influencing the media and public opinion because they help to portray firms as responsible citizens that care about people and the environment more than about profits. (Frynas 176: 2010)

If the general public is not privy to a company's meetings with governments or the advice that corporations provide to the government, then there is little way of ensuring that companies are aiding in good governance. Corporate transparency becomes a major issue when dealing with macro-level CSR, because companies must keep many things secret in order to protect their business interests. There needs to be a way to inject more transparency into corporate CSR programs so that civil society can evaluate whether the advice that petroleum companies are giving to the governments is beneficial.

With the expansion into macro-level CSR and influencing governance practices, a problem arises with regards to whom the corporations are accountable to. The premise of CSR is that the projects are undertaken to aid the stakeholders, but the question remains of how this is to be evaluated. If NGOs or civil society are not active participants in the private meetings between corporations and governments, how can they hold either the government or companies responsible for the governance in the country? As stated previously in this chapter, the EITI makes the assumption that there is an active civil society within countries that can make use of information that is made public. But if these actors do not exist or are excluded from many of the governmental meetings or advisory sessions, accountability is undermined. In this situation, no one knows what advice the corporations gave or whether the government accepted and acted on it.

Without such knowledge, it is impossible to evaluate whether corporate CSR activities are helpful or not. Often, the interests of the various stakeholders are not perfectly aligned. While curbing inflation might be beneficial to everyone, not all actions would be. For example, better governance could mean the enactment and enforcement of more stringent environmental rules for the protection of the population, but this may not be in the short-term interests of the corporation. Similarly, tax policy might be unfairly skewed to benefit the corporation at the expense of the people. In this situation, there needs to be an agent participating in the process that is acting for the people without a conflict of interest. Corporations need to be accountable for their CSR activities just as much as governments should be accountable for their policies. The benefits and effectiveness of some macro-level CSR activities can be seen in their public implementation. But, under the present system of macro-level CSR initiatives, there is no one to serve as a check on the non-public aspects of corporate activities to assure that they are uniformly beneficial.

5.7 The effects of competition on macro-level CSR

There is a fundamental difference between macro-level and micro-level CSR initiatives when it comes to governments. As shown in Chapter 4, micro-level CSR has very little ability to threaten existing power structures within a society, but macro-level CSR is inherently designed to change those power structures. Even if a country is already a democracy with a system of government based on the idea of limited duration of power, macro-level CSR will seek to enforce these ideals and is therefore a threat to any entrenched power. Petroleum corporations which are dependent upon the existing government for permission to develop resources within the country have a delicate task in attempting to encourage the government to improve governance without alienating the source of their drilling rights.

There are now more petroleum companies from countries like China and Malaysia which assert little or no pressure to promote good governance or human rights in the countries where they are seeking petroleum resources. This creates a challenge for Western companies involved in macro-level CSR programs.

An authoritarian regime does not have to fear that a Chinese oil company will attempt to interfere with poor governance or corrupt institutions. This places Western companies with macro-level CSR programs at a disadvantage in obtaining petroleum concessions from corrupt governments.

Collective action involving petroleum companies as seen with initiatives like the EITI is crucial to helping companies with CSR programs to remain competitive. The recent initiatives by the US Securities Exchange Commission to require greater disclosure by all companies listed on US stock exchanges, regardless of their domicile, may help in forcing companies from China and other non-members of EITI to engage in better behavior, (Zhang Tao and Wang Xiaocong). The proposed SEC rule states that "Any U.S.-listed company that extracts oil, natural gas or minerals must include in its annual financial report production data as well as licensing details, royalties, taxes and government fees for "each project,"" (Zhang Tao and Wang Xiaocong). It remains to be seen whether this rule will be fully implemented and the detailed information that must be reported, but it would expand the reporting required by EITI members and extend the reporting to non-EITI members if they are listed on a US stock exchange. This should help level the playing field so that Western corporations which are members of EITI are no longer at a competitive disadvantage. Because of the fear of offending the government, petroleum corporations have generally been reluctant to be aggressive in pointing out or trying to remedy corruption, even when such corruption is detrimental to the corporation itself. As Frynas points out in the previous section, there is little reporting of corruption within countries. This fact is reiterated with the following passage:

> There are situations in which the costs of corruption lead to reduced profits. In these cases, companies' own interests may be a reason for fighting corruption. However, in many other situations, self-interest is not sufficient for companies to promote the fight against corruption.
>
> Although the rejection of corruption is now an integral part of any company's social responsibility, it appears to remain a neglected social issue among CSR priorities (Hills et al., 2009). There is still much work to be performed, both in the development of practices, which will lead eventually to the eradication of corruption, and in the development of reporting instruments, which will allow companies to adequately communicate their anti-corruption efforts.(Branco and Delgado1 6: 2012)

Corruption is a difficult issue for companies that are dependent upon the government contracts and permission to operate to deal with. Oil companies must attempt to maintain good relations with their host governments in order to retain their operating permits. Failure to do so has resulted in the abrogation of contracts and expropriation of corporate assets of oil companies in Russia and several countries in Latin America. Thus, it is understandable that petroleum companies do not want to be overly critical of the governments of their host countries. In the next chapter, I will discuss the problems BP faces in combatting corruption in Azerbaijan and how local realities affect both the need for expanded CSR in this area and the difficulty in doing so. If macro-level CSR is to be effective, anti-corruption efforts are a needed pillar of such actions. The ability of the UN and international organizations to help with anti-corruption efforts will also be demonstrated in the next chapter.

One cannot discount the fact that companies themselves can benefit from corruption, where this is true they would be forced to act against their own self-interests, which they should do, but might not. But, even when petroleum companies would benefit from more honest government, they are in a difficult position. There are large petroleum companies that are completely unconcerned with corruption from countries like China and Malaysia. These companies do not comply even with EITI rules. The competition for oil concessions by these petroleum companies mean that it is very difficult for them to push for even greater reforms. For these reasons, both reporting of corruption and corporate CSR actions designed to curtail it have been lacking. While more can be desired in both areas, the ability of corporations to do more is severely limited by the realities of the situation.

5.8 Summary

Corporations can be of great help in promoting good governance and it advising their host governments with regard to management of resource revenues for the benefit of the economy and the people. There are incentives for corporation to do so because good governance often reduces costs of doing business in a country and economic growth benefits companies by increasing demand for the commodities they produce. In addition, the positive public relations and gratitude of populations that are fostered by CSR activities are beneficial to companies. These challenges primary present themselves on the macro-level and it is crucial that corporations implement macro-level CSR programs to deal with them.

The concept of macro-level CSR is still in its infancy, but great strides have been made and need to continue to be made if CSR is going to deal effectively with the issues associated with petroleum extraction. BP has led the way on many of these initiatives and it is their forward thinking that has help create EITI and soon the EITI ++. It is crucial that more research and more resources devoted to the field of CSR in order to ensure its continued development.

6 BP's expanded use of macro-level CSR in Azerbaijan

Azerbaijan is a country that faces the issues of petroleum wealth and poor governance simultaneously. It by no means has been a bastion for government reform, transparency and rectitude within its institutions. BP plays a unique role in its macro-level CSR relationship with the government of Azerbaijan. Many of the concepts and theories discussed previously in this thesis can be seen put into action there.

6.1 Background

Hannes Meissner argues that states in the Caspian region need to be seen in their own context.

> First, there is a need for dynamic context analyses based on a distinction between three sets of context variables: (a) the Soviet and pre-Soviet legacies, (b) the resource specific conditions (c) the constellation of stakeholders, leader behavior and strategies, as well as externalities. Second, post-Soviet context analyses need to focus on the point in time at which national independence was gained. Third, the Soviet and pre-Soviet legacies characterize the particularities of the Caspian rentier states. In particular, similarities and differences should be formulated on the basis of seven Soviet and pre-Soviet context factors: (1) the domination by nomenklatura of the centralized state structure, (2) weak and inexperienced counter-elites, (3) passive societies, (4) informal networks, (5) the culture of corruption, (6) simplistic economic structures, (7) domestic and cross-national cleavages, (Meissner 34; 2010).

This shows the complexity of trying to create a universal template for CSR programs, but it also shows the need for macro-level attention in order to build functioning institutions within the Caspian region.

The government within Azerbaijan has not radically changed from its Soviet days which ended in 1991. Azerbaijan had very little experience with democracy and faced great instability after its separation from the USSR. It was led by five different presidents from 1991 to 1993. In 1992 an election was held that was considered to be free and fair, but the elected leader was deposed shortly thereafter in a military coup. Another election was held in 1993 which Heydar Aliyev, the former the First Secretary of the Azerbaijan Communist Party when Azerbaijan was under Soviet rule, won with 99 percent of the vote. His son is now President of the country and elections since 1993 have been widely seen as fraudulent, (Organization for Security and Co-operation in Europe). Now it has a stable, if authoritarian government, headed by a ruling family, with son succeeding father as President. Freedom House still describes Azerbaijan as “not free” (2012). There has been little meaningful political reform within Azerbaijan and opposition has been held to a minimum through repressive activities by the government. Transparency International ranks Azerbaijan as the 143th most corrupt country out of 183 in the world, and 13th out for 20 for their region (2011). The World Bank (World Bank website, b) currently has ranked Azerbaijan in the 9th percentile for 2010 in the world for control of corruption or control of “the extent to which public power is exercised for private gain,” meaning that they are doing little to control the amount of corruption that exists within the country.

Independence from the Soviet Union meant that Azerbaijan could no longer depend on the Soviet export market. After this loss of friendly markets, the economy contracted 60% (Cohen 2010). With the discovery of oil and gas reserves in the country, Azerbaijan’s economy became largely dependent on oil and gas exports (Gulbrandsen and Moe, 2007). This dependency has not abated with time and the country still remains largely dependent on oil and gas revenues. The government has also been dependent on these oil and gas revenues as Azerbaijan lacks an effective means of tax collection (Hoffman, 1999).

Azerbaijan also found itself in a tenuous geopolitical situation with enemies all around it in Armenia, Russia (which has been pro-Armenian), and Iran. Azerbaijan also was the subject of an attempted coup supported by Turkey and was singled out by the United States as the only former Soviet Republic not eligible for direct government-to-government aid. These difficulties meant that Azerbaijan had little economic means beyond what could be developed through its gas and oil reserves. “Put bluntly, oil has been the only viable, export-capable economic lever independent Azerbaijan has ever known,” (Hoffman 8: 1999). Thus Azerbaijan never had the option of waiting to establish well run institutions before developing the resource.

In 1992, the State Oil Company of the Azerbaijani Republic (SOCAR) was created. Shortly after the oil company's creation, it was sidelined in negotiations with outside oil companies in favor of the Committee for Oil Development in Azerbaijan. It has been alleged that in order to begin negotiations, petroleum companies were asked to deposit $300 million in the personal account of the head of the Committee, a friend of the President. Western companies have maintained that no such payments were made as it was against corporate policies (Gulbrandsen and Moe, 2007).

In spite of the efforts of BP and other organizations in Azerbaijan, serious governance and economic problems still remain. Azerbaijan has been the poster child of the resource curse in that it showed below average development for its region and in 2005 ranked as only moderately developed in the UN Human Development index (HDI). But with increased oil production, Azerbaijan has made a remarkable jump in their standard of living and now is considered highly developed in the UN HDI. The jump in human development corresponds with a jump in oil exports from $6.88 billion in 2005 to $25.1 billion in 2010. (This is off from Azerbaijan's high in 2008, but 2011 is projected to be the greatest year yet with a sharp increase (IMF 2012)). The IMF then projects that oil revenues will stabilize. The IMF also projects a slowing of economic growth in the future to around 2.2%, which is below the projected growth in advanced economies and well below the projected growth in developing economies. Azerbaijan faces problems with diversifying its economy, issues as a rentier state and creating an engaged civil society. This means that Azerbaijan faces potential difficulties in advancing its economy and its people without increased oil exports.

6.2 BP's macro-level CSR initiatives in Azerbaijan

In 1994, Azerbaijan signed a multi-decade contract with a consortium led by BP, called Azerbaijan International Operating Company (AIOC). While more than 30 petroleum companies operate in Azerbaijan, the increase in oil production since 1997 has come entirely through the BP led consortium (Gulbrandsen and Moe, 2007). With

BP as the primary player in the petroleum field within Azerbaijan, BP has been uniquely positioned to try expansive CSR programs in Azerbaijan. BP has long been one of the leading proponents of CSR within the petroleum industry. Work that BP did with respect to revenue transparency helped bring about the creation of the EITI.

With this experience behind it, BP has engaged in significant macro-level CSR programs to help improve the governance and standard of living in Azerbaijan. BP has gone further than other companies in engaging the government of Azerbaijan in dialog about investment of oil funds and poverty alleviation.

> While BP initially focused on traditional community projects and did not address any broader societal issues in Azerbaijan, the company has more recently adopted a policy of dialogue with government on macro-level issues. Although framed as capacity building, it comes close to proffering advice on domestic policy: ‘Engage in policy-making processes and offer assistance, as appropriate, on the development and implementation of policy agendas, which include for consideration addressing poverty alleviation, revenue management, and domestic energy’.
>
> Obviously, there is little or no information regarding the exact nature of the advice proffered or assistance given by BP in its talks with the government, but the company has spoken out on sensitive issues. Corruption in government is a particular concern. In 2002, David Woodward, President of BP in Azerbaijan, publicly stated that ‘a clear distinction should be established between people in business and people in government, including a much clearer separation of the roles in those government bodies who currently act as both regulator and provider of services’. (Gulbrandsen and Moe 819: 2007)

BP has focused its work in five different ways:

> [F]ive of the most important CSR activities and achievements of BP and its partners in terms of addressing macro issues: (1) engagement with the government, (2) pursuit of oil revenue transparency, (3) community investments, (4) national and regional development and (5) local business development. (Gulbrandsen and Moe 819: 2007)

Through these efforts, BP has become an integral part of Azerbaijani development:

> BP not only comments on and criticises government policies from the outside, it is treated as a legitimate participant in broader development processes. It is, for example, involved with the UNDP in their Poverty Reduction Strategy Plan, a broad poverty alleviation programme. When the final document was presented in October 2002 to an auditorium gathering of government officials, international organisations, NGOs and diplomatic missions, BP was the only company invited by the government to give a presentation. Beyond BP'S general public statements on the need for good governance and fighting corruption it seems that the company stops short of advice on specific concerns. In recent years the company has sponsored groups of independent economic experts who engage government representatives and agencies on a range of specialist issues. According to our interviewees, such sessions, where the requests and needs of the government are given attention, have sometimes helped facilitate badly needed co-ordination among government agencies, but there is no indication that they have addressed fundamental problems like corruption. (Gulbrandsen and Moe 820: 2007)

BP has also been involved in the operations of SOFAZ, the state run oil fund. Cables from the US embassy leaked by Wikileaks have given a unique insight into BP's concerns with the oil fund and its macro-level evolvement.

> BP has quietly launched an intensive effort to help the Government of Azerbaijan better manage its anticipated billions of dollars in energy revenue. After years of discussions, the GOAJ (Government of Azerbaijan) agreed to place a BP-funded macroeconomic modeling unit at the State Oil Fund (SOFAZ). BP hopes the new macroeconomic modeling unit will improve GOAJ awareness of the dangers of mismanaging its oil revenues and promote a cohesive, long-term approach to economic decision-making within the GOAJ. BP Senior Economist Mark Henstridge told the Ambassador that high degrees of resource-dependency in economies like Azerbaijan's present enormous commercial risks to BP; BP Policy Advisor Jacob Nell (who had worked for several years as an advisor to Azerbaijan's Finance Ministry) more bluntly said that GOAJ mismanagement of its energy revenue presents the greatest risk to BP. BP believes that Azerbaijan has "two or three budget cycles" (e.g. until 2008 or 2009) to set up proper procedures for revenue management in order to stave off hyperinflation. Nell separately told the Ambassador that BP is also thinking of creating a trust fund to finance macroeconomic framework studies that would analyze the economic situation in Azerbaijan, another step to increase the public's awareness of the importance of proper economic management. Henstridge and Nell commented positively on the new GOAJ economic team led by Finance Minister Sharifov and Minister of Economic Development Babayev, and believe the new economic modeling unit will be a key tool for the team to get a better grip on the GOAJ budget planning and budget process. (Wikileaks)

This memorandum shows two things: (1) it reveals the extent to which BP has gone to manage macro-level economic policy in Azerbaijan, and (2) it shows that often corporate interests run parallel with a country's broader economic issues, thus giving companies and governments incentives to work closely together.

It is not possible to conclude that BP's advice has had a significant effect on the economy or inflation, as most of that data is not available to the public. It is however clear that the feared hyperinflation never happened.[5]

In Azerbaijan, BP has gone much farther than other companies in aiding in the direct management of the economy.

> BP supported an independent economic consultancy to help the State Oil Fund develop a software-based model of Azerbaijan's economy, with the purpose of strengthening the government's capacity to manage oil revenues and assess their long-term impact on the economy," (Gulbrandsen and Moe 822: 2007).

This type of expertise is essential for dealing with oil revenues and managing the economy. It also shows that BP can have a larger influence on the macro-economic level through its policy advice, and can be a crucial player in the proper maintenance of the economy.

[5] Even under the broadest definition of hyperinflation.

6.3 BP's CSR initiatives with local businesses and communities

In addition to its macro-level CSR activities in Azerbaijan designed to promote better governance at the national level, BP has also continued to engage local businesses and communities. BP has assisted the local economy by employing local businesses to supply goods and services to BP projects.

> Within the new regional development scheme, formally connected to the business consortium, BP and partners have prioritised helping local suppliers access credit and develop micro-finance schemes. A new instrument allowing local companies to use their contracts with BP and partners as collateral has also been developed. According to critics, the foreign oil companies are nevertheless failing to use domestic industrial capacity as much as they could, but BP itself is quite satisfied with its achievements in engaging local companies as partners in the oil industry. According to BP, the direct spending with local companies in 2005 'resulted in Azerbaijani suppliers achieving the third highest level of in country spend by revenue, after the US and UK, of any country where BP is represented'. BP intends to double the value of contracts placed by Azerbaijan-owned companies within five years (2010), amounting to an additional $250 million annually with small and medium-sized enterprises and local joint ventures, bringing its total spend with locally owned companies to more than $500 million a year. (Gulbrandsen and Moe 825: 2007)

This is helping industries where there is a relative advantage. It is sound economic policy to invest where one has a relative advantage, and in time Azerbaijan might be able to become a competitive supplier of goods and services to oil companies worldwide. For example, Norway has become an exporter of deep sea oil drilling technology, thus diversifying its economy into technology within that sector. While it is still too early to see the total effect of these policies in Azerbaijan, or whether they amount to more than just subsidizing the local community, they could provide a template for increased micro-level CSR initiatives.

Oil companies can help create additional jobs by engaging the local economy in supplying goods and services for the oil companies as much as possible. These initiatives have also given vital lines of credit to businesses that otherwise would not have had access to that credit and has keep more oil revenue within the country. And, unlike revenue going to the government, this revenue flows into the local economy creating jobs and stimulating other sectors.

BP is also involved in dealing with the local communities in Azerbaijan, but their programs have a more holistic approach than traditional local CSR.

> In contrast to traditional micro-level CSR projects such as funding the building of schools and health clinics, the Future Communities Programme aims to enable local communities to develop themselves by teaching them a set of skills and providing a toolbox to be self-sustaining. In each community a community action group elected by the inhabitants is set up to identify needs and prioritise among them. The community is trained to work out a budget, and to write a proposal for a tender process, a procurement plan, project implementation plan and long-term management plan. The training focuses on financial transparency and effective governance in all stages of the project. In this way, claim BP representatives, communities learn to plan and manage development projects in a transparent and effective manner. BP aims to engage local government authorities without giving them control and envisages that community investments will also be a learning experience for them. The programme also tries to involve regional governors, but deals only rarely with the central government. (Gulbrandsen and Moe 825: 2007)

By engaging local governments and focusing on good governance, there exists a possibility to promote ground up reform. Such programs also help create the expectation and understanding of good governance by the people. In addition to providing a learning environment about good governance, involvement at the local level also provides native insight into what is needed by the local communities.

Within the best practices of CSR, educating the populace to participate in designing and running such projects is considered vital to aiding the community. Creating an engaged and capable civil society is a vital step towards all CSR ends and therefore has to be seen as an imperative to dealing with poor governance and its threat to countries' economic prosperity. While government building can be a long and laborious process, the engagement of local community to better their own lives has to be seen as a start towards better governance.

6.4 BP's involvement in broader regional initiatives

BP has also tried to incorporate the broader Caspian region in its development plan and to help aid the business interests of neighboring countries as a whole.

> The second CSR initiative that BP operates on behalf of its consortia partners is the Regional Development Initiative. It was conceived in 2003 and became fully operational in 2005 after agreement with the other oil companies on financial commitments, internal governance structure, operational guidelines and a three-year strategy and budget. The initiative is intended to enhance oil and gas partners' long-term business interests and contribute to sustainable socioeconomic development in the Caspian region…

> The initiative covers Georgia, Turkey and Azerbaijan, with 50% of funding allocated to the latter, for the full lifespan of the projects. Unlike the Future Communities Programme, it is directly focused on macro-level issues and large-scale, country-wide and cross-regional programmes. According to a BP representative, 'it's an investment approach to development rather than the old philanthropy'. It also brings in money from the main lenders, particularly the European Bank for Reconstruction and Development (EBRD) and the World Bank, which basically match the contributions from the oil companies. The international financial organisations seem to have concluded that their leverage in Azerbaijan is diminishing by the day as oil export income soars. Co-operation with the oil companies is one of the few vehicles allowing commitment to broader programmes that will not be subject to the whims of the government. Their participation has also spurred co-ordination among the oil companies. (Gulbrandsen and Moe 824: 2007)

This offers a way for populations to move forward without their governments which might not have their interests in mind. A combined approach both working with the government and outside of it can both improve the government and provide outside development and pressure for reform.

> The Regional Development Initiative seeks to maximise its developmental impact by focusing on three core themes: enterprise development, effective governance, and access to energy. The focus has thus far been on enterprise development, but BP also sees a significant potential for enhancing effective governance through civil society capacity building, strengthening the rule of law, and proffering expert advice and assistance.
> The Regional Development Initiative is unique because it unites all the oil companies in all four joint ventures led by BP in a common and long-term CSR partnership, and involves matters relating to social organisation and institution building. All selected projects are run through a complicated vetting process by all consortium partners. BP and its partners have committed to the initiative for as long as the PSAs run, which will be for another 20 years, an extraordinarily lengthy period for a joint CSR project. (Gulbrandsen and Moe 825: 2007)

The scope and length of this program are extraordinary and by uniting several companies, it has created an integrated plan. There are of course problems that come with this integration as it creates large inefficiencies and bureaucracies that must be dealt with because of the number of actors involved (Gulbrandsen and Moe 2007). But it is a new approach to dealing with the issues facing countries where oil flows have already come online. This may be a means by which oil companies might be able to apply pressure and assure responsible governance even when much of the rest of the international community has lost its ability to influence the government due to the government's significant revenue flows. If the international community matches funds with oil companies, international organizations' resources and expertise can remain relevant and helpful even outside of their traditional advisory role.

The regional aspect of this program also helps to eliminate one of the fears of micro-level CSR, which is creating conflict between communities - between those who have CSR programs and those who that are left to fend for themselves. In a geopolitical climate like the one in which Azerbaijan exists, there are considerable ethnic and political tensions both within and between countries. By helping neighboring countries as well as Azerbaijan, soft-power[6] can be an effective tool in assuring further development without exacerbating tensions. Other communities can see that by adopting similar policies and engaging in economic reforms, they too can benefit. The creation of cooperative projects rather than adversarial relationships can help rationalize the cessation of tensions and build stronger links or repair links between once adversarial countries and communities.

6.5 Concerns about BP's CSR initiatives in Azerbaijan

While BP has been innovative in expanding the CSR role to the macro-level and has aided in advising the government, it is still too soon to declare it a success. It goes more to show that an expanded role of corporations to a governmental advisory role is possible.

Like many macro-level CSR programs, problems of transparency and legitimacy remain: when evaluating BPs role in Azerbaijan the whole picture cannot be seen as many of the meetings and much of the advice is secret. Therefore, to say that BP is aiding in the management of funds and the development of Azerbaijan, is to make assumptions based on too little time and too little information. In fact, since CSR is often seen as primarily a public relation tool, one should be skeptical of reports released by BP unless they are substantiated.

[6] "[S]oft power—getting others to want the outcomes that you want—co-opts people rather than coerces them." (Nye 95: 2008)

Transparency is also hindered by the fact that governments would be reluctant to participate in public meetings or release documents which criticize their existing practices. Giving advice concerning good governance is a delicate task in any situation. It would be especially difficult for an authoritarian government to reveal what advice it received and whether it acted upon it. However, it is difficult to evaluate the effectiveness, merit or benefits of advice given in private.

While BP has disclosed its payments to the government and has been pushing for greater transparency by the government, more must be done to assure that measures are being taking to move towards good governance. Thus far BP has not used a comprehensive approach and, while they have reached out to governments like the US, the issues that were raised and BP's advice is only known to the public because of the leak of classified documents. The lack of public scrutiny by either NGOs or the general public makes it problematic to assess the results of such efforts.

6.6 BP's efforts to combat corruption

As stated previously in this chapter, Azerbaijan still remains very corrupt and there is little transparency about how the oil revenues received by the government are spent. BP's 2003 report on activities in the Caspian region admits that the large revenue inflows "potentially encourage corruption,"(134: 2003). In this respect, BP has been criticized for not doing enough to combat corruption in Azerbaijan. Gulbrandsen and Moe state that BP "stops short of advice on specific concerns" (820: 2007) when dealing with the corruption. It has been suggested that the interests of the oil companies and the government often coincide and that the oil companies' actions, either overtly or inadvertently, support the corrupt government.

> It has been argued, for instance, that oil companies in Azerbaijan 'have (inadvertently at times) backed the Aliev government's intimidation of dissidents through outright bribery, patronising only government-favoured media or businesses, and eschewing extended contacts with the political opposition' (Chen, 2007, p. 43). A suggestion of a meeting with opposition politicians in Azerbaijan was met with 'less than no interest' by the oil companies (Gulbrandsen and Moe, 2005, p. 59). One scholar noted that: 'the warm and cozy relations of the Azerbaijani government with trans-national oil companies ensure the flow of funds at the expense of state

> and democracy building in the country' (Valiyev, 2006), quoted in (Chen, 2007, p. 44.). (Frynas 175: 2010)

Benjamin Sovacool has argued for his concept of "corporatist resource curse" he defines it as:

> The corporatist resource curse suggests that when private corporations partner with government actors to extract point resources such as oil or natural gas as rapidly as possible to inflate revenues, the resulting activities consolidate wealth for these actors but distribute costs to society. In the pursuit of profit and extended control, the interests of the corporatist government and business actors overwhelm those of civil society and the public, who are unable to offset corporate–government influence due to lack of knowledge, capacity and/or market distortions. (45: 2011)

Sovacool has analyzed the BTC pipeline project that BP is working on in Azerbaijan as well as other countries in the region.

> [T]he corporatist resource curse predicts that when government and corporate interests align to extract resources quickly, they benefit at the expense of less organized and more diffuse social actors and communities. The case of the BTC pipeline validates this theory, and it shows how such a curse can extend beyond the simple extraction or use of oil to its distribution and transit through a pipeline. (54: 2011)

In general, oil companies' reporting of corruption is lacking, as the following quotation shows:

> Company reporting on corruption is also very limited, even by companies with highly developed codes of conduct. Henriques (2007) specifically points to the examples of Shell and BP. Shell, for instance, limits their corruption reporting to the number of 'violations' explicitly reported to the Audit Committee of the Board of Royal Dutch/ Shell, and providing specific figures for Nigeria.
>
> However, as Henriques points out, the company fails to report on the nature of legal prosecutions, the use of agents or whistle-blowing – all of which are crucial to understanding both the problem of corruption and the company's ability to deal with the problem. (Frynas 176: 2010)

Criticism of BP by academics might be overly harsh; BP's has a limited ability to bring about government reforms. BP finds itself in the same position as any extractive company does with respect to government corruption. Since it is dependent upon the existing government for its permit to drill for oil in Azerbaijan, it cannot be too forceful in its criticism of the government, or it will risk losing its ability to do business in the country. This can represent a tremendous loss in invested capitol and potential future profits. While it may make suggestions about better ways of managing revenues and running governmental institutions, it has no way to compel the government to follow that advice. Criticizing overt corruption within the government can be difficult to do without appearing threatening to corrupt government officials.

From a business perspective BP and other corporations have to walk a fine line and not appear to be biting the hand that feeds them. BP's role is solely advisory, and while it may be criticized for not doing enough to combat corruption and promote good governance, its role is strictly limited. In many ways, a soft, gradual approach may be better than a more strident one, since a more forceful approach may just get BP expelled from the country and replaced by another oil company which would do even less to promote governmental reform. While BP might be able to do more, it is already doing more than most oil companies in similar circumstances.

6.7 Some Solutions to the problems

BP has already taken one step to create an outside review and greater accountability for its CSR activities by setting up the Azerbaijan Social Review Commission which is an independent organization with the mission statement, "to promote transparency, dialogue and public engagement of our (BP's) activities in Azerbaijan," (BP website c). While this independent group is a good step towards monitoring, it is limited in scope. So far, it has produced five brief reports on the effects and consequences of BP's actions. In their latest report they recommended the following;

> Develop a civil society engagement plan (relationship building and communication) based on the civil society map – targets, messages, mechanisms, feedback. Engagement is more than communication (see below), it involves building relationships.
> Develop a communication program to establish BP's independent nature (media and civil society). Such a program identifies audiences, messages, delivery mechanisms, etc.
> Find a way to make public statements in support of fundamental freedoms and rights as good for business, in support of open societies (The Azerbaijan Social Review Commission 18: 2011)

BP has made the following response:

> [W]e have been supporting various effective governance projects, including business enabling environment with IFC involving the Ministry of Taxes and capability building in macroeconomic forecasting with the EU-based think-tank for the Ministry of Economic Development (MED).
> We continued to back the Advisory Services on Macroeconomic Management and Institutional Reforms (ASMMIR) project. As part of ASMMIR we underwrote efforts to enhance economic planning capacity in Azerbaijan by improving forecasting skills and economic policy analysis in the MED. This project, launched in September 2008, was scheduled to last for 24 months but has been extended for a further 17 months and will now end in January 2012. Also as part of ASMMIR, a methodological framework for quarterly economic reviews was elaborated in 2010. Experts assisted MED staff in preparation of these reviews and in development of

> monthly analysis of inflation, gross domestic product, the global economy, exchange rates, commodity markets and other topics.
> By supporting such initiatives we believe that BP is contributing to the efficient management of revenues generated by the oil and gas industry and that this will bring long-term socio-economic benefits to Azerbaijan. (BP Azerbaijan Response 4: 2011)

So, while some monitoring is happening, it is not as robust and inclusive as is necessary to assure open and transparent governance.

Another valuable step would be the integration of the activities of the UN and BP in Azerbaijan. The UN, and BP through its macro-level CSR initiatives, are already trying to accomplish similar goals in Azerbaijan. They are natural partners and the UN can aid BP in providing legitimacy and transparency to its operations, while BP can offer resources and expertise in advising the government. The UN is currently engaged in development programs with the government of Azerbaijan.

> [T]he intended focus of the UN development support between the period 2011 and 2015, and focuses on those areas where the UN has comparative advantage and proven track record where the UN can add value. The cooperation framework focuses on three programme areas: economic development, social development, and good governance, and aims to deliver the following outcomes by 2015:
>
> - A diversified economy ensuring sustainable growth across many sectors, generating decent work opportunities and improved incomes for all regions and social groups;
> - Improved and equal access to quality health, education and social protection services; and
> - More transparent and accountable public institutions, staffed by a professional civil service and guided by appropriate laws enforced by a responsive judicial system to ensure the legal protection of the rights of all, including the most vulnerable.
>
> The new UNDAF will also emphasize further advancing gender equality, integrating risk reduction into development programmes, and strengthening Monitoring & Evaluation (M&E) as the cross-cutting areas, given that the elaboration of M&E indicators against which to measure progress towards the expected results has been integral to the development of new UNDAF and will further guide its implementation.
>
> The UN agencies will provide assistance and technical support in implementing the next UNDAF which is estimated at US$92.5 million. The UN Country Team, under the leadership of the Resident Coordinator, will be responsible for the harmonization, alignment and results-orientation within the UN system, in partnership with the development partners, to ensure the delivery of the UNDAF outcomes. (UN in Azerbaijan)

Since the stated goals of the UN and BP mirror each other, a good step forward would be the integration of their initiatives. This would aid in achieving their aims and permit more pressure to be placed on the Azerbaijani government, which lacks creditability in being, open, honest, and fair. This added pressure would make both organizations more effective in lobbying for changes.

Such integration would solve one of the independent reviews issues of having access to the media and a communications program which can support fundamental rights. Giving the UN the role of much of the media relations would both insulate BP from potential political backlash of pushing for reforms and also would make calls for reforms seem more authentic and substantiated. It would also give the UN the potential ability to implement broader anti-corruption measures and apply pressure to both the government and BP to safeguard the population's interests against the interests of those two actors.

7 Conclusion and recommendations

The premise of this thesis has been that where petroleum extraction exists, there are great tensions placed on the institutions of government by the increased revenue inflows. This pressure can distort the economy, leading to inflationary pressures and making the non-energy related sectors of the economy less competitive. The understanding of the “resource curse” is changing and is really the curse of bad governance. Macro-level CSR can play a crucial role in helping to build better governance and to manage revenue inflows to make sure that they do not distort the economy. The steps that are necessary to protect the economy and prevent distortion include (1) the creation of an effective sovereign wealth fund, which can invest money outside of the country to curb inflationary pressures, (2) investment in human capital, making the country more competitive for the future, and (3) investment in industries that are intensive in the commodity they are exporting where they have a relative advantage. On the policy side, taxes should be kept in place and where needed they should be broadened so that economic growth will benefit the country.

Micro-level CSR projects like building schools and hospitals can help in bettering the lives of local communities affected by the operations of oil companies, but they are not designed to deal with larger scale systemic problems of governance and economic planning. And, as I point out as my original contribution to the existing literature, such micro-level projects may actually be detrimental to the establishment of better governance and planning by lessening the pressure on governments to institute reforms, since they serve to pacify the population by satisfying some of their more immediate needs.

While the issues faced by oil exporting countries are extremely complex and often unique to each individual country, there is an increasing understanding of what good policy should look like. Macro-level CSR is one of the avenues that should be pursued in bringing about the implementation of policies that better governance and economic management. Macro-level CSR has the ability to advise the government in establishing prudent policies that will promote better governance and stronger institutions which will assist in economic growth and development and produce better governed, more prosperous and more peaceful societies.

While there are questions about both the role and motives of corporations with respect to CSR activities concerning governance, no one can deny their influence. The oil corporations themselves will always be powerful actors since they are the direct source of revenues. It is therefore crucial that their influence be harnessed to promote better governance within the countries in which they operate. More openness about corporate CSR activities would permit their benefits and effectiveness to be better evaluated. With the right advice and careful oversight from civil society and international actors like the UN, oil corporations can prove the hero rather than the villain they are often perceived to be.

The use of a comprehensive approach involving international organizations and NGOs in CSR, will result in better controls on corruption and give assurances to the population that corporations are acting in a beneficial way. Incorporating the UN into the comprehensive approach would offer added legitimacy as well as better insuring the rights of people to self-determination. The UN has goals similar to the stated goals of corporate CSR initiatives and therefore the two entities should be natural allies. Working together could strengthen both entities.

Initiatives like the EITI have not been around long enough to truly test their effectiveness, but the effect of mere reporting of revenue inputs seems limited in nature, and there is little real evidence that it will help in curbing corruption. However, if the EITI ++ is created and countries work within its guidelines, it might hold real promise for managing oil revenues better and promoting economic and political development within exporting countries, because it will deal with both revenues received and spent. The EITI ++ will engage countries with international actors like the World Bank which will help to legitimize and strengthen ties between good governance and the international community. More must be done to engage and integrate the UN on the issues faced by resource exporting countries.

There still remain large obstacles to implementing good governance. For instance there is still no reasonable way to impose good governance from outside. Government officials must feel that good governance is in their interests in order to be willing to bring about changes and this can be a difficult problem. Corporations are dependent upon their host governments for permission to operate within the country. Therefore, the reality is that corporations cannot be too critical or their host governments or press too aggressively for reforms if they wish to preserve their operations within the country. The oil companies would incur huge losses if their operations were expropriated or they were expelled from the country by a hostile government. The situation is further complicated by the fact that there are other oil companies from countries like China and Malaysia, that do not share western concerns about good governance, which would be happy to replace them.

However, there is still hope that even small reforms can lead to bigger reforms in the future. But, in order for such reforms to happen, the petroleum industry has to understand the macro-level nature of the problems caused by oil revenue inflow and deal with them on a macro-level as well. BP's CSR Initiatives in Azerbaijan are a demonstration of potential future macro-level CSR initiatives. While not enough time has passed to declare them to be a success or failure, BP's activities are on the cutting edge of macro-level CSR.

If good governance and good institutions can be fostered, there is hope for future and lasting peace in some of the most volatile countries on earth. This aim is one worth pursuing and deserving of more research. Appropriately designed and implemented corporate CSR macro-level CSR activities can contribute to the achievement of this goal.

7.1 Policy recommendations for macro-level CSR initiatives

Based on the analysis done in this thesis, I may make some policy recommendations for what the petroleum industry should seek to achieve with their macro-level CSR programs.

(1) The first and most important recommendation is that properly functioning institutions capable of dealing with the problems should be set up before the exploitation of the resources begins. This has been advised by many prominent scholars, (Humphreys et. all 2009, Hoffman 2010). It is far easier to set up institutions and make governmental reforms before governments are inundated with huge amounts of revenue which stress the ability of government institutions to manage them and which may lead to more corruption. Setting up a working government first is not always an option, like in the case of Azerbaijan, where exploitation of their resources was seen as the only economic option available. Where it can be done, it is the most prudent policy that can be pursued. There is nothing to say that the following recommendations cannot be pursued before resources are exploited (ideally) or pushed for afterwards or while resources are already being exported (where it is the only possibility).

(2) The keys to all initiatives are transparency and accountability. Without these, there is little hope that funds can be invested wisely (Karl 2009). It is therefore of utmost importance that corporations push for more transparency and accountability in the host governments. They can and should engage the help of the international community in this regard. Corporations should push for a broader approach to transparency by requiring transparency in how the revenues are spent as well as how much revenue is received by the government. Even if such transparency is achieved, there might not be adequate NGO or civil society participation to use the information to bring about reforms, so corporations should work with national and international actors to assure that governments are held accountable for their spending.

(3) Macro-level CSR should make sure that resource revenues are invested wisely, in human capital, useful infrastructure, and diversification of the economy to sectors where the country has a relative advantage. Although transparency is vital, the population may not possess an advanced understanding of how economies operate and may not be depended upon demand policies that will assure long term growth. Here corporations can provide expertise and personnel to aid in making prudent investment choices. Corporations should advise countries to invest in long term growth strategies and increase their investment in education and healthcare, both of which can improve their economic performance and prosperity. One of the key ways corporations can act is to make sure that countries do not become complacent. Governments should be advised to plan ahead to the time when the resources have declined. Even if mineral deposits are substantial and will not be depleted for some time, once countries reach peak production, the mineral sector cannot be relied upon to sustain economic growth and development. Peak oil will be reached well before deposits are depleted so it is important that countries not delay investing for the future. The petroleum industry can help drive home this reality to host governments.

(4) Macro-level CSR should help countries to establish sovereign wealth funds to manage the investment of resource revenues in ways that will prevent inflation and to produce long-term investment returns that will benefit the economy when resource revenues decline or the resources are depleted. There is a tendency to use sovereign wealth funds inappropriately or to mismanage them either from lack of experience or because of corruption. BP in Azerbaijan has done an admirable job, in both advising in investment and management of the fund with economic modeling and experts, and also in pushing for transparency within the fund. This can be a model for other companies working with macro-level CSR.

(5) Countries need to get good advice and have precise economic models and understand both the advantages and disadvantages of various approaches as they invest for the future. This also includes expert advice about tax policies, economic policies and anti-corruption efforts. In this regard, it is crucial that countries avoid a rentier state mentality since this will both impede good governance and inhibit economic

growth. Countries must avoid policies that favor the elites as that will hinder their future economic growth. The problems facing each country will be different and there has to be sufficient planning and understanding of each individual case. Macro-level CSR can help in tailoring programs to each country's economic and political realities.

While this list of policy recommendations is not exhaustive, it demonstrates a general way forward when promoting macro-level CSR within the petroleum industry. Case specifics will vary greatly. Authoritarian governments will be the places where the establishment of best practices will be the most difficult. While it would be better if they moved towards representative government, this might not be a feasible option in the short-term. A policy of engagement by corporations might be better than a policy of non-engagement where the resources will be exploited anyway. Corporations can work to advise countries about both the benefits of prudent policies and how to implement those policies. The main role for the corporation within macro-level CSR should be an advisory role rather than an operational one. While corporations can undertake hands on activities to some extent, one of the key concepts of macro-level CSR is that corporations should emphasize helping help populations and government officials understand the proper role of government rather than supplanting it.

7.2 Areas for future research

Corporate CSR needs to subjected to rigorous academic study to develop prudent methods and to test their effectiveness. More must be done to discover the extent and content of policy recommendations offered in macro-level CSR. Individual case studies as well as studies as to the effectiveness of certain adopted policies are extremely important and as of yet have not been thoroughly studied. Because macro-level CSR is a new field, the possibilities for research remain wide open and ideas about incorporating a comprehensive approach and other potential means for oversight of macro-level CSR need further exploration. The fields of governance and development are also expanding, so as research reveals new factors, the policy implications need to be incorporated and added to existing knowledge.

It is clear that problems arise from the exploitation and exporting of resources and research should focus on ways to ease the burden on government institutions as well as aiding in the implementation of prudent policies. It is my hope that with future research, petroleum revenues can come to be seen as a blessing rather than the “curse” they have often been in the past.

Bibliography

Acemoglu, D., S. Johnson, and J.A. Robinson. 2003. “An African Success Story: Botswana.” In D. Rodrik, ed., In Search of Prosperity: Analytic Narratives on Economic Growth. Princeton, NJ: Princeton University Press.

Al-Ubaydli, Omar, ‘Diamonds are a Dictator’s Best Friend: Natural Resources and the Tradeoff between Authoritarianism and Development’ (April 2009). GMU Working Paper in Economics No. 10-03. Available at SSRN: http://ssrn.com/abstract=1542179

Alesina, A., and D.R. Dollar. 2000. “Who Gives Foreign Aid to Whom and Why?” Journal of Economic Growth 5:33–64.

Arezki, Rabah, Brückner, Markus. ‘Oil rents, corruption, and state stability: Evidence from panel data regressions’, European Economic Review, Volume 55, Issue 7, October 2011, Pages 955-963

Arezki, R. and F. van der Ploeg (2007). ‘Can the Natural Resource Curse be Turned into a Blessing? The Role of Trade Policies and Institutions.’ CEPR Discussion Paper 6225.

Asiedu, Elizabeth & Nandwa, Boaz , 2007. "On the Impact of Foreign Aid in Education on Growth: How Relevant Is the Heterogeneity of Aid Flows and the Heterogeneity of Aid Recipients?," Review of World Economics (Weltwirtschaftliches Archiv), Springer, vol. 143(4), pages 631-649, December.

(The) Azerbaijan Social Review Commission, (2011). ‘Fifth Report’ accessed at: http://www.bp.com/liveassets/bp_internet/bp_caspian/bp_caspian_en/STAGING/local_assets/downloads_pdfs/a/ASRC_Fifth_Report_2011.pdf

Behbudi, Davood, Mamipour, Siab, Karami. (2010). ‘Natural Resource Abundance, Human Capital and Economic Growth in the Petroleum Exporting Countries”, Journal of Economic Development 81 Volume 35, Number 3, September 2010

Béland, L.-P. and R. Tiagi (2009). ‘Economic Freedom and the "Resource Curse": An Empirical Analysis.’ Studies in Mining Policy, Fraser Institute.

Bell, C., S. Devarajan, and H. Gersbach. 2004. “Thinking About the Long-run Economic Costs of AIDS.” In The Macroeconomics of HIV/AIDS, ed. M. Haacker, 96-144. Washington, DC: International Monetary Fund.

Berhman, J. R., and M. R. Rosenzweig. 2001. "The Returns to Increasing Body Weight." University of Pennsylvania. http://www.vwl.uni-muenchen.de/ls_komlos/tuebingen/articles/behrman.pdf.

Beverelli, Cosimo, Dell'Erba, Salvatore, and Rocha, Nadia. 'Dutch disease revisited. Oil discoveries and movements of the real exchange rate when manufacturing is resource-intensive.' International Economics and Economic Policy Volume 8, Number 2 (2011), 139-153

Birdsall, N., Pinckney, T., & Sabot, R. (2001). Natural resources, human capital, and growth. I R. M. Auty, Resource abundance and economic growth (pp. 57–75). Oxford: Oxford University Press.

Bloom, D., D. Canning, and D. Jamison. 2004. "Health, Wealth, and Welfare." Finance and Development 41 (1): 10-5.

Blowfield, M. (2005) 'Corporate social responsibility – the failing discipline and why it matters to international relations' International Relations, 19 (2) , pp. 173–191

Boddewyn, J. J. and Lundan, S. M. (2010). 'The internalization of societal institutions'. Unpublished Manuscript, New York.

Bondy, Krista, Moon, Jeremy, Matten, Dirk. (2012) 'An Institution of Corporate Social Responsibility (CSR) in Multi-National Corporations (MNCs): Form and Implications'. Journal of Business Ethics

Boschini, A., J. Pettersson, and J. Roine (2007). 'Resource Curse or Not: A Question of Appropriability.' Scandinavian Journal of Economics 109(3), 593–617.

BP Azerbaijan Response, (2011) 'BP Azerbaijan Response Azerbaijan Social Review Commission' accessed at: http://www.bp.com/liveassets/bp_internet/bp_caspian/bp_caspian_en/STAGING/local_assets/downloads_pdfs/a/ASRC_5th_Response_FINAL.pdf

BP report on Caspian Region (2003) found at http://www.bp.com/liveassets/bp_internet/bp_caspian/bp_caspian_en/STAGING/local_assets/downloads_pdfs/a/acg_phase_1_rr0_performance.pdf

BP website a: accessed on 30/04/2012 found at http://www.bp.com/sectiongenericarticle800.do?categoryId=9036281&contentId=7067019

BP website b: accessed on 30/04/2012 found at (http://www.bp.com/sectiongenericarticle800.do?categoryId=9036281&contentId=7067019)

BP website c: accessed on 30/04/2012 found at http://www.bp.com/genericarticle.do?categoryId=9006625&contentId=7037156

Branco, M. C. and Delgado, C. (2012), 'Business, social responsibility, and corruption'. J. Publ. Aff.. doi: 10.1002/pa.1426

Braithwaite, J. and Drahos, P. (2000). Global Business Regulation. Cambridge: Cambridge University Press.

Brunnschweiler, C. and Bulte, E. (2008). 'Linking natural resources to slow growth and more conflict', Science, vol. 320, pp. 616–7.

Bulte, E. H., R. Damania, and R. T. Deacon (2005). 'Resource Intensity, Institutions, and Development.' World Development 33(7), 1029–1044.

Burnside, C., and D.R. Dollar. 2000. "Aid, Policies, and Growth." American Economic Review 90(4): 847–68.

Carroll, A. B. (1991). 'The pyramid of corporate social responsibility: toward the moral management of organizational stakeholders'. Business Horizons, 34, 39–48.

Cavalcanti, T., K. Mohaddes, and M. Raissi (2011a). Growth, Development and Natural Resources: New Evidence Using a Heterogeneous Panel Analysis. Available at SSRN: http://ssrn.com/abstract=1505311

Cavalcanti, T., K. Mohaddes, and M. Raissi (2011c). 'Commodity Price Volatility and the Sources of Growth.' Cambridge Working Papers in Economics 1112.

Cesari, Anna, Oil and Democracy (June 20, 2011). Available at SSRN: http://ssrn.com/abstract=1872827

Cohen, M 'The Effect of Oil Revenues on Transition Economies: The Case of Azerbaijan', Geopolitics of Energy, 28(6), 2006, pp 12–20.

Collier, P. 1997. "The Failure of Conditionality." In C. Gwin, and J. Nelson, eds., Perspectives on Aid and Development. ODC Policy Essay 22. Washington, DC: Overseas Development Council.

Collier, P. (2000) ‘Economic Causes of Civil Conflict and their Implications for Policy’, Washington: The World Bank.

Corden, W. M. and Neary, J. P. (1982), ‘Booming Sector and De-industrialisation in a Small Open Economy’, Economic Journal 92 (December), 825-48.

Cragg, W. (Ed.) (2005). Ethics Codes, Corporations and the Challenge of Globalization. Cheltenham: Edward Elgar.

Dahlsrud, A. (2006). ‘How corporate social responsibility is defined: an analysis of 37 definitions.’ Corporate Social Responsibility and Environmental Management, September. Available at: http://www.csr-norway.no/papers/2007_dahlsrud_CSR.pdf

Davis, J.M., R. Ossowski, J. Daniel, and S. Barnett. 2001. “Stabilization and Savings Funds for Nonrenewable Resources.” In J.M. Davis, R. Ossowski, and A. Fedelino, eds., Fiscal Policy Formulation and Implementation in Oil-Producing Countries. Washington, DC: International Monetary Fund.

Detomasi, D. A. (2007). ‘The multinational corporation and global governance: modelling global public policy networks’. Journal of Business Ethics, 71, 321–34.

Devarajan, S., Minh Le, T. & Raballand, G. (2010). Increasing public expenditure efficiency in oil-rich economies: a proposal (Policy Research Working Paper 5287). The World Bank.

Easterly, W. 2002. “The Cartel of Good Intentions: The Problem of Bureaucracy in Foreign Aid.” Journal of Policy Reform 5(4): 223–50.

Easterly, W. 2005. “What Did Structural Adjustment Adjust? The Association of Policies and Growth with Repeated IMF and World Bank Adjustment Loans.” Journal of Development Economics 76: 1–22.

(The) Economist (2001) ‘Nigeria and Shell Helping, but not developing: A Report on Projects Supposed to Help Local People’, 10th May,

Economist Intelligence Unit: 2006, Country Profile 2006 – Azerbaijan (Economist Intelligence Unit, London).

EITI a Accessed on May 10, 2012 at http://eiti.org/eiti/principles

EITI b Accessed on May 10, 2012 at http://eiti.org/Yemen

EITI c Accessed on May 10, 2012 at http://eiti.org/Madagascar

Feyzioglu, T., V. Swaroop, and M. Zhu. 1998. "A Panel Data Analysis of the Fungibility of Foreign Aid." World Bank Economic Review 12:29–58.

Fort, T. L. and Schipani, C. A. (2004). 'The Role of Business in Fostering Peaceful Societies'. Cambridge: Cambridge University Press.

Frederiksen, C. (2010). 'The relation between policies concerning corporate social responsibility (CSR) and philosophical moral theories – an empirical investigation'. Journal of Business Ethics, 93 (3) (2010), pp. 357–371

Freedom House. 'Freedom in the World 2012' found at http://www.freedomhouse.org/sites/default/files/inline_images/FIW%202012%20Booklet--Final.pdf

Frynas, Jedrzej, (2010). 'Corporate Social Responsibility and Societal Governance: Lessons from Transparency in the Oil and Gas Sector'. Journal of Business Ethics (2010) 93:163–179

Frynas, Jedrzej (1998). 'Political Instability and Business: Focus on Shell in Nigeria'. Third World Quarterly, Vol. 19, No. 3 (Sep., 1998), pp. 457-478

Frynas, Jedrzej (2005). 'The false developmental promise of Corporate Social Responsibility: evidence from multinational oil companies' International Affairs 81, 3 (2005) 581-598

Gjølberg, M. (2010), 'Varieties of corporate social responsibility (CSR): CSR meets the "Nordic Model"'. Regulation & Governance, 4: 203–229.

Gould, J.A., and M.S. Winters. Forthcoming. "Betting on Oil: The World Bank's Attempt to Promote Accountability in Chad." Global Governance.

Gulbrandsen, Lars, and Moe, Arild (2007) 'BP in Azerbaijan: A Test Case of the Potential and Limits of the CSR Agenda?'. Third World Quarterly, Vol. 28, No. 4, Beyond Corporate Social Responsibility?Business, Poverty and Social Justice (2007), pp. 813-830

Gylfason, T., T. T. Herbertsson, and G. Zoega (1999). 'A Mixed Blessing.' Macroeconomic Dynamics 3(2), 204–225.

Gylfason, Thorvaldur, 2001. 'Natural resources, education, and economic development,' European Economic Review, Elsevier, vol. 45(4-6), pages 847-859, May

Haacker, M. 2004. “HIV/AIDS: The Impact on the Social Fabric and the Economy.” In The Macroeconomics of HIV/AIDS, ed. M. Haacker. Washington, DC: International Monetary Fund.

Haber, Stephen, Menalod, Victor. (2011) ‘Do Natural Resources Fuel Authoritarianism? A Reappraisal of the Resource Curse.’ American Political Science Review Vol. 105, No. 1

Habermas, Jürgen, “Constitutional democracy – A paradoxical union of contradictory principles?,” Political Theory 29, no.6 (2001):766-781

Hart, S. L. (2005). Capitalism at the Crossroads: The Unlimited Business Opportunities in Solving the World’s Most Difficult Problems. Upper Saddle River, NJ: Wharton School.

Heckelman, J.C., and S. Knack. 2008. “Foreign Aid and Market-Liberalizing Reform.” Economica 75: 524–48.

Henderson, P. D. (2001). ‘Misguided Virtue: False Notions of Corporate Social Responsibility’. London: Institute of Economic Affairs.

Hills G, Fiske L, Mahmud A. 2009. ‘Anti-corruption as strategic CSR: A call to action for corporations’. FSG Social Impact Advisors.

Hoffman, D I (1999). ‘Oil and Development in Post-Soviet Azerbaijan’, Energy, Wealth, and Development in Central Asia and the Caucasus’, NBR Analysis 10(3), 1999, pp 5–28.

Husted, Bryan, Allen, David. (2007) ‘Strategic Corporate Social Responsibility and Value Creation among Large Firms’ Long Range Planning 40 (2007) 594-610

IMF (International Monetary Fund). 2003. Chad: 2003 Article IV Consultation. Washington, DC: International Monetary Fund.

IMF (2011) ‘World Economic outlook April 2012’ Accessed at http://www.imf.org/external/pubs/ft/weo/2012/01/pdf/text.pdf

Independent Evaluation Group. 2009. The World Bank Group Program of Support for the Chad– Cameroon Petroleum Development and Pipeline Construction: Program Performance Assessment Report. Washington, DC: World Bank Group.

International Advisory Group. 2004. Report of Mission 8 to Chad, October 10–26, 2004. Montreal: International Advisory Group.

Jamison, D. 2006. “Investing in Health.” In Disease Control and Priorities in Developing Countries, 2nd ed., ed. D. Jamison, J. Berman, A. Meacham, G. Alleyne, M. Claeson, D. Evans, P. Jha, A. Mills, and P. Musgrove. Washington, DC: World Bank; New York: Oxford University Press.

Jensen, M. C. (2002). ‘Value maximization, stakeholder theory, and the corporate objective function’. Business Ethics Quarterly, 12, 235–56.

Karl, Terry Lynn (2007). ‘Ensuring Fairness: The Case for a Transparent Fiscal Social Contract’, Chapter 10 in Humphreys et. all, ‘Escaping the Resource Curse’, New York, New York, Columbia University Press

Kaul, I., Conceição, P., Le Goulven, K. and Mendoza, R. U. (Eds) (2003). ‘Providing Global Public Goods’. Oxford: Oxford University Press.

Keller, K. R. I. (2006). ‘Investment in Primary, Secondary and Higher Education and the Effects on Economic Growth.’ Contemporary Economic Policy 24 (1): 18–34.

Knack, S., and A. Rahman. 2007. “Donor Fragmentation and Bureaucratic Quality in Aid Recipients.” Journal of Development Economics 83(1): 176–97.

Kolstad, Ivar, & Wiig, Arne 2007. ‘Transparency in oil rich economies’ U4 Issue 2007:2 p.25 found at: http://www.cmi.no/publications/publication/?2817=transparency-in-oil-rich-economies

Leong, Weishu and Mohaddes, Kamiar. ‘Institutions and the Volatility Curse’ (July 10, 2011). Available at SSRN: http://ssrn.com/abstract=1885569

Losman, Donald. ‘The Rentier State and National Oil Companies: An Economic and Political Perspective.’ The Middle East Journal Volume 64, Number 3, Summer 2010 pp. 427-445

Lucas, R. E. (1988), “On the Mechanics of Economic Development”, Journal of Monetary Economics, Vol. 22, No. 1, pp. 3-42.

Mankiw, N. G., D. Romer and D. N. Weil (1992), “A Contribution to the Empirics of Economic Growth”, Quarterly Journal of Economics, Vol. 107, No. 2, pp. 407-437.

Marcus, A. G. and Fremeth, A. R. (2009). ‘Green management matters regardless’. Academy of Management Perspectives, 23, 17–26.

Margolis, J. D. and Walsh, J. P. (2003). 'Misery loves companies: rethinking social initiatives by business'. Administrative Science Quarterly, 48, 268–305.

Marshall, T. H. (1965). 'Class, Citizenship and Social Development'. New York: Anchor Books.

Matten, D. and Crane, A. (2005). 'Corporate citizenship: towards an extended theoretical conceptualization'. Academy of Management Review, 30, 166–79.

McMahon, W. (1998). 'Education and Growth in East Asia'. Economics of Education Review 17 (2): 159–172.

Mehlum, H., K. Moene, and R. Torvik (2006). 'Institutions and the Resource Curse.' The Economic Journal 116, 1–20.

Meissner, Hannes, (2010). 'The Resource Curse and Rentier States in the Caspian Region: A Need for Context Analysis'. GIGA (German Institute of Global and Area Studies) Working Paper No. 133. Available at SSRN: http://ssrn.com/abstract=1612183

Moon, Jeremy, Crane, Andrew, and Matten, Crane (2003) 'Can corporations be citizens? Corporate citizenship as a metaphor for business participation in society (2nd Edition)' Research Paper Series International Centre for Corporate Social Responsibility

Morrison, Kevin. 2009. 'Oil, Nontax Revenue, and the Redistributional Foundations of Regime Stability." International Organization 63: 107–38.

Morrison, Kevin. 2010. 'What Can We Learn about the "Resource Curse" from Foreign Aid?' World Bank Res Obs (2012) 27(1): 52-73 first published online October 27, 2010

Mosley, P., J. Harrigan, and J. Toye. 1995. 'Aid and Power'. London: Routledge.

Nelson, R. and E. Phelps (1966), "Investments in Humans, Technological Diffusion,and Economic Growth", American Economic Review, Vol. 56, No. 1-2, pp. 69- 75.

Nye, Joseph, 2008. Public diplomacy and soft power. Annals of the American Academy of Political and Social Science

616:94–109.

Pegg, S. 2006. "Can Policy Intervention Beat the Resource Curse? Evidence from the Chad–Cameroon Pipeline Project." African Affairs 105(418): 1–25.

Organization for Security and Co-operation in Europe, found at https://www.cia.gov/library/publications/the-world-factbook/geos/aj.html

Rodriguez, F. and J. D. Sachs (1999). 'Why Do Resource-Abundant Economies Grow More Slowly?' Journal of Economic Growth 4, 277–303.

Romer, P. M. (1990b), "Human Capital and Growth: Theory and Evidence", Carnegie-Rochester Conference Series on Public Policy, Vol. 32, pp. 251-286.

Rondinelli, D. A. 2002. 'Transnational Corporation: International Citizens or New Sovereigns?' Business and Society Review 107:391-413.

Ross, Lewin. (2009). 'Oil and Democracy Revisited', *Political Science*

Ross, Michael L. (2008). 'Blood Barrels Why Oil Wealth Fuels Conflict', May/June Foreign Affairs.

Rosen, S., Simon, J., Vincent, J. R., MacLeod, W., Fox, M. and Thea, D. (2003). 'AIDS is your business'. Harvard Business Review, 81, 80–7.

Sachs, Jeffery. (2007) 'How to Handle Macroecomics of Oil Wealth', Chapter 7 in Humphreys et. all, 'Escaping the Resource Curse', New York, New York, Columbia University Press

Sambit Bhattacharyya, Roland Hodler, 'Natural resources, democracy and corruption', European Economic Review, Volume 54, Issue 4, May 2010, Pages 608-621.

Scherer, A. G. and Palazzo, G. (Eds) (2008a). 'Handbook of Research on Global Corporate Citizenship'. Cheltenham: Edward Elgar.

Scherer, A. G. and Palazzo, G. (2011), 'The New Political Role of Business in a Globalized World: A Review of a New Perspective on CSR and its Implications for the Firm, Governance, and Democracy'. Journal of Management Studies, 48: 899–931.

Scherer, A. G. and Smid, M. (2000). 'The downward spiral and the U.S. model principles. Why MNEs should take responsibility for the improvement of world-wide social and environmental conditions'. Management International Review, 40, 351–71.

Scherer, A. G., Palazzo, G. and Baumann, D. (2006). 'Global rules and private actors. Towards a new role of the TNC in global governance'. Business Ethics Quarterly, 16, 502–32.

Shariff, A. 2003. "Links between Macroeconomics and Health: Relevance for the South East Asia Region." Paper presented at the World Health Organization

"Ministerial Consultation on Macroeconomic and Health," Geneva, October 28-30.

Skjærseth, JB, K Tangen, P Swanson, AC Christiansen, A Moe & L Lunde. (2004) 'Limits to Corporate Social Responsibility: A Comparative Study of Four Major Oil Companies', FNI-report 7/2004, Lysaker, Norway: Fridtjof Nansen Institute, 2004.

Smith, J. P. 2005. "Unraveling the SES-Health Connection." *Population and Development Review* 30 (Suppl): 108-32.

Sovacool, B.K. (2011). 'Cursed by crude: the corporatist resource curse and the Baku–Tbilisi–Ceyhan (BTC) pipeline,' Environmental Policy and Governance, 21 (1) (January/February, 2011), pp. 42–57

Strand, R. (1983). 'A systems paradigm of organizational adaptations to the social environment'. Academy of Management Review, 8, 90–6.

Sturm, Michael, François Gurtner, and Juan Gonzalez Alegre. 2009. 'Fiscal Policy Challenges in Oil-exporting Countries: A Review of Key Issues.' Occasional Paper 104. Frankfurt am Main: European Central Bank.

Sundaram, A. K. and Inkpen, A. C. (2004). 'The corporate objective revisited'. Organization Science, 15, 350–63.

Thirumurthy, H., J. G. Zivin, and M. Goldstein. 2005. "The Economic Impact of AIDS Treatment: Labor Supply in Western Kenya." Working Paper 11871, National Bureau of Economic Research, Cambridge, MA.

Thomas, D. 2001. "Health, Nutrition and Economic Prosperity: A Microeconomic Perspective." Commission on Macroeconomics and Health, Working Paper WG1: 7, World Health Organization, Geneva.

Thomas, D., E. Frankenberg, J. Friedman, J. P. Habicht, N. Jones, C. McKelvey, G. Pelto, B. Sikoki, J. P. Smith, C. Sumantri, and W. Suriastini. 2004. "Causal Effect of Health on Labor Market Outcomes: Evidence from a Random Assignment Iron Supplementation Intervention." Paper presented at the Population Association of America Annual Meetings, Boston, MA, April.

Transparency International. 2011. 'Corruptions Perceptions index 2011'

UN in Azerbaijan accessed on 30/04/2012 at http://www.un-az.org/content/view/103/lang,english/

UN website a: accessed on 30/04/2012 at http://www.unescap.org/pdd/prs/ProjectActivities/Ongoing/gg/governance.asp

United Nations website b accessed on 30/04/2012 at (http://www.unescap.org/pdd/prs/ProjectActivities/Ongoing/gg/governance.asp)

UNECA (United Nations Economic Commission for Africa). 2000 'Governance, Peace and Social Stability,' Found at http://www.docstoc.com/docs/34022658/Governance-Peace-and-Social-Stability---An-Issues-Note

van de Walle, N. 2001. 'African Economies and the Politics of Permanent Crisis', 1979–1999. New York: Cambridge University Press.

van der Ploeg, F. and S. Poelhekke (2010). 'The Pungent Smell of "Red Herrings": Subsoil Assets, Rents, Volatility and the Resource Curse.' Journal of Environmental Economics and Management 60(1), 44–55.

Vogel, D. (2007). 'Private global business regulation'. Annual Review of Political Science, 11, 261–82.

Whetten, D. A., Rands, G. and Godfrey, P. O. (2002). 'What are the responsibilities of business to society?'. In Pettigrew, A., Thomas, H. and Whittington, R. (Eds), Handbook of Strategy and Management. London: Sage, 373–408

Wikileaks Accessed on May 10, 2012 at http://wikileaks.org/cable/2006/08/06BAKU1274.html

World Bank. 1992. "Effective Implementation: Key to Development Impact." Report of Portfolio Management Task Force. Washington, DC: World Bank.

World Bank. 1992b. 'World Bank Structural and Sectoral Adjustment Operations: The Second OED Review.' Operations Evaluation Department Report 10870. Washington, DC: World Bank.

World Bank. 2008 "Implementing the Extractive Industries Transparency Initiative: Applying Early Lessons from the Field", World Bank Publications

World Bank website accessed on May 9, 2012 at http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21727813~pagePK:64257043~piPK:437376~theSitePK:4607,00.html

World Bank website, b accessed on May 9, 2012 at http://info.worldbank.org/governance/wgi/worldmap.asp

World Business Council for Sustainable Development, 'The Akassa Community Development Project in Nigeria' 2005 found at http://commdev.org/content/document/detail/1539/

Zhang Tao and Wang Xiaocong. (2012) ‘China big oil firms on edge over U.S. disclosure’. Caixin Online found at Market Watch accessed on May 9, 2012 http://articles.marketwatch.com/2012-04-22/industries/31382545_1_oil-companies-oil-firms-statoil