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Humanizing Globalization: Practice of  
Multi-Stakeholder Global Regulatory Standards  
in the Globalized World

The case of Extractive Industries Transparency Initiative

Master's thesis

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## ABSTRACT

Multilateralism, once viewed as a mechanism of global governance, recently came under criticism due to its incapacity to address global problems of social justice. It is argued that more deliberative and multi-stakeholder processes are needed in order to lead the world towards more ethical development. The purpose of the study is to examine deliberation process within the multi-stakeholder global regulatory initiative, and assess the normative capacity of its multi-level system of regulation to emerge as an important determinant of global politics. To do so, the study will examine the practice of the Extractive Industry Transparency Initiative at different levels. The main characteristic of this type of regulation is that civil society is recognized as an equal partner in decision-finding and decision making processes. By linking theories on humanizing globalization with practice of EITI, the study argues that, an answer to the increasing need for humanizing globalization lies in global civil society which provides a way to supplement 'traditional' democracy and creates foundation for global deliberation. Global civil society through the mechanism of multi-stakeholder global regulatory standards make international society more susceptible to normative changes and helps foster social dynamics at all levels. However, sometimes corporate and governmental actors at national level implicitly challenge the appropriateness of international norms. For this reason, it is maintained, that in order the EITI to meet its aim and objectives and the multi-stakeholder global regulatory standards to provide more legitimate, ethically grounded and "globally just" alternative to current intergovernmental forms, a better mechanism for safeguarding deliberative practices is necessary.

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## LIST OF ABBRIVIATIONS

BP	British Petroleum
BTC	Baku-Tbilisi-Ceyhan pipeline
CED	Center for Environment and Development
CEO	Chief executive officer
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
INGO	International non-governmental organization
EITI	Extractive Industry Transparency Initiative
EU	European Union
FoE	Friends of the Earth International
G8	The Group of Eight
G20	The Group of Twenty
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IFI	International financial institution
IMF	International Monetary Fund
IR	International Relations (studies)
MSP	Multi-stakeholder process
MSGRS	Multi-stakeholder global regulatory standard
MSG	EITI multi-Stakeholder Group
NGO	Non-governmental organization



PWYP	Publish What You Pay Coalition
TNC	Transnational corporation
TOC	Transnational oil company
UK	The United Kingdom
UN	The United Nations
US	The United States of America
WB	The World Bank
WBG	The World Bank Group
WTO	World Trade Organization

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## INTRODUCTION

With the end of the bipolar world order and the process of globalization, the world has come to be perceived as a single place. The advancement of communications has altered the understanding of space, time and geography<sup>1</sup>. The opening of markets and rapid development of technologies have intensified interdependence but, at the same time, have generated different threats and problems on the global level which no longer fit into the competence and capability of a single nation-state<sup>2</sup>. The need for addressing these problems have triggered transformation of international relations and contributed to the development of 'global polity', where states have been joined by different inter-, trans-, sub-, supra-national and non-state actors. The world with no supreme government to regulate global affairs has given birth to the idea of global governance.

Global governance is often understood as a response to the challenges that globalization has brought with it. The ideational characteristic of global governance comes from the necessity to address issues beyond the material capacity of states and is connected to the transforming process of world politics. 'Governance from above' and 'resistance from below' are often referred to as metaphors for understanding the transformation of international relations.

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<sup>1</sup> - Giddens, A. - The Globalizing of Modernity, in Giddens. A.- The Consequences of Modernity, *Polity Press*, 1990

<sup>2</sup> - Held, D., McGrew, A. (Eds.) The Global Transformations Reader: An Introduction to the Globalization Debate, *Cambridge: Polity Press*, 2003

Under conditions of globalization, the rise and expansion of transnational corporations (TNCs) started to have effect on social life. Often TNCs obtain enormous power and financial resources, in some cases bigger than the budgets of most of the developing countries. The transactions that TNCs make daily affect millions of people worldwide and threaten social security of poor developing countries, whereas regulation of their activities often exceeds the competence of a single state. Besides, in parallel with TNCs, new type of non-state actors have appeared on the global level in the form of a global civil society, which has contributed to civic action, though which groups demand for ‘civilizing’ globalization.

While traditionally, relationships on global level were regulated by intergovernmental mechanisms, with the spread of transnational relations an unsystematic set of global governance initiatives have appeared in order to better regulate the increased asymmetrical power relationships. With the process of globalization and transformation of world politics, intergovernmental mechanisms became subject to questioning its efficiency. International NGOs and small states express their dissatisfaction with the imposed decisions made mostly by rich industrialized states, which are blamed for shaping globalization to serve their interests and violate basic ethical principles<sup>3</sup>. Besides the belief, that globalization somehow correlates with vast income differences and social inequality, has opened up the space for thinking about globalization in more normative categories.

James Brassett and Richard Higgott in their article ‘Building the normative dimension(s) of global polity’ attempted to broaden the understanding of normative possibilities of reforming globalization. As they argue, any attempt to explain and understand the nature of social processes and structures must provide a normative justification for a chosen approach. They are opposed to the belief that it is sufficient to identify the epistemology of power and offer possibilities of building ethical dimensions of globalization. ‘If to borrow a phrase, globalization is what we make of it, the content of ‘what’ and the group that is ‘we’

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<sup>3</sup> - Stiglitz, J. – Making Globalization Work: The next steps to global justice, London: *Penguin Books*, 2006, p. 3.

are ethical questions of direct policy relevance to the contemporary global political economy’<sup>4</sup>. Thus the authors call for a redescription of globalization as both ethical and political question.

Social constructivist theory of IR considers that norms prescribe behavior and shape identities. So, any prescriptive account that regulates actors’ behaviors and, at the same time, shapes their identities can be regarded as norm. Norms often perform political function of constructing identities of international actors and of formulating messages that they send to the world. Besides, ‘norms tame’ and de-politicize power,<sup>5</sup> when they are accepted as universal and indisputable - ‘collective understandings of the proper behavior of actors’<sup>6</sup>. Normative behavior ideally should be both value-driven and institutionally grounded. Therefore, ‘normative power’ is the power that is value-driven, institutionally reinforced and that shapes the conceptions of ‘normal’<sup>7</sup>.

While Inter-governmental mechanisms, rich industrialized countries, international financial institutions and the so called ‘Washington consensus’ failed most of the developing countries, the expectations towards the effectiveness of the latest global governance initiatives about bringing together actors of different types – states, companies and civil society organizations, are rising high. Multi-stakeholder processes (MSP) aim to bring together different types of actors in order to extend participation in decision-making processes on global level and improve collective action outcomes.

Academic literature paid very little attention to the multi-stakeholder global regulatory standards (MSGRS), mostly because of their voluntary nature. Therefore, the normative power that MSGRSs might have, has been ignored as well. Extractive Industries Transparency Initiative (EITI) is a voluntary standard that promotes ethical development of

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<sup>4</sup> - Brassett, J., Higgott. R. - Building the normative dimension(s) of global polity, *Review of International Studies* N 29, 2003

<sup>5</sup> - Adler, Emmanuel - Barry Buzan’s Use of Constructivism to Reconstruct the English School, *Millennium: Journal of International Studies*, Vol. 34, N 1. 2005

<sup>6</sup> - Legro, Jeffrey - Which Norms Matter? Revisiting the “Failure” of Internationalism’, *International Organization*, Vol. 51, N 1. 1997

<sup>7</sup> - Diez, Thomas - ‘Constructing the Self and Changing Others: Reconsidering Normative Power Europe’, *Millennium: Journal of International Studies*, Vol. 33, N. 3. 2005

the world and institutionalizes democratic principle of transparency as a global norm. EITI operates on a global level but aims at improving governmental and corporative activities on a national level, creating the top down system of norm-diffusing that most of the cosmopolitans advocate. EITI is a great example to observe how an idea becomes a norm and later an institution, while making the process de-politicized and leaving almost no space for alternative reading of the norm. EITI becomes more interesting when considering the countries that are implementing it. Together with democratic countries like Norway, EITI is being implemented by authoritarian countries like Azerbaijan.

The main aim of the given study is to research the normative power of MSGRSs on the concrete case of EITI and offer a starting point for filling in the gap that exists in the academic literature on this account. Therefore the objectives of the study can be formulated as follows:

- To analyze ideational characteristics of EITI.
- To assess the relationship between ethical development and theories of humanizing globalization and the practice of EITI.
- To assess the role (if any) of EITI in diffusing global norm of transparency in extractive sector in the world where norm-setting is highly contested.
- To assess the efficiency of EITI implementation on national level on the concrete case of EITI Azerbaijan. Especially the efficiency of collaboration of different actors - governments, companies, and civil society organizations within the EITI framework?

The main research question follows the aim and objectives of the study and can be formulated as follows: What is the normative capacity of MSGRSs in leading the world towards more ethical development?

## Hypothesis

Multi-Stakeholder Global Regulatory Standards make international society more susceptible to normative changes and institutionalize a novel form of global governance grounded in ethical standards and emerging as important determinant of global politics.

The given study stands upon the idea that globalization has altered traditional international relations and generated certain threats that cannot be solved either by individual states or working of the markets. Emphasizing the intensification of transnational relations and emergence of non-state actors on global level together with the advancements in communication and technologies, the information revolution and new social media, the study leans upon the transformationalist approach to globalization. Therefore the opening of the thesis starts with three different perspectives on the topic. The chapter continues with discussion of international order and emphasizes three elements that claim the emergence of 'global polity'. The discussion on globalization further continues around the topic of social inequality. In contrast to the debate, whether globalization is correlated with increase or decrease of social inequality, the study outlines that with the globalization processes, the information on global inequality became more visible. Refraining from further theorizing on this account, the study presents the facts of social inequality in the contemporary reality.

What started as an *anti*-globalization movement, appeared to be a call for humanizing globalization, which gave birth to different movements and academic agendas. The widespread problems of social inequality call for an urgent return to a value-based system of governance and sociopolitical collective regulation of the globalization processes. The study aims to rethink globalization in more ethical categories; therefore in the subsequent chapters the study discusses different theoretical projects on humanizing globalization that will be used in the analysis on MSGRSs. Though their agendas differ, there is coherence in core principles as each account prescribes practices that is essential to the construction of a more human world. By questioning the efficiency and ethical appropriateness of current multilateral forms of global governance, the third chapter discusses the alternative - multi-

stakeholder arrangements. An initiative of this type, EITI will be studied in the empirical chapter of the thesis.

As mentioned earlier, the thesis aims to analyze both ideational characteristic of EITI and its efficiency in practice, in order to research if MSGRS provide more legitimate, ethically grounded and “globally just” alternative to current intergovernmental forms. The study analyzes EITI at three different levels following Finnemore and Sikkink model: ‘norm-setting’, ‘norm-cascade’ and ‘norm-internalization’<sup>8</sup>. Therefore, the empirical chapter is divided in three parts. First part concentrates on normative understanding of the case and presents a process-tracing of transparency norm in extractive sector. As EITI provides a multi-level and multi-stakeholder mechanism, governance structure of EITI on global level is studied in the second part. The third part concentrates on stakeholder analysis and governance mechanism at national level on the case of EITI Azerbaijan.

The study draws on diverse sources. The theoretical chapter leans upon academic literature, books and articles from the Journal of International Studies, Global Governance, Foreign Affairs, etc. The empirical study is carried out by publicly available sources, such as reports of EITI Secretariat, EITI Azerbaijan, speeches, interviews, independent researches and newspaper articles. Besides, statistics and indexes are used where appropriate.

The study has certain limitations. Data and methodology are challenging in verifying if EITI is having an impact on societal transformation. In most cases the causal links between international institutional mechanisms and local changes are indirect and require greater time spans. So, despite some interesting empirical findings, there is no direct causal relationship between EITI implementation and improved governance or general societal changes at national level. Besides, as the study uncovers, corporate and governmental actors may implicitly challenge the appropriateness of international norms - but, of course, this does not make them a less important subject for research.

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<sup>8</sup> - Finnemore, M. and Sikkink, K. - International Norm Dynamics and Political Change, *International Organization*, Vol. 52, No. 4, Autumn, 1998



# **Chapter I**

## **Theoretical Framework**

## 1. CHALLENGES OF CONTEMPORARY GLOBALIZED WORLD

The changes that the collapse of the Soviet Union brought to the world can hardly be contested. In 1990s, with the end of the Cold War, the world's bipolarity was breached, as well as the international principle of balance of power that was characteristic of the bipolar world of the cold war era or earlier times. The global process of integration started all over the world. With the victory of capitalism over communism, the once divided world came to be perceived as one single entity, subject to the same world order. With the spread of capitalism across the globe, development of technology and opening the markets, the transformation of the world started. The rapid and dynamic advancement in technologies and communications went beyond the local and national boundaries which linked different parts of the world and covered the whole intercontinental space. Besides, global politics transformed with the rise of non-state actors like transnational corporations and global civil society.

Transnational corporations are private organizations which carry out transactions across the borders and operate outside the country where the company is registered. TNCs invest in foreign countries. The main idea behind TNCs is to maximize profits and minimize expenses. This is why they prefer to carry out their activities in the countries, where human and natural resources are cheaper. This generates concern and the need to regulate TNCs' activities, since they are equipped with modern technologies that weak countries are unable to compete with. Besides, as most of the poor countries are 'hunting' for investments, they often offer minimal and free tariffs to TNCs, which reduces budget incomes and often threatens the country's social security - the problem that has been addressed by global civil society not once.

The Civil Society Center of London School of Economics defines the concept of global civil society as ‘describing an emerging reality of global civic action and connectedness’.<sup>9</sup> It refers to different social groups, activities, movements and networks operating across borders beyond the reach of governments. As Keane defined ‘Global civil society is a vast, interconnected, and multi-layered social space that comprises many hundreds of thousands of self-directing or non-governmental institutions and ways of life’<sup>10</sup> which carry out social activities ‘with a minimum of violence and a maximum of respect for the principle of civilized power-sharing among different ways of life.’<sup>11</sup> Global civil society is often understood as a response to the globalization process. But whether GCS represents a new autonomous actor on global level is still debated in academic literature. Mary Kaldor suggest that global civil society ‘is about ‘civilizing’ or democratizing globalization, about the process through which groups, movements and individuals can demand a global rule of law, global justice and global empowerment’.<sup>12</sup> Therefore, global civil society is about ‘understanding globalization 'from below,' from the perspective of ordinary people’.<sup>13</sup>

Because of its broad and multifunctional role, there is no single concrete definition of globalization in the academic literature of social sciences. Different definitions are offered in different fields. Political scientists, sociologists, economists, and historians – they all offer different visions but none of them is exhaustive and often contradict one another.

For economists globalization is connected with the transnationalization and formation of global markets. The economic context of the term is often related to Theodore Levitt and his prominent article of 1983 – ‘*Globalization of Markets*’, where he described the functioning of global markets. Later the term was often used with regard to the new type of multinational organizations as the main agents of economic globalization. In his 2001 study – ‘*Globalization - the external pressures*’, Paul Kirkbride also defines globalization in

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<sup>9</sup> - London School of Economics, Global Governance Research: Global Civil Society. Retrieved from: <http://www2.lse.ac.uk/globalGovernance/research/globalCivilSociety/home.aspx> (Last accessed: 14.05.2013)

<sup>10</sup> - Keane, J. - *Global Civil Society?* Cambridge University Press, 2003, p.9

<sup>11</sup> - Ibid. p. 24

<sup>12</sup> - Kaldor, Mary – “The idea of global civil society” in Baker, G. & Chandler, D (Eds.) *Global civil society: contested futures*, New York: Routledge, 2005, pp. 103-112.

<sup>13</sup> - Ibid.

economic terms. According to him 'Globalization is the integration of business activities across geographical and organizational boundaries'<sup>14</sup>.

For historians globalization is the era of global capital. They often compare contemporary globalization processes to the precedents in the history, sometimes even going back to the ancient world of the Roman Empire. In his article '*Sinking Globalization*', Niall Ferguson, professor of history at Harvard University, compares and draws the similarities and consequences of contemporary globalization with the one of the last quarter of the nineteenth century.<sup>15</sup> According to him, the rise of industrial capitalism in the 1850s and the rapid industrialization of Germany and US along with Britain, paved the way to the globalized market, so that already by the 1970s the flow of goods and capital achieved a previously unprecedented scale.

On the other hand, for sociologists, globalization is connected with submerging socio-cultural values, while political scientists concentrate on political processes and the topic of transformation of nation-state.

They all observe and research globalization from a different angle but comprehensive definition of globalization requires consideration of complex characteristics and fundamental changes of the political, economic, cultural and social architecture of the world. Globalization of the end of the twentieth century is unprecedented in its specificity. History has never ever seen such a scale of interconnectedness of the world and its subjects, to the extent that geographic locations in many instances have lost its importance for the outcomes of everyday transactions. With the development of technologies and electronic communications, geography has acquired completely new dimensions. But not everybody agrees with the changes that late 20<sup>th</sup> century has brought with it.

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<sup>14</sup> - Kirkbride, P. *Globalization – the external pressures*, John Wiley & Sons, 2001. p.14

<sup>15</sup> - Ferguson, N. *Sinking Globalization*, *Foreign Affairs*, 84:2 (March/April 2005): 64-77.

## 1.1 Great Globalization Debate

While the process of globalization is hard to neglect, scholars come to disagreements about the extent and outcome of the changes that globalization has brought with it. Some argue that old hierarchies are eroding and nation-state type of organization is diminishing. In this paper they will be regarded as *hyperglobalists*. On the other hand, scholars who see national governments and nationalism still shaping features of our time, will be regarded as *skeptics*. The group of scholars, who take the position in between, claim that important transformation is taking place on a global level, but these changes do not presuppose the disappearance of national boundaries. In this paper they will be regarded as *transformationalists*. This differentiation follows Held and McGrew's model, who suggest that ideal-type constructions help to identify the main areas of contention as well as consensus. Therefore 'they provide an accessible way into the melee of voices – rooted in the academic literature but by definition corresponding to no single work, author or ideological position.'<sup>16</sup>

- *Hyperglobalists* recognize the hegemony of transnational capital and world markets, which causes denationalization processes and leads to the abolishment of national boundaries. (Kenich Ohmae, Jagdish N. Bhagwati, Marc W. Zacher, etc.)
- *Skeptics* emphasize the importance of national boundaries and consider that regulation of markets and the management of business is the prerogative of nation-states. (Pol Hirst, Graham Thompson, Samuel Huntington, Kenneth Waltz, etc.)
- *Transformationalists* take middle positions between abovementioned two radical approaches. They recognize the transformation of nation-state and world politics but in contrast to hyperglobalists, they don't expect national boundaries to be diminished. Besides, they outline uncertain and anarchic nature of the processes and concentrate on global inequality (David Held, Anthony McGrew, Anthony Giddens,

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<sup>16</sup> - The Global Transformations Reader: An Introduction to the Globalization Debate , Edited by David Held and Anthony McGrew, Polity Press 2003, p. 2

etc.) While the main area of contention is visible, hyperglobalists and transformationalists in some instances can both be regarded as *globalists*.

One of the main focuses between those three is about characterizing structural consequences of globalization. Skeptics often rely on realist orthodoxy, still claiming that International relations have not changed because 'state's military and economic power determines its fate; Interdependence and international institutions are secondary and fragile phenomena; and state's objectives are imposed by the threats to their survival or security.'<sup>17</sup> Whereas, transformationalists argue that national governments are no longer able to handle certain issues on global agenda. They oppose to the idea of states being the only primary actors of international relations and criticize the downgrading of the importance of non-state actors, especially global capital and civil society.

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<sup>17</sup> - Hoffmann S, - Clash of Globalizations, in Held. D., McGrew, A. (Eds.) - The Global Transformations Reader: an introduction to the globalization debate , *Cambridge: Polity Press*, 2003

Table 1: Conceptualizing globalization: three tendencies<sup>18</sup>

	<b>Hyperglobalists</b>	<b>Skeptics</b>	<b>Transformationalists</b>
<b>What's new</b>	A global age	Trading blocs, weaker governance than in earlier periods	Historically unprecedented levels of global interconnectedness
<b>Dominant features</b>	Global capitalism Global governance Global civil society	World less interdependent than in 1890s	“Thick” (intensive and extensive) globalization
<b>Power of national governments</b>	Declining or eroding	Reinforced or enhanced	Reconstituted, restructured
<b>Driving forces of globalization</b>	Capitalism and technology	States and markets	Combined forces of modernity
<b>Pattern of stratification</b>	Erosion of old hierarchies	Increased marginalization of South	New architecture of world order
<b>Dominant motif</b>	Mass consumption And entertainment	National Interest	Transformation of political community
<b>Conceptualization of globalization</b>	As a reordering of the framework of human action	As internationalization and regionalization	As the reordering of interregional relations and action at a distance
<b>Historical trajectory</b>	Global civilization	Regional blocks/clash of civilizations	Indeterminate: global integration and fragmentation
<b>Summary argument</b>	The end of the nation-state	Internationalization depends on state acquiescence and support	Globalization transforming state power and world politics

<sup>18</sup> - Held, D., McGrew, A., et.al. - Global Transformations: Politics, Economics and Culture, *Cambridge: Polity, 1999*

### 1.1.1 Hyperglobalists

Hyperglobalist thesis mostly stands upon the neoliberal and neo-Marxist ideas. Therefore hyperglobalists view globalization as the highest stage of capitalism development. The rise of global economy, the emergence of non-state, transnational actors and the emergence of institutions of global governance leads most of the hyperglobalists to argue that there is sufficient evidence about the beginning of completely new world order, which demises traditional nation-states. From their perspective, nation-states have become deviant business units in global economy.<sup>19</sup> Keniche Ohmae argues that the single global market and economic regionalism has already limited the role of nation-states. For him, it is more likely that city-states e.g. New York, Honk-Kong, London, etc. will replace nation-states in the future.

It is obvious, that Hyperglobalist thesis is limited only to the logic of economic globalization. Most of the hyperglobalists believe that it is exactly economic globalization that is the driving force of the world developments, which is constructing new forms of social organization to substitute traditional nation-states as the primary units of the world society. They argue that the establishment of transnational networks of production and transnational trade and finance leads to decentralization of world economies. Their argument is often backed up by their observation that while transnational business is broadening its geographic areal, it is becoming the owner of what was the belonging of nation-state before. As corporations buy industrial property, natural resources, real estate and movable property, hire local work forces, the local wealth of that country is transferred to foreign private owners, that enhances and enriches transnational companies, while weakens nation-states.

There is also a conviction among hyperglobalists that with the process of multinational activities being transferred to the developing countries, greater interdependence is reached

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<sup>19</sup> - Ohmae, K. - *The End of the Nation State: The Rise of Regional Economies*, New York: Free Press, 1995



between the developed North and the developing South. This observation leads most of the hyperglobalists to the assumption that there is the rising of a new global division of labour.<sup>20</sup>

Hyperglobalist view is connected with the spread of transnational activities. They believe that transnational companies are shadowing nation-states with their accumulated wealth and with the activities that they carry out across the borders. Foreign private entities carry out transnational transactions – they buy and own local wealth of different countries and they are becoming those who provide work for the local people. This is the core argument of the Hyperglobalist thesis.

In response to this view, it can be argued that so far, transnational companies do not represent independent cosmopolitan units on the global level, but on the other hand, can be understood as the expression of business interests of concrete countries in a global context. It would be a mistake to neglect that the wealth and income of the transnational company, as well as the company itself is part of Gross National Product of the country, where the company is registered. It is difficult to imagine Coca-Cola or Nike as independent global actors, without any reference to USA and its business interests in a global context. Therefore, the thesis shares a view that the outcome of transnational activities is not a sufficient argument for considering the weakening of nation-state. As most of the transnational companies are registered in the industrialized, rich countries of the world, it becomes apparent that in today's world transnational activities make rich countries richer, while making poor countries – poorer as they absorb local businesses in developing countries within the asymmetric conditions of competition.

The more normative dimension of hyperglobalism has been precisely captured by Richard N. Cooper when commenting of Bhagwati:

His [Bhagwati's] main thesis is that economic globalization is an unambiguously good thing, with a few downsides that thought and effort can mitigate. His secondary thesis is that globalization does not need to be given a

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<sup>20</sup> - Tadic, T. - The Globalization Debate: The Skeptics, *Panoeconomicus*, 2006 p. 6

‘human face’; it already has one... His conclusion: that the world, particularly its poorest regions, needs more globalization, not less.<sup>21</sup>

### 1.1.2 Skeptics

Skeptics’ vision of contemporary world completely contradicts the one of the hyperglobalists. There is even no agreement between them about the unprecedented nature of globalization. They totally neglect the hyperglobalist belief in the rising of new global epoch in human history.

Skeptics neglect the explanatory and predictive value of the term ‘globalization’ itself and instead consider contemporary affairs in terms of intensified internationalization of economy and regionalization (evident in formation of regional blocs). For some of the skeptics, globalization is a constructed myth created by so-called Washington consensus, which refers to the alliance of the United States’ government, the International Monetary Fund and the World Bank and which is oriented towards hiding US hegemonic project and expanding neoliberal policies throughout the world<sup>22</sup>.

Skeptics completely neglect the existence or rising of a *global economy* and talk about the *internationalization* of economic activities. As a methodological tool, they take ideal-type constructions of *global economy* on the one hand and *international economy* on the other and draw a very visible line between those two. For Hirst and Thompson *international economy* is characterized by an exchange between national economies, whereas *global economy* is associated with well integrated world market. As Kenneth Waltz outlines ‘with

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<sup>21</sup> - Cooper, R. N. - A False Alarm: Overcoming Globalization’s Discontents. Foreign Affairs, Vol 83, N 1 , 2004: pp. 152-153 quoted by Crocker, D. A. in Development Ethics, Globalization, and Stiglitz, To appear in Krausz, M. and Chatterjee, D. (Eds.) – Globalization, Development, and Democracy: Philosophical Perspectives, p. 17

<sup>22</sup> - Tadic, T. - ‘The globalization Debate: The Skeptics’ Panoeconomicus, 2006

integration world would look like one big state'.<sup>23</sup> But skeptics do not see any signs of integrated world. They even question what is global in globalization. As Waltz claims, it is a fact that most of the world is left behind the so-called globalization processes, when he refers to Africa, Middle East, most of Asia, etc. He further elaborates that the degree of participation differs even in various parts of the countries. E.g. Northern Italy might be part, whereas South Italy is completely left out of the processes. Thus he concludes that 'globalization is not global at all, but is mainly limited to the northern latitudes.'<sup>24</sup>

Skeptics also come to disagreement about an unprecedented scale of contemporary globalization. They recall time between 1870 and the World War I and draw a comparison. They take into account that the ratios of trade openness were higher in those times compared to the ones of nowadays. Migration flows were also higher by that time, higher than they are today. Though the gross capital flow today is larger, the real net flows are the same. With these three points, they conclude that the extent of today's globalization (what skeptics call internationalization) is not historically unprecedented and is much less integrated than it was before the World War I.

Skeptics totally neglect the hyperglobalist hypothesis that global economy is taking over the nation-states. They doubt that economic markets can perform the functions of governments to control and manage processes. Some neorealists claim that the world economy is managed by the most powerful countries (often referring to US as the world's hegemonic power. 'Globalization is made in America'- writes Kenneth Waltz<sup>25</sup>) and is depended upon their interests and will. They argue that states are the main agents and the architects of what is called globalization. Besides they outline the impossibility for markets to ever be able to replace the function of governments, because without their controlling and protecting roles there are no prerequisites for integration. For them, national policies and domestic economies are the main determinants of economic affairs. So they conclude that we are far from seeing the end of nation-state. For skeptics the contrary is visible as

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<sup>23</sup> - Waltz, K. N. – 'Globalization and Governance', Columbia University, PS Online, 1999

<sup>24</sup> - Ibid.

<sup>25</sup> - Ibid.

they claim that states are more powerful now with their capacity to effectively manage domestic and international economic activities than they have ever been.<sup>26</sup>

When it comes to the hyperglobalist belief about rising of global civilization, skeptics draw a counter argument and outline the spread of religious fundamentalism, intensifying nationalism and ‘the clash of civilizations’<sup>27</sup>. Besides, skeptics also question the hyperglobalist myth about the transnational corporations and observe that it is very rare that one can find truly transnational corporations, as only very small number of multinational companies reside outside their indigenous countries and their competitive advantage still depends on national innovation systems.<sup>28</sup>

Considered normatively, some Skeptics consider internationalization, economic integration and increased foreign financial investments (the process that is called globalization elsewhere) is bad for the future development of the world especially for the outcomes of North/South dichotomy. As some Skeptics argue these processes push the global South into more poverty, because the governments of poor countries divert human resources and administrative capabilities away from more urgent development priorities such as health care, education and industrial capacity.<sup>29</sup>

### 1.1.3 Transformationalists

In contrast to hyperglobalists, transformationalists build far more moderate assumptions about the globalization phenomenon. Their arguments stand upon the idea that the world is experiencing profound changes, which include significant structural rearrangement of the

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<sup>26</sup> - Hirst and Thompson - *Globalization in Question: The International Economy and the Possibilities of Governance*, Cambridge Polity Press 1999, Robert Gillpin – *Global Political Economy*, Chapter 1. Princeton University Press, 2001. Held et.al - *Global Transformations: Politics, Economics and Culture*, Cambridge Polity 1999. Waltz K. N. – ‘Globalization and Governance’, Columbia University, PS Online, 1999

<sup>27</sup> - Huntington, S. – *The clash of civilizations*, *Foreign Affairs* Vol 72, N 3, 1993

<sup>28</sup> - Tadic, T. - *The Globalization Debate: The Skeptic*, *Panoeconomicus*, 2006

<sup>29</sup> - Rodrik, Dani - *Trading in Illusions*, *Foreign Policy*, Vol 123, 2001, pp. 54-62

fundamental principles of organization of social life.<sup>30</sup> The distinction between domestic and international is becoming vague in economics, social and political processes that are changing life experiences of people.

As a response to skeptics, Held et. al. argue that contemporary globalization is historically unprecedented.<sup>31</sup> There may have been intensified trade and migration between Asia, Middle East and parts of Europe in pre-modern times, but the volume and intensity of growing technological and political changes of contemporary world, like global media communications, economic interdependence or other is unprecedented. Held et. al. argue that skeptics are mere empiricists, because they use statistical evidence to reject globalization thesis, where more qualitative approach, evidence and analysis is necessary. E.g. migration and trade in pre-modern times could have been more intense in terms of quantitative indicators, but the qualitative impact of migration, trade, politics, culture are greater in contemporary world. The argument of transformationalists is that quantitative indicators do not necessarily demonstrate qualitative change.

One of the main thesis of transformationalists is the transformation of basic coordinates of time and space – ‘a space-time compression’ and ‘supraterritoriality’<sup>32</sup>. The production, exchange and consumption are growing apart from territorial boundaries of geography. Every-day activities have acquired a new dimension, which is reflected in rapid expansion of transactions across remote locations in ‘real time’. This does not mean that transformationalists neglect territorial boundaries. They acknowledge the importance of boundaries, but they question whether they are primary makers of modern life. They believe that the consequence of economic globalization and strengthening mechanisms of global governance have caused reconstruction of the power and authority of national governments. They outline that states are no longer the only important actors of international politics. But unlike hyperglobalists, they don’t imply that state is

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<sup>30</sup> - Held, D. and McGrew, A. (eds.) *The Global Transformations Reader: An Introduction to the Globalization Debate* (Cambridge: Polity Press), 2003

<sup>31</sup> - Held, D. (et al), *Global Transformations: Politics, Economics and Culture* (Cambridge: Polity Press), 1999

<sup>32</sup> - Scholte, J. A - What is “Global” about Globalization?, *Globalization – A critical Introduction*, *Palgrave Macmillan*, 2000

disappearing. On the contrary, they acknowledge that in some segments, state activities have even increased. As Keohane believes the traditional concept of sovereignty in its absolute, indivisible and territorially exclusive form is radically transforming.<sup>33</sup> So, transformationalists view states more like agents that are legally sovereign but reconstituted in regional and international organizations that lead to the diffusion of state authority.

Transformationalists criticize both hyper-globalists and skeptics for reducing the world to a single, fixed ideal type. For them, to reduce the world to global or non-global types is a wrong approach. Giddens argues that skeptics are narrowing their vision only to economic logic. Thus, transformationalists emphasize equal importance of other dimensions that structure social life like - political, cultural, military, environmental, etc.

Besides, in contrast to skeptics and hyperglobalists, transformationalists believe that the future direction of globalization is not linear with a certain future end-point. They rather emphasize that future is unclear especially that different factors and decisions of governments, transnational corporations, civil society organizations and movements can influence further direction. That is why they emphasize that globalization is neither good nor bad, but can be pushed in both directions. Herewith, they outline that it is just a matter of choice to humanize and democratize globalization.

## 1.2 World Order and Emergence of “Global Polity”

Various schools of thought and scholars of International Relations (IR) have come to agree that the world is anarchic in the sense that there is no centralized supreme government ruling over it and that it does not exclusively presuppose anarchy in the sense of disorder. There is still order maintained in the world but how? This is the point where scholars disagree most. The contribution made by the so-called English School of IR theory and its

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<sup>33</sup> - Keohane, R. O. and Nye Jr., J. S. – Introduction, Governance in a Globalizing World. *Brookings Institution Press*, 2000

proponent, Hedley Bull to the study of order is very important. In his 1977 work *'The Anarchical Society, A Study of Order in World Politics'*, Bull gives conceptual clarifications of order at three different levels: in social life, on international and world levels. Bull's differentiation of International order from world order falls within the theoretical scope of this study. On the one hand, International order means order between states, as primary actors of international system to achieve their primary goals, one of which is preserving the international system itself<sup>34</sup>. Whereas with World Order Bull implies order within mankind as a whole, wider than *International Order* which includes 'domestic and municipal scale, provided within particular states and with order within the wider world political system of which states system is only part'<sup>35</sup>. Besides, Bull differentiates *International society* – which is interaction of states with one another through the elements of society, from *World Society* which according to Bull is 'not merely a degree of interaction linking all parts of the human community to one another, but a sense of common interest and common values on the basis of which common rules and institutions may be built. The concept of world society in this sense, stands to totality of global social interaction as out concept of international society stands to the concept of the international system'<sup>36</sup>. As Buzan clarified later, world society segment is aimed at socially constructed non-state system, but herewith criticized the fact that academic literature has not well worked out the question on what is its physical counterpart.<sup>37</sup>

Although, the importance of the study to the IR theory is undeniable, if *'The Anarchical Society'* was about to be written in the 21<sup>st</sup> century, the conclusions of the study might have been different. While Bull was giving possible alternative paths to future world order, Europe was still in its very early stage of integration. Nevertheless, the predictions that European Integration 'would have novel and beneficial effects on International order' as it would contribute to the peace within Europe and will demonstrate to the world how states

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<sup>34</sup> - Bull, H.– *The Anarchical Society, A Study of Order in World Politics*, 1977, 2<sup>nd</sup> edition, Macmillan Press LTD, 1995. p. 16

<sup>35</sup> - Ibid. p. 21

<sup>36</sup> - Bull, H. – *The Anarchical Society*,... p. 279

<sup>37</sup> - Buzan, B. - *From International to World Society? English School Theory and the Social Structure of Globalization*, *Cambridge studies in International Relations*, 2004, p. 27

are submerging sovereignty voluntarily' - existed even by then.<sup>38</sup> Being probably too much state-centric, all the possible alternatives that he identified, led Bull to skepticism towards the idea that importance of sovereignty might be in decline. Because of this reason, though identifying and differentiating between International and World Society, accent was made on the first one. Barry Buzan criticized this preference, considering Bull directly responsible for further ignoring and marginalization of sub-global level and International political economy within the English School Theory. In his work '*From International to World Society? English School Theory and the Social Structure of Globalization*' Buzan introduces an ambitious attempt to give social structural interpretation to the theory, and identifying the capacity of the English school to even 'handle the idea of shift from balance of power and war to market and multilateralism as dominant institutions of International Society'<sup>39</sup>. Taking social constructivist approach, he recalls how the *Westphalian* states system came into being and how its key institutions (sovereignty, territoriality etc.) of European political model became universally accepted. As he outlines some had copied from Europe, 'others had it imposed on them by the process of decolonization,'<sup>40</sup> but it became shared throughout the globe, either through calculation, coercion or belief. 'It is perfectly clear that global scale interstate society exists on the basis of effectively universal acceptance of basic Westphalian institutions such as sovereignty, territoriality, diplomacy and international law,'<sup>41</sup> with sovereignty being the primary 'guard' of the states system.

Globalization processes of late 20<sup>th</sup> century, information revolution and technological advancements gave rise to non-state actors, which make the world more susceptible to the shifting the emphasis from *international order*, to *world order* as a whole. The rise of global civil society and transnational corporations opened up the necessity and the hope for better organized and connected world. But as Buzan observed the ambiguity with *World*

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<sup>38</sup> - Buzan, B. – *From International to World Society?* ... p. 255

<sup>39</sup> - Ibid. p. 3

<sup>40</sup> - Ibid. p. 216

<sup>41</sup> - Ibid. p. 208



*society* is the result of its lack of ‘*world system* counterpart’ in contrast to *International society* and *international system*, which compose a clear set.<sup>42</sup>

For Buzan, who attempted to broaden the space of English School, the sub-global level is crucial in understanding the social structure of International system. With the emphasis on the regional level, he broadened the room for discovering where the Westphalian states system may be evolving into. He identified significant processes taking place on a regional level, which supports the foresight of the transition from International to World Society, thus from Westphalian to post-Westphalian World Order. His ideas somewhat echo the provision in academic literature on New Regionalism that suggests regional groupings as possible defining elements for the future world order. As Hettne assumed, there is a probability that – ‘world regions rather than nation-states may in fact constitute basic units in a future multilateral world order.’<sup>43</sup>

Keohane and Nye’s *Complex Interdependence Theory* can also be seen as proposed model of *World System* that theorizes the ‘second-order pluralism’ of the world society. *Complex Interdependence Theory* recognizes existence of different state and non-state actors of international relations and their political, economic as well as cultural, ecological interdependence. The proponents of the theory acknowledge that the structure of international system is not monopolistic. There is diversity in international relations that cannot be limited to military security of the states, as economic and social factors can be the primary components of the interests of actors.<sup>44</sup> The idea behind includes the possibility that interdependence and cooperation might become so natural and necessary that the origins of the war can be restricted by itself. The theory represents an ideal concept of abstracting from reality, but many people start to acknowledge the increase of interdependence. Even such a realist proponent as the US former secretary of state H. A. Kissinger acknowledged back in 1975 that ‘the world has become interdependent in

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<sup>42</sup> - Buzan, B. – From International to World Society?... p. 27

<sup>43</sup> - Hettne, B. – *Global Market versus the New Regionalism*, The Global Transformations Reader: an introduction to the globalization debate, Held, D. and McGrew, A. (Eds.) Polity Press 2003, p. 359

<sup>44</sup> - Keohane R.O. and Nye J.S. – Power and Interdependence, 2<sup>nd</sup> edition. Scott, Foresman and Company, Glenview, 1989, pp. 25-28

economics, in communication and human aspirations.<sup>45</sup> Nevertheless As Keohane and Nye clarify it is not the end of politics, as power is still important. 'Even in domains characterized by complex interdependence, politics reflects asymmetrical economic, social and environmental interdependence, not just among states but also among non-state actors and through transgovernmental relations.'<sup>46</sup> This concept highly corresponds to Bull's concept of *World Society* and may correspond to the '*World System*,' the missing counterpart of '*World Society*' *segment* that has been discussed in the beginning of this chapter.

The missing *World System* also represents the ideal of cosmopolitan thinkers who introduced theoretical abstractions for the better organized world. The theory of Cosmopolitan Democracy and more recent one - the theory of Global Stakeholder Democracy - has introduced one of the most distinct and ambitious projects of the *World System* outline, ideal vector for the better organization of the *world society*.

All the above mentioned theories and predictions have not emerged from an empty place. Globalization has evoked transformation that is taking place on a global level, which is also evident with the emergence of global polity.

States are important actors in world politics, but the fact that they have been joined by different actors on global level can be understood as an indicator of transformation of world politics. Despite the fact that it is a contested terrain, the influence and power is diffusing between states, international organizations such as IMF, World Bank, WTO, etc. and different regulatory bodies that are expanding the public sphere. The very idea of global governance itself should be understood as normative response to various challenges that globalization brought with it. This indicates a globalization of political life as well. The fact that different non-state and private actors are trying to realize their interests at multiple levels, already makes them players in the polity.

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<sup>45</sup> - Speech by Kissinger H. A. – A New National Partnership, News Release, Department of State, office of media services. 1975 p. 1

<sup>46</sup> - Keohane R.O. and Nye J.S – Globalization: What's New? What's Not? (And So What?), *Foreign Policy*, Spring, 2000. pp. 104-19

Brassett and Higgott emphasized three elements that claim for the emergence of ‘global polity’:

1. The most obvious element is the growing political interconnectedness, but in contrast to traditional understandings of international society, the interconnectedness should be understood not only between states, but also supra-, sub-, and non-state actors.
2. There are growing networks of global regulation and decision-making platforms where policies of global nature are made. The institutions of global governance, IMF, WTO, World Bank, together with institutions of private and non-state regulation are included in this category. The fact that these institutions can influence economic fortunes of states refers not only to economic relation, but to political as well.
3. The third element is connected to the Robertson’s definition of ‘globality’, which he defined in the context of awareness about ‘the world as a single place’<sup>47</sup>. So the third element that has been named is the growing sense of “community” that is developing beyond the category of states. By this authors do not suggest the emergence of common set of global values, but the growing thinking about the world as a wholesome space where different values can legitimately contest one another.<sup>48</sup>

It is true that the states and non-state actors mostly disagree about the norms and values that are emerging in practice, but this very fact that they contest about the nature of the principles in global gatherings or global assemblies leads Brassett and Higgott to argue that intended or not, this contest has a consequence of furthering the development of ‘global polity’.

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<sup>47</sup> - Robertson, R. - *Globalisation, Social Theory and Global Culture*, London: Sage, 1992, p. 132

<sup>48</sup> - Brassett J. and Higgott R. – Building the normative dimension(s) of global polity, *Review of International Studies* 29, 2003, pp.29-55

### 1.3 Global Poverty and Social Inequality

Transnational capital and the balanced expansion of democracy around the globe, together with the still preserved national territorial boundaries should have become one of the best models for the development trajectory of the world. But the changes that globalization shaped have not turned out to be without its disadvantages. Many believe that globalization is correlated with the deepening gap between the developing and the developed world and that under globalization processes the economic and social inequality and the imbalance has been gradually broadening. In 1999 Kofi Annan asserted – ‘Globalization is a fact of life. But I believe we have underestimated its fragility. The problem is this. The spread of markets outpaces the ability of societies and their political systems to adjust to them, let alone to guide the course they take.’<sup>49</sup> On the other hand there are scholars who claim contrary to the abovementioned propositions, and suppose that the process of globalization has helped to reduce poverty and social inequality.

The topic on whether global poverty and inequality are getting worse with the globalization has often been debated. Like in the case of Robert Wade and Martin Wolf, who launched an open academic discussion on the topic known as ‘Prospect debate’<sup>50</sup>. But the given thesis does not argue for or against any of the positions on this account. The only link between globalization and social inequality that the study outlines concern the globalization of information and the fact that the problems of global poverty and social inequality became more open and visible. The thesis shares the concern of the existing problems but in order to avoid further theorizing on this account, let the facts speak for themselves:

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<sup>49</sup> - UN Secretary General Kofi Annan speech at the World Economic Forum in Davos, 1999. UN Press Release SG/SM/6881, 1 February 1999. Retrieved from:

<http://www.un.org/News/Press/docs/1999/19990201.sgsm6881.html> (Last accessed: 11.04.2011)

<sup>50</sup> - Wade, M., Wolf. M. – Are global Poverty and Inequality Getting Worse?, *Prospect*, March 2002

## **Facts:**

### **Rich Man, Poor Man**

- *The amount of money that the richest 1 percent of the world's people makes each year equals what the poorest 57 percent makes.*
- *The world's 358 billionaires have assets exceeding the combined annual incomes of countries with 45 percent of the world's people.*
- *The richest 5 percent of the world's people have incomes 114 times that of the poorest 5 percent.*
- *The combined wealth of the world's 200 richest people hit \$1 trillion in 1999; the combined income of 582 million people living in the 43 least developed countries is \$146 billion.*
- *The Gross Domestic Product (GDP) of the poorest 48 nations (i.e. a quarter of the world's countries) is less than the wealth of the world's three richest people combined.*
- *A few hundred millionaires now own as much wealth as the world's poorest 2.5 billion people.*

### **Rich Nations, Poor Nations**

- *20% of the people in developed nations consume 86% of the world's goods.*
- *12% of the world's population uses 85 percent of its water.*
- *Globally, 20% of the world's people in the highest-income countries account for 86% of total private consumption expenditures - the poorest 20% account for a minuscule 1.3%. Specifically, the richest fifth (1/5):*
  - *Consume 45% of all meat and fish, the poorest fifth consume 5%.*
  - *Use 58% of the total energy, the poorest fifth use less than 4%.*
  - *Have 74% of all telephone lines, the poorest fifth have 1.5%.*
  - *Consume 84% of all paper, the poorest fifth use 1.1%.*
  - *Own 87% of the world's vehicle fleet, while the poorest fifth own less than 1%.*

*- The cost of providing basic health care and nutrition for all people in the world would be less than the annual cost of pet food in Europe and the United States.*

#### *Rich Corporations, Poor Nations*

*- The annual revenue of Motorola, Inc. is almost equal to the annual income of Nigeria, Africa's second largest economy. This country is almost the size of Europe and has the largest population of any African country – 120 million people.*

#### *Poverty, Hunger*

*- Over 840 million people in the world are malnourished—799 million of them are from the developing world. Sadly, more than 153 million of them are under the age of 5.*

*- Every day, 34,000 children under five die of hunger or other hunger-related diseases. This results in 6 million deaths a year.*

*- Of 6.2 billion living today, 1.2 billion live on less than \$1 per day. Nearly 3 billion people live on less than \$2 a day.*

*- 1.2 billion people lack access to clean water; 2.4 billion live without decent sanitation; and 4 billion without wastewater disposal.*

*- 12 million people die each year from lack of water, including 3 million children from waterborne disease. More than 113 million children in the developing world are without access to basic education; 60 percent of them are girls.<sup>51</sup>*

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<sup>51</sup> -The given data has been compiled by worldcentric.org based on the sources of UN Food and Agriculture Association and Social Watch. Retrieved from - <http://worldcentric.org/conscious-living/social-and-economic-injustice>. (Last accessed 5.05.2013)

## 2. HUMANIZING GLOBALIZATION

The need for humanity to reassert itself against unequal wealth distribution existed even before the term globalization started to become popular. Back in 1963, Franz Fanon wrote that basic confrontation between colonialism and anti-colonialism changed with confrontation between capitalism versus socialism, but these confrontations were losing importance even by then. 'What matters today, the issue which blocks the horizon, is the need for a redistribution of wealth. Humanity will have to address this question, no matter how devastating the consequences may be.'<sup>52</sup> With the spread of globalization, this need has further increased as the problem of social justice became more visible due to the information revolution.

However globalization is perceived, enormous academic literature that has accumulated about globalization has paid very little attention to the normative dimension of globalization or in some instances it was understood as commonly agreed objective.

In international politics we can differentiate two types of norms: 'social' and 'ethical'. 'Social' norms can be attributed more to the states, whereas 'ethical' norms are more understood in regards to human beings. E.g. sovereignty can be regarded as 'social' norm, whereas 'human rights' can be understood as 'ethical' norm.

The anti-globalization riots spreading around from Seattle in 1999 and the belief that globalization might be somehow correlated with the vast income differentials and social injustice urged the necessity of rethinking globalization in more ethical categories and laid

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<sup>52</sup> - Fanon, F. *The Wretched of the Earth*, trans. Richard Philcox, *New York: Grove Press*, 2004, p. 55. quoted in Cheah, Ph. - *Inhuman Conditions: On Cosmopolitanism and Human Rights*, Introduction, Cambridge, MA, USA: *Harvard University Press*, 2006, p. 2

foundation for different academic and political agendas for ‘humanizing globalization’. The notorious banner of 2001 - ‘replace capitalism with something nicer’ - became a motto of thousands of people organized in ‘Occupy movement’ after 10 years. ‘Occupy Wall Street’ started as a protest against social and economic inequalities, criticizing the power and wealth of 1% against 99% in 2011 in New York. But with the new technologies of communication it rapidly spread all around the world and covered 900 different cities in Europe, Asia, America and Africa<sup>53</sup>. ‘Occupy movement’ has been perceived as ‘a very timely warning for all those who are in charge of the processes of governance’<sup>54</sup>. Whatever the outcome of ‘Occupy movement’, its normative effect could soon be felt as discourse on capitalism has been changed, at least a bit, and the concept of “responsible capitalism” started to proliferate in speeches of different leaders<sup>55</sup>:

‘In these difficult economic times I want to achieve more than just paying out a deficit and encouraging growth. I want these times to lead to a more socially responsible and genuinely popular capitalism, one in which the pair of market and the obligation of responsibility really come together; one in which we improve the market by making it fair as well as free and in which many more people get stake in the economy and share the rewards of success. That is the vision of worthwhile economy that we are building; an economy where people who work hard get rewards that are fair and true; an economy where people feel in control of their own destiny, market that will work for all of us to spread wealth, freedom and opportunity.’<sup>56</sup>  
(Emphasis added)

David Cameron, Prime-Minister of UK, January 2012

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<sup>53</sup> - Karla Adam - “Occupy Wall Street protests go global”, Washington Post, October 2011, Retrieved from: [http://www.washingtonpost.com/world/europe/occupy-wall-street-protests-go-global/2011/10/15/gIQA7kimL\\_story.html](http://www.washingtonpost.com/world/europe/occupy-wall-street-protests-go-global/2011/10/15/gIQA7kimL_story.html) (Last accessed: 01.04.2013)

<sup>54</sup> - Manmohan Singh, Prime Minister of India. Reported By NDTV “Occupy Wall Street protests a warning: PM”, 2011, retrieved from: <http://profit.ndtv.com/news/market/article-occupy-wall-street-protests-a-warning-pm-152433> (Last accessed: 01.04.2013)

<sup>55</sup> - Hutton, W. - Words won't change capitalism. So be daring and do something, *Commentary*, Retrieved from: <http://www.guardian.co.uk/commentisfree/2012/jan/22/will-hutton-responsible-capitalism>

<sup>56</sup> - David Cameron on responsible capitalism: 'Free enterprise promotes morality', 19 January 2012, The Guardian, Retrieved from: <http://www.guardian.co.uk/politics/video/2012/jan/19/david-cameron-responsible-capitalism-video> (Last accessed: 01.04.2013)



Many elements of discontent of ‘occupy movement’ are addressed in this small quote from the speech consolidated by the primary principles of social justice.

What started in Seattle in 1999 and what was labeled as *anti-globalization* movement appeared to be a call to *alter* globalization and gave birth to the so called ‘global justice movement’. Though the movement was expected to be fragile, localistic and fragmented, especially in academia, the latest researches reveal the contrary evidence.

Steger and Wilson recently have examined the political ideas of the global justice movement, drawing on data collected from 45 organizations connected to the World Social Forum.<sup>57</sup> As the research showed, the movement displays ideological coherence in the ongoing globalization of ideological landscape of twenty-first century. As authors suggest, the movement expose effectively decontested and broadly agreed core concepts and claims, such as: transformative/paradigmatic change, participatory democracy, equality of access to resources and opportunities, restorative and redistributive justice, etc.<sup>58</sup>

Those who advocate the need for humanizing globalization outline that globalization processes are created by humans but have escaped the grasp of their creators. ‘The inhuman is here understood as a finite limit of man, a defective feature of human existence that is not *proper* to the true end of man but that we have thus failed to control.’<sup>59</sup> Hence, the proponents outline the urgent need for sociopolitical collective regulation of the globalization processes and an urgent return to a value-based system of governance.

The so called capitalist ethics of rich countries helping poor ones have not resulted in increase of global justice, but the contrary is evident. It is a fact that many developing countries are still dependent on official development assistance for daily operations. As Žižek outlines capitalist ethics ‘serve as a humanitarian mask hiding the underlying economic exploitation. In a superego blackmail of gigantic proportions, the developed

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<sup>57</sup> - perceived as a ‘parallel’ forum to the World Economic Forum in Davos, Switzerland.

<sup>58</sup> - Steger, M. B., Wilson, E. K. - Anti-Globalization or Alter-Globalization? Mapping the Political Ideology of the Global Justice Movement, *International Studies Quarterly*, Vol. 56, N 3, September 2012

<sup>59</sup> - Cheah, Ph. - Inhuman Conditions: On Cosmopolitanism and Human Rights, Introduction, Cambridge, MA, USA: Harvard University Press, 2006. p. 2

countries are constantly ‘helping’ the undeveloped (with aid, credits, and so on), thereby avoiding the key issue, namely, their *complicity* in and coresponsibility for the miserable situation of the undeveloped’.<sup>60</sup> In contrast, development ethics resonate with the global justice movement and refer to the process of overcoming economic and social deprivation.

## 2.1 Development Ethics of Joseph Stiglitz

Social inequality and injustice are the main concern and the rising point of development ethics, which attempt to assess globalization – its causes, consequences and potential through moral and ethical lenses. The assessment of development ethicists concerns development at various levels – global, regional, national and local. It outlines ethical principles that should be applied in order to resolve problems of social inequality and bring change that will be ‘socially just’. The basic principles of ethicists mostly concerns justice, liberty, solidarity, democracy and autonomy.

Development can be understood both descriptively and normatively. Descriptively ‘development’ connotes economic growth, increased GDP (per capita), industrialization, increased living standards, etc. Whereas normatively ‘a developed society’ is one which has formed appropriate institutions to realize the goals of society, first of all - overcoming economic and social deprivation. As Denis Goulet, one of the pioneers of development ethics observed, the main task of development ethics is ‘to keep hope alive’<sup>61</sup>.

The normative assessment about the good and bad sides of globalization became the main topic for economist Joseph Stiglitz, being one of the most often cited authors. A Noble

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<sup>60</sup> - Žižek, S. - From Politics to Biopolitics . . . and Back, *The South Atlantic Quarterly* 103:2/3, Spring/Summer 2004, p. 505

<sup>61</sup> - Goulet D. - Development Ethics, in Clark, D.A. (Ed.) - *The Elgar Companion to Development Studies*, Cheltenham: Edward Elgar, 115-121, 2006

Prize winner in economics has been named on the Time's List of Top 100 Most Influential People of the world in 2011.<sup>62</sup>

In assessing globalization, Stiglitz is definitely transformationalist. In contrast to hyperglobalists and skeptics, he believes that 'globalization is neither good nor bad'<sup>63</sup> but he outlines the negative consequences that globalization brought with it. As he suggests, it is because the rich, industrialized countries have shaped globalization for their own good and for the benefit of special interests within these countries.<sup>64</sup> Stiglitz is one among many, who thinks that rich countries and international financial institutions have been violating some basic ethical norms.

Stiglitz addresses some of the main issues of development ethics, which he regards 'development as transformation'<sup>65</sup>. David A. Craig has compiled Stiglitz's vision of 'development as transformation' very concisely:<sup>66</sup>

Considered descriptively, development 'represents a transformation of society'<sup>67</sup>: 'it embraces a movement from traditional relations, traditional cultures and social norms, traditional ways of dealing with health and education, traditional methods of production, to more 'modern' ways.'<sup>68</sup> Rather than accepting the world as it is, the modern perspective acknowledges 'that we, as individuals and societies, can take actions that, for instance, reduce infant mortality, extend lifespans and increase productivity.'<sup>69</sup>

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<sup>62</sup> -Time, 100 Most Influential people in the world, retrieved from:  
[http://www.time.com/time/specials/packages/article/0,28804,2066367\\_2066369\\_2066440,00.html](http://www.time.com/time/specials/packages/article/0,28804,2066367_2066369_2066440,00.html) (Last accessed 18.04.2013)

<sup>63</sup> - Stiglitz, Joseph – "Globalization and its Discontents", W.W. Norton, New York, 2002. p. 20

<sup>64</sup> - Stiglitz, Joseph – "Ethics, Markets and Government Failure and Globalization", 2003. p. 18

<sup>65</sup> - Stiglitz, Joseph – "Towards a New Paradigm For Development", 9th Prebisch Lecture, United Nations Conference on Trade and Development, Geneva October 1998

<sup>66</sup> - Crocker, D. A. – "Development Ethics, Globalization, and Stiglitz, To appear in Krausz, M. and Chatterjee, D. (Eds). – Globalization, Development, and Democracy: Philosophical Perspectives, Lanham, MD: Rowman & Littlefield, forthcoming, p. 26

<sup>67</sup> - Stiglitz, Joseph – "Towards a New Paradigm ... p. 5

<sup>68</sup> - Ibid.

<sup>69</sup> - Ibid.

Considered normatively, ethically-based development assumes that individuals should engage in collective action that results in ‘sustainable, equitable and democratic growth’<sup>70</sup>: ‘Development is about transforming societies, improving the lives of the poor, enabling everyone to have a chance at success and access to health care and education.’<sup>71</sup> Such transforming action will require, among other things, a ‘systematic change’ in global, national and local institutions.

Stiglitz draws his moral vision of fundamental obligations that development agents and political institutions should have at all levels. He names and outlines the importance of basic ethical principles for the transformation: responsibility, fairness, transparency, social justice and externalities.

The first ethical principle that he draws is **responsibility** which as Stiglitz outlines is ‘an ethical norm that individuals should take responsibility for their own actions and for the consequences of those actions.’<sup>72</sup> Stiglitz argues that individuals and societies can take actions. They are the agents who should decide of their own destiny by themselves, but should be held responsible and morally accountable for those actions.<sup>73</sup> So Stiglitz suggests that we should understand individuals as reasoning beings who think, value, decide and act.

Secondly, Stiglitz outlines the importance of **social justice**. He outlines the duty of institutions to care for the poor and to reduce poverty. Every year about 18 million people die because of poverty. Every year about 12 million people die because of the lack of water, including three million children who die because of waterborne disease. Ethicists address these problems and together with other human rights activists outline the basic right of individuals is to have a minimally decent life. Here Stiglitz emphasizes that for having a minimally decent life one should have health, education and employment possibilities.

Another principle is the duty of institutions mainly national governments **to protect life and provide security** for human beings. Besides, Stiglitz talks about principle of **fairness**.

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<sup>70</sup> - Stiglitz, J, - Globalization, xi

<sup>71</sup> - Ibid. p. 252

<sup>72</sup> - Stiglitz, J. – Ethics, Economic Advice, and Economic Policy, p. 2.

<sup>73</sup> - Stiglitz, J. – Globalization, xii

He emphasizes non-discrimination on the basis of gender, race or religious beliefs all of which he considers as morally irrelevant.

Stiglitz names **transparency** as important ethical principle and talks about the duty of all institutions whether public or private at all levels to be transparent. People have the right to have information about what the governments or other public institutions are doing. As Stiglitz observed, most governments and international financial institutions choose secrecy, because this way it becomes easier to hide mistakes, avoid criticism and leaves space to favor special interests.<sup>74</sup> Secrecy opens door to corruption and undermines democracy. Stiglitz is among those who by democracy mean not only voting, but also public discussion and participation. ‘Meaningful participation in democratic processes requires informed participants’<sup>75</sup> in ‘which different views and voices are heard and taken into account’<sup>76</sup>. Stiglitz further elaborates on the importance of public participation and deliberative processes. ‘Individuals should participate meaningfully in the decisions concerning the collective actions that have such profound effect on their lives and livelihoods.’<sup>77</sup> For Stiglitz, participation and democratic deliberation are necessary for the development to be socially acceptable and sustainable. Without participation, decisions are imposed from above, be it by government or IFIs. People have basic values that can not be forced from above or outside to be changed. The change should be sequenced, slow-paced and should not try to be like ‘shock therapy’ as societies have to transform without destroying their cultural identities.<sup>78</sup>

The above mentioned ethical principles can be observed at the core of EITI Initiative that I will further elaborate later on in the empirical part of the study. But before that several theoretical projects of ‘humanizing globalization’ will be offered.

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<sup>74</sup> - Stiglitz, J. – On Liberty, the Right to Know, and Public Discourse: The Role of Transparency in Public Life, in Gibney, M. J. (Ed.) – Globalizing Rights: the Oxford Amnesty Lectures 1999, *Oxford: Oxford University Press*, 2003 pp.130-136

<sup>75</sup> - Ibid. p. 135

<sup>76</sup> - Stiglitz, J. – The Roaring Nineties: A New History of the World’s Most Prosperous Decade, *New York: W.W. Norton*, 2003

<sup>77</sup> - Stiglitz, J. – On Liberty ... p. 156

<sup>78</sup> - Stiglitz, J. – The Roaring Nineties ... xiii

### 2.3 Three Projects of Humanizing and Democratizing Globalization

Humanizing globalization has mostly been connected with transnational democratization and expansion of deliberative democratic institutions at global level. The starting point for the theories that address this topic emphasize that current systems of global governance still remain unrepresentative of the needs of those who are mostly affected by global decisions. The question of how to expand deliberative and democratic practices beyond nation-state has been addressed by different theoretical projects in academic literature. Theories of Deliberative Democracy, Cosmopolitan Democracy and Multi-Stakeholder Global Democracy, among others, address this same question and offer a distinct and ambitious normative agenda for achieving broadened political inclusion and public participation on global level. 'Each account [on transnational democratization] is rooted in a political cosmopolitanism which seeks to prescribe general principles, structures and practices essential to the construction of a more humane world order in which peoples needs come to take precedence over the interests of states and their geo-political machinations.'<sup>79</sup> Each of the three theories chosen for analysis can be used for elucidating different aspects of global discourse on transparency and all three are linked with democratic potential of MSGRSs that reaches far beyond nation-states.

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<sup>79</sup> - McGrew, A. - Transnational Democracy: Theories and Prospects, In, Stokes, G., Carter, A. (Eds.) *Democratic Theory Today: Challenges for the 21st Century*. Cambridge, UK Polity Press, 269-294. 2002

### 2.3.1 Deliberative Theories

The discussion about transnational deliberation and global deliberative democracy has increased over years. Deliberation is a process of public reasoning aimed at finding decisions on how to solve shared problems. The theory emphasizes the moral worth of individuals as political agents and outlines the right of equal access to debating policies and public decision-making processes that they should have. Deliberative theories are mostly concerned with a need of legitimizing political decisions. So, they advocate decision-making processes to be based on mutual understanding, publicly expressed reason and broadened political inclusion.<sup>80</sup> 'What distinguishes the theory and unites its proponents is a common commitment to the notion that political decisions are better made through deliberation than wealth or power, as well as to the ideal that participation in deliberative judgments should be as equal and widespread as possible.'<sup>81</sup> The main emphasis of deliberative theories is on broadening the process of public reason and enabling collective decision-making.

Current systems of governance are often characterized by asymmetrical power relationships and process of private interest maximization. By increasing deliberative public reason, it is argued that public policy will become more efficient and legitimate. First of all, this means that 'deliberation ought not be left to political representatives and other elites, but encouraged more widely within society'<sup>82</sup>.

Normative position of deliberative theorists is close to those of development ethicists. Deliberative theories have three main principles at its core: First is the ideal that individuals should have opportunities to influence decisions that affect their lives.<sup>83</sup> Second,

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<sup>80</sup> - Fishkin, J. - *Democracy and Deliberation*, New Haven: *Yale University Press*, 1991

<sup>81</sup> - Smith, W., Brassett, J. – *Deliberation and Global Governance: Liberal Cosmopolitan and Critical Perspectives*, *Ethics and International Affairs*, 22:1, 2008

<sup>82</sup> - Rosenberg, Sh. *An Introduction: Theoretical Perspectives and Empirical Research on Deliberative Democracy* in Rosenberg, Sh. (Ed.) *Can the people Govern: Deliberation, Participation and Democracy*, New York: *Pelgrave*, 2007

<sup>83</sup> - Habermas, J. – *Three Normative Models of Democracy*, in Benhabib, S. (Ed.) *Democracy and Difference*, Princeton: *Princeton University Press*, 1996

deliberative process should provide equal opportunities, so it should guarantee ‘a free and equal agreement among equals’<sup>84</sup>. Third, decisions should be result of legitimate process of public reason and should be acceptable by all stakeholders involved.<sup>85</sup>

While in the beginning, theorists were mostly concerned with deliberation at national and local levels, now they emphasize the need for transnational democratization.

At transnational level, deliberative theorists are concerned with the discursive sources of existing systems of global governance and the role of transnational civil society ‘in establishing deliberative democratic control over the terms of political discourse and so the operation of governance in the international system’<sup>86</sup>. As Dryzek, one of the proponents of theory suggests, realization of transnational democracy is possible upon a recognition that ‘the essence of democratic legitimacy is to be found not in voting or representation...but rather in deliberation.’<sup>87</sup> The main emphasis of theory rests upon the idea that stakeholders should have the right to a voice and should be heard as they are the ones who are affected and who hold stake in a given matter. Besides, the emphasis on stakeholders suits the world of overlapping communities of fate where exercise of power does not fit into territorial boundaries any more.<sup>88</sup>

In contrast to liberal representative democracy, where demos is defined in the context of concrete territorial boundaries, deliberative democracy views demos independently of territorial or cultural boundaries. As Dryzek outlines deliberation ‘can cope with fluid boundaries and the production of outcomes across boundaries. For we can look for democracy in the character of political interaction...without worrying about whether or not it is confined to particular territorial entities’.<sup>89</sup>

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<sup>84</sup> - Cohen, J. – Deliberation and Democratic Legitimacy, in Bohman, J., Rehg, W. (Eds.) *Deliberative Democracy*, Cambridge, MIT Press, 1997

<sup>85</sup> - This idea is found in works of most of the deliberative theorists

<sup>86</sup> - Dryzek, J. S. - *Deliberative Democracy and Beyond*. Oxford, Oxford University Press, 2000, p. 138

<sup>87</sup> - Dryzek, J. S. - Transnational democracy. *The Journal of Political Philosophy* 7(1): pp30-51, 1999

<sup>88</sup> - Ibid.

<sup>89</sup> Dryzek, J. S. - *Deliberative Democracy and Beyond* ... p. 129



### 2.3.2 Cosmopolitan Democracy

The rise of different social and environmental problems which do not fit into territorial boundaries and the fact that social activities and relationships no longer stop at the 'water's edge', have to some extent, caused the erosion of state's capacity to deal with many of the demands that global reality imposes.<sup>90</sup> The lack of state's ability to effectively manage relationship on global level have contributed to the rise of a myriad of sophisticated supranational and transnational actors and institutions, which raised the demand for global governance, where the task of governance is shared by non-governmental organizations, citizen's movements and transnational corporations in addition to states and intergovernmental organizations. 'The process of supranationalization and transnationalization is closely linked with (...) the increasing politicization of global governance.'<sup>91</sup> As Daniele Archibugi, one of the key thinkers of Cosmopolitan Democracy theory suggests, - 'Politicization should be understood as a process in which societal actors, be they organized at the national or transnational level, make increasing demands on governance beyond the nation state.'<sup>92</sup> But governance is usually associated with the need for legitimacy, in order to form symmetry between decision-makers and those who are affected by them. The relocation of authority 'outwards to trans-national and supranational organizations, sideward to social movements and NGOs, and inwards to sub-national groups'<sup>93</sup> created asymmetrical power relationships, without almost any accountability. This is the main departure point for the theory of cosmopolitan democracy, which

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90 - Held, D. - "Democracy and the Global Order. From the Modern State to Cosmopolitan Governance", Oxford: Polity Press, 1995. p.145

91 - Archibugi, D., et al. - "Global Democracy: A Symposium on a New Political Hope", New Political Science 32:1, 2010. p. 101

92 - Ibid.

93 - Rosenau, 1997, quoted in Axtmann, R. - Globalisation, Governance and Democracy, in Milardovic, A., Paukovic, D., Vidovic, D. (Eds.) Globalization of Politics, *Political Science Research Center Zagreb*, 2008

emphasizes the need for the practice of democratic governance in the context of globalization at a variety of levels and draws the conditions for such possibility.

In the context of globalization David Held introduced the institutional and normative basis of the world system of democratic governance. 'A cosmopolitan democracy describes a world where citizens must come to enjoy multiple citizenships. They are citizens of their own communities, of the wider regions where they live, and of a cosmopolitan global community.'<sup>94</sup> But the theory and its proponents have usually been criticized for the utopist nature of the abovementioned model. 'Held is at his best when he theorizes either the *global reality of contemporary affairs* or *the ideal of a cosmopolitan future*. But it is the *road between* that is the most challenging and vital. (...) [H]e does not provide an adequate explanation of the politics entailed in achieving this end in the context of vigorous dissent and extreme asymmetries of power.'<sup>95</sup>

As globalists look at contemporary state of the increasingly globalized world, they conclude that political, military and economic actions have transnational effect. With the new challenges of terrorism, poverty, ecological disasters, climate change etc., the growing number of issues can not be handled on the nation-state level, which for them challenges Westphalian order and makes the world much more sensitive. On the other hand, cosmopolitan ideal of global democratic governance, inter alia, suggests the formation of cosmopolitan democratic law and either the establishment or transformation of UN into a directly elected global parliament. Scholars rarely doubt that nation-states will lose privileges or cease to exist, especially that cosmopolitan future is still a remote dream. The theory of Cosmopolitan Democracy acknowledges the complexity of the contemporary world and in contrast with hyperglobalists it also outlines the necessity of nation-state type of organization. It views certain policies as appropriate for local governments or national states, others as appropriate for different regions, and still others— such as the environment, world health, and economic regulation, that need new institutions to address them. Nevertheless, critics point out, that the road in between is missing. The central

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<sup>94</sup> - Held, D. – Globalization and Cosmopolitan Democracy, *Peace Review* 9:3, 1997, p. 309

<sup>95</sup> - Lupel, A. – Tasks of Global Civil Society: Held, Habermas and Democratic Legitimacy Beyond the Nation-State, *Globalization*, May 2005, Vol.2, N 1, p. 122.

obstacle for all the possible vectors, seem to be the lack of the common political culture or political community on global level, the creation of which, according to cosmopolitan democracy theory is possible ‘upon a fundamental agreement over the need to regulate association by democratically legitimate law on a global scale.’<sup>96</sup> But critics of the theory argue that currently none of the actors on the international arena – states, people or transnational corporations - would participate in such an agreement, as none of them have an immediate interest in the transnational democratization of power. But for Held the problem that nation-states, even the most powerful ones, no more have enough capacity to regulate international or transnational relations alone, remains open.

How to democratize power on global level and how to arrange transnational relations between different states, transnational corporations and people is the question that Terry Macdonald, professor at Monash University in Australia recently addressed with her ambitious theoretical project of Global Stakeholder Democracy.

### 2.3.3 Global Stakeholder Democracy

Terry Macdonald recently addressed the topic of drawing out reformist strategy for achieving democratic legitimacy at global level. She introduces an institutional strategy for global democratic reform, labeling as ‘Global Stakeholder Democracy’<sup>97</sup>. Having a closer look at her ideas, one might argue that she proposes a more realistic structure for democratization of global politics, which can be seen as an adequate response to the concerns of transformationalists. She suggests that global democratic deficit is caused by a ‘system-level disjuncture’ within the global political order. Namely, she raises the questions of how fundamental aspects of democratic political system – the agencies through which ‘public’ political power is exercised, and the communities that engage in collective

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<sup>96</sup> - Lupel, A. - Tasks of Global Civil Society: Held, Habermas and Democratic Legitimacy Beyond the Nation-State, *Routledge, Globalizations*, Vol.2, N 1, May 2005, p. 122

<sup>97</sup> - Macdonald, T. - Global Stakeholder Democracy: Power and Representation Beyond Liberal States, *Oxford University Press, New York*: 2008

democratic decision-making – fit together as a whole. As public power at global level is divided between multiple actors – states, international organizations, corporations and NGOs, which comprises highly ‘pluralist’ structure of global power, she advocates the need for adequate democratic institutions, through which these agencies could be subject to democratic political control. As the problem that she draws is ‘system-level’, she offers three distinct political strategies for remedying the democratic deficit:

The first option will be appealing to nationalists, as it suggests restriction of any significant public power to be wielded beyond the state boundaries. As we have discussed above, this is not the case in the globalized world with powerful transnational actors. Therefore the reform that will be needed is to restructure and strengthen the authority of weak state institutions. First of all, this will mean consolidation of primary institutions of Westphalian world order- strengthening state sovereignty and territoriality. The recent history has more or less seen this kind of scenario, which has been challenged with the globalization of markets and social structural changes through technological or information revolution.

Another option that Macdonald proposes refers to cosmopolitan ideal that we have discussed before, which advocates the necessity to create new normative standards and global and transnational institutions to implement the cosmopolitan goals, such as e.g. social justice and democratic decision-making at global level. But, herewith she draws out the problem that both of these approaches are associated with – the need for major transformations in pluralist structure of global public power and ‘massive undertaking in social engineering’. Therefore, she presents an intermediate approach, which can be seen as a ‘middle ground’ between the two. To leave the global public power in its existing framework of pluralist structure without further reform, she proposes establishing new mechanisms for collective decision-making and political control within the transnational communities affected by powerful transnational actors aimed at making powerful agencies democratic and accountable to their stakeholders – to those that they affect.

Traditionally, those who suggest that democratic practices can only be exercised in the nation-state type of political organization, advocate the benefits of electoral mechanisms,

which guarantee political equality on the basis of 'one individual one vote' and thus deliver democratic legitimacy. Macdonald (among others) argues that on global level, electoral mechanisms lack the possibility to deliver equivalent legitimacy, because of the pluralist stakeholder system, in which individuals hold differentiated 'stakes' in particular political decisions. On the question, whether the ideal Global Stakeholder Democracy stretch the concept of democracy too far to call it democratic, Macdonald leans upon W.B. Gallie's observation, stating that 'democracy is a paradigmatic case of an 'open' political concept, insofar as ideals of democracy must inevitably change and adapt in keeping with the empirical constraints of particular historical epochs.'<sup>98</sup> Therefore, the conception of Global Stakeholder Theory promotes the idea of developing multi-stakeholder deliberative decision-making mechanism which can establish deliberative democratic control.

On the other hand, beyond academic literature, in practice of global regulation a new term, coined as Multi-Stakeholder Processes started to proliferate. The term multi-stakeholder process (MPS) refers to the process which aims to bring together all major stakeholders in a new form of communication, decision-finding and decision-making on a particular issue. They are aimed at achieving equality and accountability in communication between stakeholders to develop partnership between three or more stakeholder groups. The main foundation of this processes stands upon democratic principles of transparency and participation. 'While cosmopolitan models of global democracy may have certain normative advantages over the stakeholder model at the level of 'ideal theory', the stakeholder ideal equips democrats with a more immediately practicable strategy for advancing the project of global democratization.'<sup>99</sup>

The need for global regulations is well evident in the spread of self-regulatory schemes of transnational companies or other business associations and the spread of regulatory standards by non-governmental organizations in the areas of basic human rights, environmental policies and labor rights. As defined by Walter and Woods, regulation, in

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<sup>98</sup> - Macdonald, T. - The Ideal of Global Stakeholder Democracy, in Archibugi, D. et. al. - *Global Democracy: A Symposium on a New Political Hope*, Routledge, *New Political Science*, Vol. 32, N 1, March 2010, p. 115

<sup>99</sup> - Ibid. p. 116

broader terms, can be referred to ‘the organization and control of economic, political and social activities by means of making, implementing, monitoring and enforcing of rules.’<sup>100</sup> But one actor type regulation is usually questioned in its efficiency and orientation towards serving public interests. E.g. voluntary codes on Corporate Social Responsibility are criticized on the grounds that self- regulation is inadequate in protecting social and environmental rights of people and communities who come in contact with multinational corporations. Therefore, the need for more efficient global governance initiatives and regulations increases.

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<sup>100</sup> - Mattli, W., Woods, N. – “*In Whose Benefit? Explaining Regulatory Change in Global politics*”, *The Politics of Global Regulation*, Princeton University Press, Spring 2009, Ch. 1, p. 1.

### 3. GLOBAL GOVERNANCE AND LIMITS OF MULTILATERALISM

Global governance mostly refers to intergovernmental and supranational arrangements. The concept emerged in early 90s as a response to growing transnational relationship that was generating new global problems. So, the idea of global governance emerged as a response to new challenges that needed new global solutions. While at the beginning global governance was mostly concerned with intergovernmental relations, already back in 1995 the Commission on Global Governance recognized the importance of other actors in the process:

*'Global governance, once viewed primarily as concerned with intergovernmental relationships, now involves not only governments and intergovernmental institutions, but also NGOs, citizens' movements, transnational corporations, academia and the mass media. The emergence of a global civil society, with many movements reinforcing a sense of human security, reflects a large increase in the capacity and will of people to take control of their own lives.'*<sup>101</sup>

The rise of non-state actors and the failure of states to regulate their effect on social life, gave rise to unsystematic set of global governance and global regulation initiatives. The main obstacle that transnational corporations create in international affairs is their lack of democratic legitimacy, despite the power they obtain over social and financial resources.

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<sup>101</sup> - Commission on Global Governance – Our Global Neighborhood, Oxford University Press, Oxford 1995, p. 335.

Generally, non-state actors, which provide more and more goods and services, are not subject to public accountability and transactions that they make usually lack public legitimacy, while affecting millions of people worldwide. The increased asymmetrical power relationships raised the need for better organized global governance initiatives. The demands to broaden decision-making and governing mechanisms come from both small states, being dissatisfied with the imposed intergovernmental mechanisms, where decisions are usually carried out by rich, industrialized states, and civil society organizations which advocate extended public awareness and participation in global politics. With the rising mistrust towards the effectiveness of existing multilateral institutions, especially United Nations and Breton Woods institutions and their systemic failure to address some of the crucial problems on global scene, contributed to alternative forms of intergovernmental arrangements for global affairs. ‘...limited membership groups of rich nations such as the G8, the Organization for Economic Cooperation and Development (OECD), the Basle Committee, and the G-10 within the International Monetary Fund (IMF) have made important decisions on economic and financial issues with a global impact. These new groupings tend to both complement and, at times, challenge the existing intergovernmental institutions.’<sup>102</sup> Decisions made under such kind of arrangements, lack mechanisms of accountability and limit participation of poorer countries, thus attempting to monopolize global politics. ‘Many developing countries experience a real sense of futility when they are faced with decisions passed down by the G8, unauthorized interventions, by ad hoc coalitions of the willing, or, more generally, the overwhelming power and influence of wealthy, industrialized countries, especially given the veto power of the permanent members of the Security Council and the weighted voting in the Breton Woods institutions.’<sup>103</sup>

It is often argued that the problems facing the contemporary world cannot be solved either by leaving everything to the actions of nation-states or the workings of the markets. The recent economic crisis is one of the indicators that existing mechanisms are insufficient.

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<sup>102</sup> - Forman, Sh. and Segaar, D. – New Coalitions for Global Governance: The Changing Dynamics of Multilateralism, *Global Governance* 12, 2006. p. 209

<sup>103</sup> - Ibid. p. 211



Therefore, the question on how to make global governance system more effective, more just and more responsive to the new challenges is accelerating. This is evident in spread of proposals on global reform.

The proposals on reform reflect general changes in thought. For Halliday this is evident in three respects: first is much greater awareness of 'global' problems. E.g. environmental problems that were almost ignored up till mid-1980s, second is the recognized importance of social and economic reasons as much as for reasons of equality and third is the shift from 'overwhelmingly state-centered approach' of the UN to a recognition of rights of individuals and communities.<sup>104</sup> As Halliday argues, the reform concerns not only institutions but values as well to come up with approaches that meet the challenges and have a chance of being implemented.

### 3.1 Multilateralism or Governance of the Many by the Few

The importance of multilateralism has often been emphasized to the extent that some even notice merit in pooling national sovereignty in cooperative institutions, especially when it comes to the challenges of global financial crisis, climate change, terrorism, transnational crimes, food security, danger of nuclear proliferations, energy security or regulation of transnational economic relations. The concept of 'multilateralism' focuses on the collectively agreed principles, norms and rules and is based on the principle of equality of all participants of international system and on the agreement between the states to act cooperatively.<sup>105</sup> But, international system can be more characterized by

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<sup>104</sup> - Halliday, F. – Global Governance: Prospects and Problems, in Held, D., McGrew, A (Eds.) - *The Global Transformations Reader: an introduction to the globalization debate*, Polity Press 2003, p. 489

<sup>105</sup> - Ruggie, J. G. – Multilateralism: The Anatomy of an Institution, in Ruggie, J. G. (Ed.) *Multilateralism Matters: The Theory and Praxis of an Institutional Form*, New York: *Columbia University Press*, 1993, p.8

‘minilateralism’<sup>106</sup>, which refers to the cooperation of groups with limited membership, such as G-8 or G-20, with most powerful states involved. The UN Security Council and Breton Woods institutions like IMF and IBRD are meant to be multilateral, but because of the disproportionate voice and influence of the most powerful states, it appears to be ‘minilateral’.

The issues of legitimacy, social justice and accountability are becoming more and more widespread and call for a change. The democratic deficit on global level generates a kind of paradox. As Watkins and Woods outline ‘rich countries are ardent advocates of democracy all around the world, but when it comes to IMF and the World Bank, government of the many by the few is the preferred option’.<sup>107</sup>

Many developing countries are dissatisfied and feel disempowered by international institutions. They feel that their participation in global multilateral institutions have not resulted in much of the benefits for them. They criticize normative principles at the core of multilateralism to be serving interests and values of the North. This discontent increased with the new emerging powers such as Brazil, Russia, India, China and South Africa (BRICS) who demand better representation of their interests in international institutions. But their understanding of multilateralism is more defined in terms of multipolarity as direct opposition to Western ‘collective unilateralism’<sup>108</sup>. But ‘a world order based on a concert of powers leaves much to be desired in terms of legitimacy and thus might prove to be unsustainable in the longer run’<sup>109</sup>. Besides, multilateralism focused on intergovernmental forms of international cooperation, with states being the only agents, has often been questioned with the transformation of global politics.

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<sup>106</sup> - Hampson, F. O., Heinbecker, P. – The “New” Multilateralism of the Twenty-First Century, *Global Governance* 17, 2011

<sup>107</sup> - Watkins, K., Woods, N. – Africa Must Be Heard in the Councils of the Rich, *International Herald Tribune*, 2-3 October 2004, p. 8

<sup>108</sup> - See, for example, Makarychev, A., Morozov, V. – Multilateralism, Multipolarity and Beyond: A Menu of Russia’s policy strategies, *Global Governance* 17, pp. 353-373, 2011

<sup>109</sup> - Makarychev, A., Morozov, V. – Multilateralism, Multipolarity and Beyond: A Menu of Russia’s policy strategies, *Global Governance* 17, p. 370

Global civil society that is becoming more and more mobilized demands legitimacy and accountability at all levels of governance, including the global. The dissatisfaction concerns exclusion of wider public that these institutions are meant to serve<sup>110</sup>. By questioning the efficiency of multilateral institutions such as the UN, they seek civil society participation and deliberation and try to affect decisions and raise public awareness. While before these demands would sound an utopist idea, the transformation by the globalization processes has laid a foundation to realize this ideal of civil society. Developments in technologies and communications make it possible to carry various messages on a global scale through broadcast-satellites and internet media, such as facebook, twitter or other. The recent 'Occupy Movement' well demonstrated the capacity of advanced communication technologies in mobilizing people all around the world. The technological revolution is 'transforming individual and communal self-identities and images while empowering local communities in ways that were once unimaginable.'<sup>111</sup> Many argue that lately civil society is playing an increasingly important – even critical role – in many areas of international public policy.<sup>112</sup>

Though 'minilateral' arrangements have been more effective in addressing some of the challenges of the contemporary world, like in the case of recent economic crisis, they give much power and space to the rich few to govern many, while pursuing their own interests rather than contributing to the well-being of general public of the world. As a response to failed multilateralism and the demand of public participation in global politics, multi-stakeholder processes emerged, offering more effective interest representation and consensus building that gives poorer countries and civil society the right to a voice, a platform to be heard and a stake in the decision-making processes.

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<sup>110</sup> - Porter, T. – The democratic Deficit in the Institutional Arrangements for Regulating Global Finance, *Global Governance* 7, no. 4, pp. 427-440, 2001

<sup>111</sup> - Hampson, F. O., Heinbecker, P. – The "New" Multilateralism of the Twenty-First Century, *Global governance* 17, 2011 p.303

<sup>112</sup> - Ibid. p.302

### 3.2 Multi-Stakeholder Global Regulatory Standards

By questioning the efficiency of intergovernmental mechanisms, the expectations towards the effectiveness of the latest global governance initiatives about bringing together actors of different types – states, companies and civil society organizations, are rising high. Multi-stakeholder arrangements are designed to involve different type of actors in order to extend participation in decision-making processes on global level and improve collective action outcomes. Some examples of multi-stakeholder regulatory standards can be The Kimberly Process, The Equator Principles or more recent one - Transparency in Construction Sector. One of the pioneers of this type that are proliferating on international arena is Transparency in Extractive Industries. Being already well developed and organized, it gives possibility for closer research.

The Extractive Industry Transparency Initiative (EITI), initiated at the World Summit on Sustainable Development in 2002 took an institutional shape in 2006 with a secretariat in Oslo. It is an initiative that increases transparency of payments of extractive industry companies to governments and transparency over the revenues by the host country governments which is aimed at the corruption reduction and accountability. For now, 35 countries have signed up for implementation of the initiative, which include both politically and economically stable countries like Norway, and developing countries like Azerbaijan or Nigeria.

The topic of global regulatory standards leads to the point, where the recent debate within the globalists starts – regulatory standards as opposed to rigid rules. Because of the absence of common political culture on global arena and the nature of global governance, meaning governance in the absence of global government, some scholars advocate the importance of multi-stakeholder global regulatory standards, which offer more flexible regulatory system. It does not necessarily presuppose that stakeholders will act for general public interests or ‘good governance’, but in pursuing their special interests, the balance is believed to be preserved through bargaining process and control that stakeholders impose on each other.

Although criticism comes about the efficiency and capability of such initiatives, because of the ‘voluntary nature’ they have and give national governments a choice whether to accept and implement certain norm on a given territorial area, or avoid it completely. Nevertheless, the hope for the efficiency of regulatory standards stands on the emphasis of the benefits that states get with the singing onto implementation of regulatory standards in the widely deregulated globalized world, where competition for foreign investments depends on the reputation and consistency of business climate in developing countries.

The scheme that multi-stakeholder regulatory standards establish goes in line with the main principle of cosmopolitan governance in general and cosmopolitan democracy in particular, which suggests that the application of norms and values of democracy at different levels should come from global scene. But the main criticism towards the top down proposal is the lack of democratic legitimacy beyond nation-states. For Held and other cosmopolitan thinkers solution lies in cosmopolitan citizenship and establishment of directly elected global parliament and/or other democratic institutions on global level. But skeptics emphasize that the motion towards this direction is hardly evident. On the other hand, there is the wide spread belief in the academic circles that democracy can only be exercised in the nation-state model of governance. The form of democratic governance at national level is characterized with binding rules and principles to regulate and limit political power, which is responsible for the security and welfare of the citizens while represents their interests. The main contemporary challenge is how to shift these principles onto the global level and how to create a public sphere in global polity ‘for debating policy, adjusting interests, and evaluating decisions which characterize established democracies’.<sup>113</sup> As some scholars argue, at transnational level the task is not only about limiting the power of governments, but to create capacity for them, to better regulate all those agents who exercise power on global level without much of the accountability. The urgent necessity for this is explained by the fact that, in the globalized world, decisions made in one country often have direct effect on citizens of other states. Besides, with the opening of the markets,

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<sup>113</sup> - Gamble, A. – What Future Role for the State?, International Policy Analysis, Friedrich-Ebert-Stiftung, February 2009.

large companies gained a global reach, possessing enormous social and economic power, which is getting almost impossible to be regulated by national systems of legal control.

With that being said, the debate about the global regulation intensifies among the scholars. Joseph Stiglitz, when assessing the impact of traditional international global regulations, suggests that regulations are shaped by rich, industrialized countries, who try to impose set of rules to the whole world, in order to continue making profit. As he observed, often even the governments of rich countries are limited to particular special interests within these countries. ‘[N]ot surprisingly, they have shaped globalization to further their own interests. They have not sought to create a fair set of rules, let alone a set of rules that would promote the well being of those in the poorest countries of the world.’<sup>114</sup> Thus, Stiglitz calls for ethical approach to the regulations and the further development of the world.

Multi-stakeholder global regulatory standards can be argued to have the potential to push towards more ethical direction. They might have the capacity to exercise democratic principles beyond the nation-states. It creates the multi-level system of regulation. On the one hand its state centric, as the decision to sign up onto the initiative, lies upon the states. But, most of the standards that are proliferating are aimed at creating platform for debating policies on global level, where governments, international organizations, global NGOs and transnational corporations come together at the decision-making table and can engage in deliberative decision-making process. At the same time, most of the MSGRSs create the top-down system aimed at changing the performance of the government structures on national level in countries that start implementing the standards. They create the capacity for the governments to limit and scrutinize the power exercised by the transnational entities. Furthermore, on an institutional level, non-governmental organizations are given an influential role, as they contribute to the creation of public demand for the implementation of standards by the governments and serve as their ‘watchdogs’ in this process. Social

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<sup>114</sup> - Stiglitz, J. – *“Making Globalization Work: The next steps to global justice”*, London: Penguin Books, 2006, p. 3.

groups, in the form of civil society organizations have the authority to bind the national governments through the given global institutions.

Therefore, one can assume that the proliferation of such kind of standards can make international society more susceptible to normative changes, interconnects and contributes to coordinated collaboration of principal actors - states, civil society organizations and companies at different levels, therefore might be emerging as important determinants of global politics.

In the empirical part, this study will concentrate on analyzing one case of EITI, in order to research the normative capacity of MSGRSs in leading the world towards more ethical development.

## 4. METHODOLOGY

### Qualitative Research: Case Study

The study aims to analyze both ideational characteristic of EITI to provide a theoretical understanding of the case and to assess its efficiency in practice. Therefore, empirical part is mainly divided in three parts. First part concentrates on normative understanding of the case and presents a process-tracing of transparency norm in extractive sector. As EITI provides a multi-level and multi-stakeholder mechanism, governance structure of EITI on global level is studied in the second part. The third part concentrates on stakeholder analysis and governance mechanism at national level.

Process tracing is a qualitative method of analysis, which ‘seeks a historical explanation of an individual case’ and is usually used to identify the mechanism and the causal process between independent variables and the outcome.<sup>115</sup> In the given study, *analytical explanation*, a ‘sub-method’ of process-tracing is used, in order to find an analytical causal explanation for providing theoretical understanding of the case.<sup>116</sup> This part of study concentrates on transformation of transparency in extractive sector from an idea into a norm and later into an institution and researches the norm at three different stages:

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<sup>115</sup> - Bennett, A. - “Process Tracing: A Bayesian Approach” in Oxford Handbook of Political Methodology. Steffensmeier, J.B., Brady, H., Collier, D. (Eds), Oxford: Oxford University Press, 2008.

<sup>116</sup> - Ibid.



- Norm-setting
- Norm-cascade
- Norm-internalization<sup>117</sup>

In order to understand the influence of a norm, Finnemore and Sikkink discuss three-stage process of norm 'life-cycle'. The first stage is 'norm emergence'. The characteristic mechanism of this stage is persuasion by 'norm entrepreneurs', who try to convince actors to embrace the norm. The second stage is 'norm cascade' which involves broad norm acceptance. As Finnemore and Sikkink argue motivation for embracing new norm can be varied. The third stage is norm internalization, which is the stage when norm is no more a matter of debate and changes the behavior of actors in accordance with the norm. Therefore, at this stage norm becomes the prevailing standard that defines what an appropriate behavior is. The results of process tracing will be used to theorize about normative characteristics of EITI.

In the second part governance structure of EITI on global level will be studied. How the institution is structured, how are the decisions made, what kind of opportunities are given to small states in decision making process, what is the role of civil society and how is the deliberation process practiced. EITI operates globally but its main aim is to improve governance at national level.

In the third part the practice of EITI is studied on national level. For this purpose stakeholder analysis is undertaken in order to research norm internalization and to assess the efficiency of multi-stakeholder mechanism to EITI implementation in practice. EITI represents the case where different stakeholders come to work together. It offers an opportunity to explore the dynamics of interaction between: governments, companies, and civil society groups - how they come to agree to govern relationship and how their interaction is complementary for achieving their goals. The interdependence of the three is the main and the only way of implementing EITI. Stakeholder analysis concentrates on one

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<sup>117</sup> - Finnemore, M. and Sikkink, K. - International Norm Dynamics and Political Change, *International Organization*, Vol. 52, No. 4, Autumn, 1998

concrete case (of EITI Azerbaijan) to examine the efficiency of EITI global mechanism for improving governance at national level by providing incentives and benefits to all stakeholders involved.

The EITI mechanism and the benefits that the initiative presupposes as an outcome of EITI implementation can be observed in a table below:

Table 2: EITI Stakeholder Analysis<sup>118</sup>

Stakeholder	Mechanism	Benefit given by EITI
Government	Transparent governance Reduced corruption Improved investment climate Signal to investors and IFIs about commitment to good governance	Sustainable development Poverty reduction Increased Investment Increased exports Increased revenues
Companies/ Investors	Help mitigate investment risk Reduce corruption and political instability Rule of law improvements	Risk to capital-intensive and long-term stakes reduced
Civil Society	Increased information in public domain Empowered by Knowledge	Increased ability to pressure for good governance Social welfare due to less revenue expropriated Increased share of revenues as corruption reduced

Therefore, the second part is an attempt to allocate the benefits that the stakeholders should have gained after almost a decade of EITI implementation to assess the efficiency of EITI system and to research the behavioral changes that supposedly should be accompanied.

If all the stakeholders have gained the benefits or the progressing direction towards is observed, the initiative can be assessed positively in regards to norm-internalization and functioning global to national, top-down system. This will indicate to emergence of an

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<sup>118</sup> - Bracking, S. - Hiding Conflict over Industry Returns: A Stakeholder Analysis of the Extractive Industries Transparency Initiative, *Brooks World Poverty Institute: Working Paper 91*, May 2009

effective novel form of global governance, even if concrete correlation between EITI implementation and the changes at national level might sound vague.

The structure of the third part on stakeholder analysis is as follows: First, general overview of EITI implementation is presented on the basis of data from different reports and newspaper articles. Later, the study presents two independent reports on EITI implementation of Azerbaijan: ‘Three Views of EITI Implementation in Azerbaijan’, by Economic Research Center, Baku 2006 and ‘After the BTC Pipeline and EITI Validation: Where are Prosperity and Transparency in Azerbaijan?’ by Crude Accountability, 2012. There are several reasons for using the abovementioned reports:

First, the reports present most comprehensive research on EITI Azerbaijan carried out by independent organizations, therefore the results are less likely to be biased. Second, the reports are undertaken through survey questionnaires and face-to-face interviews and include all stakeholders involved, which gives an opportunity to observe the attitude, role, concerns and gained benefits of all stakeholders. Third, the reports are issued with 6 years interval: one in 2006, two years after Azerbaijan joined EITI and the other in 2012. The time gap between reports gives an opportunity to trace the progress (if any) of EITI implementation over years.

The empirical study is carried out by publicly available sources, such as reports of EITI Secretariat, EITI Azerbaijan, speeches, interviews, independent researches of international ‘watchdogs’ such as Transparency International, Global Witness, Human Rights Watch, analytical papers and various academic research. Besides, statistics and indexes are used where appropriate.

The results of empirical part will be used to theorize the normative capacity of MSGRS to provide the ‘top down’ and ‘bottom up’ global governance mechanism with institutionalized multi-stakeholder deliberation process at different levels of governance.

## **Chapter II**

### **Empirical Research**

## 1. EVOLUTION OF THE TRANSPARENCY NORM IN EXTRACTIVE SECTOR Process-Tracing

In studying the normative dimension of globalization, two types of norms can be differentiated: political norms - democracy, human rights, etc. and managerial norms sustainable development, good governance, transparency etc. While political norms can be contested (E.g. Russian version of democracy conceptualized as *Sovereign Democracy* as opposed to *liberal Democracy*), administrative norms are viewed more as indisputable and universal, thus calling upon a managerial type of behavior which is less likely to be subject to political discretion.<sup>119</sup> Herewith, it can be argued that managerial norms can represent sort of the foundation for common political culture on global level, 'a sense of common interest and common values on the basis of which common rules and institutions may be built,'<sup>120</sup> equally shared by not only states of international society, but also by other principal actors, such as civil society organizations, transnational corporations, international institutions etc..

In this regard, transparency can be noticed as progressively becoming an important term in different fields, such as business, governments, public policy centers, international organizations, etc. In all these fields, transparency represents a norm, which is the result of societal demand for accountability and openness of information and decision-making processes.

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<sup>119</sup> - Makarychev A.S, Introduction to Globalization Module. © East European Studies Online; 2010

<sup>120</sup> - Bull, H.– The Anarchical Society,... p. 279

The emergence of international norm of transparency in extractive sector can be roughly dated by 1999 which came out as a surprise. The sector that was previously deemed as extremely closed and was characterized by secret agreements between TOCs and the governments of oil rich developing countries was rarely subject to international or public oversight. The need for transparency in oil sector emerged as International NGO's and media correlated massive human rights violations, political and social crisis and dreadful poverty with oil industry activities in developing countries.

In January 1999 Human Rights Watch issued a publication on Nigerian crisis of 1990s – ‘The Price of Oil: Corporate Responsibility and Human Rights Violations in Nigeria’s Oil Producing Communities.’<sup>121</sup> Nigeria is Africa’s 1<sup>st</sup> largest oil producer country, but despite this very fact the poverty rates are indeed high. The report linked transnational oil corporations like Chevron, ExxonMobil and Royal Dutch/Shell operating in the country with the crisis of indigenous communities of Nigeria’s oil rich regions. In the so called Ogoni crisis civilians were killed during the protestations against poverty and rising of oil prices, which started as a protestation against the presence of TOCs in their territory. The protests led to the militarization of the oil production sights. The president of Nigeria of that time Sani Abacha created special task forces, restricted freedom of expression and put in jail many in order to avoid any threats to oil production caused by protestations. The report linked both Nigerian Government and TOCs to these injustices and emphasized the responsibility that both stakeholders should have towards the people.

In September of the same year, Global Witness issued a report – ‘Crude Awakening: the Role of Oil and Banking Industries in Angola’s conflict’<sup>122</sup>, where Angolan government, TOCs and foreign loaning banks were targeted as responsible for the suffering of Angolan people. Angola is Africa’s second largest oil producer country, where like in the case of Nigeria, the oil revenues, instead of contributing to the development of the country, generated wars and contributed to its further decline. For the first time, the report urged for

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<sup>121</sup> - Human Rights Watch - “The Price of Oil: Corporate Responsibility and Human Rights Violations in Nigeria’s Oil Producing Communities”, New York, 1999.

<sup>122</sup> - Global Witness - “Crude Awakening: the Role of Oil and Banking Industries in Angola’s conflict”, London, 1999.

the necessity of transparency in oil sector from the side of government, TOCs and international loaning institutions deeming it imperative that TOCs change the way they conduct their affairs. Calling upon Norway as a case of positive use of oil-wealth, the report generated recommendations which are mostly oriented on transparency and ethical corporate role. 'Full transparency means that companies must clarify their exact relationship with government. This means that all payments must be published and made available in an easily understandable format to the Angolan population.'<sup>123</sup> Global Witness can be regarded as one of the transparency in extractive sector 'norm entrepreneurs'. Most of the recommendations that Global Witness issued in Angolan report are now generalized and represented by EITI.

The correlation between the oil industry and military conflicts in Africa together with wider issues of democracy and social justice became topic of interest of international media as well. But the initiation of two different pipeline construction projects with the involvement of TOCs such as ExxonMobil and BP together with IFIs such as IBRD, IFC and EBRD ascended the interest towards the extractive industry revenue by international NGOs and media which resulted in an active campaign against IFIs and TOCs, with the World Bank Group been the primary target.

WBG supported Chad-Cameroon pipeline became controversial in its very early stage at the end of 90s, which threatened the reputation of the World Bank as civil society actively criticized the Bank for going against its overall objective of achieving poverty alleviation through sustainable development. In response to the criticism, the World Bank, being the primary financier of the Chad-Cameroon pipeline, pressured the government of Chad to pass Petroleum Revenue Management Law, designed to guarantee that oil revenues benefit the poor and are expended towards health, education and other socially oriented sectors. Besides, the law required Future Generations Fund to be established, where 10 percent of revenues from oil sales had to be set aside for the post-oil era.<sup>124</sup>

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<sup>123</sup> - Ibid. p. 13

<sup>124</sup> - Inter Press Service: Chad Dilutes Oil-For-Development Pledge. Retrieved from:  
<http://www.ipsnews.net/2006/01/finance-chad-dilutes-oil-for-development-pledge/>

But the demand about WBG quitting financing extractive sector was only accelerating, which pushed the World Bank President Mr. Wolfensohn in September 2000 to agree on launching a multi-stakeholder review process. The aim of this initiative should have been evaluation of Bank's role in extractive industries and its conjunction with Bank's main objective of sustainable development and poverty alleviation. Civil society was demanding from the WBG to be heard and recognized as equal partners in extractive industry developments as the negative impacts of the sector was effecting not the governments or companies, but communities and indigenous people.

It was June 2000 when the World Bank president agreed to review the bank's involvement in extractive industries. With this promise, in the same month, WB approved US\$ 3.7 Billion Chad-Cameroon pipeline construction. A month later European Investment Bank approved additional US\$ 120 million loan for the same project.

In June 2001 the Center for Environment and Development together with Friends of the Earth International issued a report 'Broken Promises – the Chad-Cameroon Oil and Pipeline Project; Profit at Any Cost?' The Report compiles the promises that the WB made in regard to the pipeline construction and outlines the failure of meeting any of the promises that the Bank made. The Chadian government broke the Oil Revenue Management Law even before the project was officially approved, as it spent US\$ 4.5 million, received from the oil companies in the form of 'bonus' to buy arms to fight the rebel movement in the northern Tibesti region.<sup>125</sup> The report among others emphasized the need for transparency not only on international level, but foremost locally both in Chad and Cameroon as local people and NGOs were denied access to information, since government authorities simply refused to communicate with them.<sup>126</sup> As the criticism of World Bank accelerated again, in July 2001 the WB president launched the Extractive Industries Review and appointed Mr. Emil Salim<sup>127</sup> to direct the project. In regard to civil society criticism,

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<sup>125</sup> -CED/FoE - Broken Promises – the Chad-Cameroon Oil and Pipeline Project; Profit at Any Cost?, June 2001. P.12

<sup>126</sup> - Ibid. p. 16

<sup>127</sup> - The former Indonesian Environment Minister, a former director of Indonesia's largest coal company, and Chair of the 2002 United Nations Johannesburg World Summit on Sustainable Development.



that the EIR was just a disguised WBG public relations stunt, the director of the review deemed it crucial to engage in a triangle of equal partnership between governments, business, and civil society as counterparts of the WBG.<sup>128</sup>

After two years of active engagement with different stakeholders, the EIR concluded that WBG can participate in extractive industries only and if it contributes to poverty alleviation and sustainable development which could be achieved through the recommendations that the report published. The recommendations among others included the notions of good-governance, pro-poor policies, human rights and indigenous people, strengthening environmental and social components and transparency and disclosure policies.<sup>129</sup>

The EIR report deemed it crucial that disclosure policy be revised and broadened. Thus the EIR recommended:

- Disclosure of (revenue) payments on company and government level.
- Vigorously pursue revenue transparency at country and company level.
- Disclosure of: project contracts and agreements, like Host Government Agreements, Production Sharing Agreements, Power Purchase Agreements; monitoring documents, economic, financial, environmental and social assessments.
- Environmental and social obligations should be covenanted in loan and project agreements and those should be disclosed.
- Documents should be made available in local languages, in a timely and culturally appropriate manner.
- Produce and disclose a net benefit analysis for all projects.
- Establish an information ombudsman to oversee application of the disclosure policy and decisions about confidentiality.<sup>130</sup>

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<sup>128</sup> - The final report of the EXTRACTIVE INDUSTRIES REVIEW - "Striking a Better Balance, The World Bank Group and Extractive Industries", December 2003

<sup>129</sup> - Ibid. pp. 45-66

<sup>130</sup> - Heinrich Böll Foundation – World Bank - World Bank Group and the Extractives Sector, October 2008. Retrieved from: <http://www.boell.de/finance-resources/index-104.html> (Last accessed 11.04.2013)

Table 3: Events connected with the evolution of transparency norm in extractive sector

December 1998	Democracy Now airs audio documentary ‘Drilling and Killing
January 1999	Human Rights Watch publishes report on Nigeria ‘Price of Oil...’
January 1999	Chad, under the pressure of the WB, issues Oil Revenue Management Law
November 1999	Azerbaijan, Georgia and Turkey sign the agreement on the construction of the BTC pipeline
December 1999	Global Witness publishes report on Angola ‘Crude Awakening ...’ highlighting transparency norm in extractive industry
June 2000	World Bank president agrees to launch Extractive Industry Review in response to accelerated criticism and pressure from civil society
February 2001	The CEO of BP responds to the campaign of Global Witness and discloses bonuses that it had paid to Angolan Government. Angolan Government in response threatens to expel BP out of the country.
June 2001	The WB approves US\$ 3.7 Billion for Chad-Cameroon pipeline construction.
June 2001	CED and FoE publish a report on Chad-Cameroon pipeline ‘Broken Promises ... Profit at any cost?’
July 2001	The WB launches Extractive Industry Review
June 2002	Publish What You Pay Coalition is founded with 30 NGO members. After a year the number of members increased to 120. In 2007 NGO members reached 305 in 56 different countries.
September 2002	Tony Blair proposes EITI at the Summit for Sustainable Development in Johannesburg
June 2003	G8 issues a declaration –‘Fighting Corruption and Improving Transparency’
June 2003	EITI Principles are agreed at the first EITI Plenary Conference in London
June 2003	Azerbaijan signs on to EITI, the first country to join the initiative.
November 2003	Nigeria signs on to EITI
December 2003	The World Bank endorses EITI
September 2004	EIR issues a report ‘striking a better balance’
February 2004	The WB is pressured by civil society to meet the recommendations of EIR
May 2004	The World Bank engages in EITI by establishing EITI Multi-Donor Trust Fund

The draft version of EIR report was leaked by CEE BankWatch Network several months before the final version was published, stating:

‘Some EI company, government and WBG representatives have made the point that WBG involvement in the EI sector has helped some poor countries attract foreign direct investment that would otherwise be impossible, and this provides countries with painfully needed revenue that can be used to finance sustainable development. However, due to various reasons including rampant corruption, poor governance, civil unrest, etc, it was proven over and over again that this rarely happens.’<sup>131</sup>

The mounted campaign against WB involvement in Extractive sector was peaked with the leaked draft of the report. In February 2004, hundreds of NGOs were joined by Noble Peace Prize laureates calling on Bank President Wolfensohn to accept and adopt the recommendations of a review that he commissioned. ‘War, poverty, climate change, greed, corruption, and ongoing violations of human rights - all of these scourges are all too often linked to the oil and mining industries. Your efforts to create a world without poverty need not exacerbate these problems. The Review provides you an extraordinary opportunity to direct the resources of the World Bank Group in a way that is truly oriented towards a better future for all humanity’ - said the letter to Wolfensohn sent by Nobel Peace prize winner Jody Williams which was also signed by 4 other laureates.<sup>132</sup> In September 2004, the WBG issues final response to the EIR, which emphasizes the importance and Bank’s commitment to transparency and disclosure standards in the extractive sector.<sup>133</sup>

In Parallel with Chad-Cameroon pipeline, another huge project was initiated in the South Caucasus, which caused no less criticism by civil society organizations. In November 1999, Azerbaijan, Georgia and Turkey signed an intergovernmental agreement on the

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<sup>131</sup> - CEE BankWatch Network, Retrieved from: <http://bankwatch.org/publications/letter-eib-bank-consideration-world-bank-extractive-industries-review-its-energy-portfo> (Last accessed: 11.04.2013)

<sup>132</sup> - Global Policy Forum – “Nobel Laureates and Hundreds of NGOs”, February 12, 2004. Retrieved from: <https://www.globalpolicy.org/component/content/article/177/31541.html>, (last accessed: 11.04.2013)

<sup>133</sup> - Striking a Better Balance - WORLD BANK GROUP MANAGEMENT RESPONSE, SEPTEMBER 17, 2004.

construction of Baku-Tbilisi-Ceyhan pipeline.<sup>134</sup> The pipeline construction was financed by IFC and EBRD, with British Petroleum being the primary stakeholder.

In February 2001, The CEO of BP responded to the ongoing campaign on transparency in extractive sector, actively led by London-based INGO Global Witness and enclosed the bonuses that BP has paid to Angolan government. In response, Angolan government threatened to expel BP out of the country. The threats served as a lesson to BP, bargaining with host countries of BTC pipeline to guarantee for itself a more favorable investment climate.

In the summer of 2002, civil society opposition to BTC pipeline peaked in all host countries of the project. The Turkish NGOs issued press release protesting BP's freedom for regulation of a pipeline construction giving it power to destroy the environment and trample on the rights of local communities with impunity. 'Turkey is now divided into three countries: the area where Turkish law applies; the Kurdish areas under official or de facto military rule; and a strip running the entire length of the country from North to South, where BP is the effective government.'<sup>135</sup>

In June 2002, the transparency campaign of Global Witness resulted in an establishment of Publish What You Pay coalition, comprising of 30 NGO members by that time. With the rising criticism of British investments in BTC pipeline, and with the need for transparency in developing countries to ensure more stable business climate for British investments, in September of the same year Tony Blair, the then-Prime-Minister of UK, announced EITI at the World Summit of Sustainable Development in Johannesburg. It is worth mentioning that UK has not joined EITI despite the intense advocacy by civil society organizations for

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<sup>134</sup> - The full text of the agreement can be accessed at:  
<http://subsites.bp.com/caspian/BTC/Eng/agmt4/agmt4.PDF>

<sup>135</sup> - Cornerhouse, FOEI, CRBM, KHRP, PLATFORM, CEE Bankwatch Network, Ilisu Dam Campaign (Press Release) – "Oil Companies Colonize Turkey: MAI by the Back Door?", August 30, 2002. Retrieved from:  
[www.bakuceyhan.org.uk/press\\_releases/press\\_release%20oil\\_companies\\_colonise\\_turkey.doc](http://www.bakuceyhan.org.uk/press_releases/press_release%20oil_companies_colonise_turkey.doc) (Last accessed: 11.04.2013)

Britain to join EITI as it will contribute to the efficiency of EITI implementation in the developing countries.

In June 2003 G-8 published 'fighting corruption and improving transparency' declaration. In the same month Azerbaijan became the first country to sign on to EITI. In November 2003 Nigeria became the second country to do so. At the end of the year, in December 2003 the World Bank endorsed EITI. But with the leak of the draft report of EIR, influential individuals, citizens of different countries joined global NGOs in the mounted campaign against the WB in February 2004. In May of the same year, the WB established EITI Multi-Donor Trust Fund with the aim of providing technical and financial assistance to countries implementing EITI, giving more incentives to countries 'hunting' for foreign finances, to implement transparency reform.

Before moving on to the case of Azerbaijan to assess EITI practice on the national level, more information will be given on institutional organization of EITI on global level: the standard, its criteria, procedures, structure, decision-making process, etc.

## 2. EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (EITI)

In 2002, at the World Summit on Sustainable Development a new multi-stakeholder initiative was offered to regulate extractive industries. The Extractive Industry Transparency Initiative (EITI) is an initiative that increases transparency of payments of extractive industry companies to governments and transparency over the revenues by the host country governments which is aimed at the corruption reduction and accountability. As the official web-page informs, ‘the EITI, in a nutshell, is a globally developed standard that promotes revenue transparency at the local level.’<sup>136</sup>

Approximately, 3.5 billion people live in oil, gas and mineral rich countries. On the other hand, financially the most successful transnational companies in the world are those of oil and gas companies. E.g. in 2001 ExxonMobil was named as the world’s most profitable company with profits of \$15 billion on revenues of \$192 billion. The same year Royal Dutch/Shell was named as the fourth most profitable company with \$11 billion profits on revenues of \$135 billion.<sup>137</sup> Taxes, royalties, signature bonuses and other payments of revenues from oil, gas and mining companies, should be a strong basis for economic growth and social development in developing and transition countries. However, the lack of accountability and transparency in these revenues often result in poor governance and lead to corruption, poverty and conflict.

‘EITI aims to strengthen governance by improving transparency and accountability in the extractive sector. The EITI sets a global standard for companies to publish what they pay

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<sup>136</sup> - EITI official web-page - <http://eiti.org/eiti> (last accessed: 13.04.2012)

<sup>137</sup> - Williams, C.A. – “*Civil Society and “Soft Law” in the Oil and Gas Industry*”, International Law and Politics 36:457, 2004

and for governments to disclose what they receive.<sup>138</sup> The main aim of the initiative stands upon the idea that increasing transparency and information on revenues will empower citizens to hold the government accountable and will bind them to relocate public funds away from sustainable development purposes. 'In contrast to other initiatives like Poverty Reduction Strategy Papers (PRSPs) or Environmental Impact Assessments, the EITI process requires that civil society not only be consulted, but be given a seat at the table and a vote in critical decisions.'<sup>139</sup> Besides, it is also aimed to help developing countries and economies in transition to improve business environment and attract foreign investments. For the companies, EITI suggests the benefits of more predictable business environment and prospects for energy security.<sup>140</sup>

EITI is based upon Principles and Criteria, where Principles define the development agenda and Criteria provide operational set of rules. 'The objective of the EITI is to make the EITI Principles and ... Criteria the internationally accepted standard for transparency in the oil, gas and mining sectors, recognizing that strengthened transparency of natural resource revenues can reduce corruption, and that the revenue from extractive industries can transform economies, reduce poverty, and raise the living standards of entire populations in resource-rich countries.'<sup>141</sup>

EITI took an institutional shape in 2006 with a secretariat based in Oslo, Norway. For now, 37 countries have signed up for implementation of the initiative, which include different type of countries, both politically and economically stable as well as developing countries. EITI is supported by many strong international NGOs, such as Oxfam, Transparency International, Publish What You Pay Coalition, Open Society Institute, etc. Besides, number of powerful intergovernmental organizations, institutional investors and other

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<sup>138</sup> - EITI official web-page - <http://eiti.org/eiti>

<sup>139</sup> - Goldwyn, D. L. (Ed.) - Drilling Down – The civil Society Guide to Extractive Industry Revenues and the EITI. Revenue Watch Institute, 2008.

<sup>140</sup> - EITI Guide – retrieved from:

<http://collections.europarchive.org/tna/20070701080507/http://www.dfid.gov.uk/pubs/files/eitiguideb.pdf>  
(last accessed: 13.04.2012)

<sup>141</sup> - EITI Articles of Association, Article 2.2.

international organizations, such as G8, G20, World Bank, African Development Bank, etc. support EITI.

## 2.1. EITI Principles and Criteria

The EITI is based upon twelve principles which reflect the idea of the importance of transparency to good governance and sustainable development. Besides, principles are based upon the importance of bringing together different type of actors and stakeholders into the decision-making and implementing processes.

EITI Principles express a global aspiration and present overall purpose and objectives of EITI. The Principles can be seen as a development agenda which concentrates on transparency, accountability, open debate, civil society participation in decision-making processes and overall commitment to citizen ownership of resources. Though EITI addresses extractive sector, in a broader scheme it extends to the general development and the benefits at societal level.

On the other hand, EITI Criteria represent a consensus on implementation. It is limited set of operational standards that must be fulfilled. The Criteria were approved in 2005 and have not changed since then. But in 2009 for further development of the standard EITI Rules have been approved base on the 'lessons learned'. In 2011 the Board endorsed the revised EITI Rules which addressed most of the gaps that were identified. The main update concerns the sign up requirements and is aimed at improved collaboration between stakeholders from the very beginning of EITI implementation. Countries are expected to have the Multi-Stakeholder Group established prior to signing up on the initiative. Previously this requirement had to be fulfilled after a country was admitted as a Candidate Country.



Table 4: EITI Principles

1. 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.
2. We affirm that management of natural resource wealth for the benefit of a country's citizens is in the domain of sovereign governments to be exercised in the interests of their national development.
3. We recognize that the benefits of resource extraction occur as revenue streams over many years and can be highly price dependent.
4. We recognize that a public understanding of government revenues and expenditure over time could help public debate and inform choice of appropriate and realistic options for sustainable development.
5. We underline the importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability.
6. We recognize that achievement of greater transparency must be set in the context of respect for contracts and laws.
7. We recognize the enhanced environment for domestic and foreign direct investment that financial transparency may bring.
8. We believe in the principle and practice of accountability by government to all citizens for the stewardship of revenue streams and public expenditure.
9. We are committed to encouraging high standards of transparency and accountability in public life, government operations and in business,
10. We believe that a broadly consistent and workable approach to the disclosure of payments and revenues is required, which is simple to undertake and to use.
11. We believe that payments' disclosure in a given country should involve all extractive industry companies operating in that country.
12. In seeking solutions, we believe that all stakeholders have important and relevant contributions to make – including governments and their agencies, extractive industry companies, service companies, multilateral organizations, financial organizations, investors, and non-governmental organizations.

As critics outline, EITI standard is not sufficient to guarantee sector impact since its activities are limited to revenue verification. The EITI evaluation report of 2011 concluded that EITI is ‘a necessary but not sufficient’ mechanism for extractive industry transparency and accountability.<sup>142</sup> Recently the idea about broadening EITI implementation spectrum started to surface. Many suggest that EITI should concentrate on revenue utilization, thereby allowing for greater accountability of overall sector performance.

The main criticism towards EITI concerns the gap that exists between the Principles and the Criteria. While EITI Principles present a development agenda, it is argued that the standard based on the Criteria is too narrow to achieve higher goals.

Table 5: EITI Criteria

1. Regular publication of all material oil, gas and mining payments by companies to governments (‘payments’) and all material revenues received by governments from oil, gas and mining companies (‘revenues’) to a wide audience in a publicly accessible, comprehensive and comprehensible manner.
2. Where such audits do not already exist, payments and revenues are the subject of a credible, independent audit, applying international auditing standards.
3. Payments and revenues are reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator’s opinion regarding that reconciliation including discrepancies, should any be identified.
4. This approach is extended to all companies including state-owned enterprises.
5. Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate.
6. A public, financially sustainable work plan for all the above is developed by the host government, with assistance from the international financial institutions where required, including measurable targets, a timetable for implementation, and an assessment of potential capacity constraints.

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<sup>142</sup> - Evaluation of the Extractive Industry Transparency Initiative – Achievements and Strategic Options, Final Report, Scanteam Analysts and Advisers, Oslo, May 2011

## 2.2 EITI Governance on Global Level

EITI governance structure is based on several bodies. In 2006 multi-stakeholder Board was established consisting of 20 members. Being the main rule-setting and decision-making structure, the Board is an executive body of EITI. For better efficiency the board is divided in several sub-committees: Validation Committee, Finance Committee, Audit Committee, etc.

EITI Board consists of an independent chair (elected at Association's Members' Meeting) and three different constituencies: (1) Countries (both implementing and supporting), (2) Companies (those operating in extractive sector, as well as institutional investors), (3) Civil society organizations (including NGOs, global action networks or coalitions). The Board makes decisions upon a consensus.

EITI Global Conference is a forum for all EITI stakeholders to express their views and influence the policy. As defined by Articles of Association, the conference is non-governing body of EITI but represents a central multi-stakeholder forum for deciding the strategy and future of EITI. The Conference is a mix of plenary and smaller sessions as it provides a meeting platform for related bodies. E.g. the committees hold working meetings with other committees, validators, EITI financial supporters or other. Besides, Members Meetings are usually held within Conference, where Board's progress reports and activity plans are approved. Secretariat is in charge of organizing Bi-annual Conferences.

EITI Secretariat was established in 2006, based in Oslo to support EITI activities including: analyses and reviews of key decision documents, production of normative documents on the standard together with other publications and maintenance of web-site. Besides, the Secretariat supports implementing countries, monitors their implementation, and reviews reconciliation reports. In addition, organizes trainings, workshops for various stakeholder groups, etc.

Over the years, EITI is working on gradually improving the deliberative process of EITI implementation. The EITI has established a Strategy Working Group (SWG) to identify

different options for strategic development of EITI and present recommendations to the EITI Board in the lead up to the next global conference. The working group consists of members from all stakeholder groups.<sup>143</sup> The Board and the Secretariat finds it important that stakeholders particularly in implementing countries are engaged in the review. Besides, now EITI encourages public consultation and invites individuals to submit comments and proposals on the EITI's strategic direction that will be considered when the SWG prepares its options and recommendations to the EITI Board.

Figure 1: EITI scoring process at global level<sup>144</sup>



As independent researches show, governance structure on global level functions well given the highly political nature of the sector. The 5<sup>th</sup> Global Conference in 2011 with 1000 participant from 80 countries revealed an organization with high political profile and support of truly global reach. As the independent studies show the governance structure is ‘very fit for the purpose’<sup>145</sup>.

Consensus based governance structure might be less effective in some instances but independent evaluation report concluded, that despite consensus-based decision-making process, actual performance of EITI governance appears amazingly smooth, where the structure of governance has been critical for it to attain legitimacy<sup>146</sup>.

<sup>143</sup> - The composition of current Strategy Working Group can be accessed at:

[http://eiti.org/files/SWG\\_TORs.pdf](http://eiti.org/files/SWG_TORs.pdf)

<sup>144</sup> - EITI official page: [www.eiti.org](http://www.eiti.org)

<sup>145</sup> - Evaluation of the Extractive Industry Transparency Initiative – Achievements and Strategic Options, Final Report, Scanteam Analysts and Advisers, Oslo, May 2011, p. 5

<sup>146</sup> - Ibid. p. 67

### 3. EITI ON NATIONAL LEVEL: CASE OF EITI AZERBAIJAN

#### Stakeholder Analysis

##### 3.1 Why the Case of Azerbaijan?

EITI includes countries both with strong economy and stable political regimes, together with other developing countries, with unstable domestic atmosphere. The main idea behind the EITI is that it offers regulation form that introduces transparency norms roughly in the same pattern in all types of states and characterizes similar scenarios. In order EITI to be implemented, its requirements should be met by 3 different stakeholders: governments, companies and civil society organizations. Therefore, this part of study will concentrate on stakeholder analysis of various interests on the case of EITI Azerbaijan.

Azerbaijan was the first country to sign on to EITI in 2003, which increased interests towards Azerbaijan and its reputation in the oil and gas industry. Therefore, the direct interest of government, being proud to be the first signatory of EITI, contributed to making Azerbaijan the first to pass EITI validation in 2009. Azerbaijan is interesting case, since it can be regarded as authoritarian country in the South Caucasus. Being under the rule of Alyev dynasty for more than twenty years, it is a country rich in oil from the Caspian Basin. But the domestic political and economic situation is tensed, because of the flourishing corruption in the country. Very limited progress has been done on market-based economic reforms. Civil society does not have almost any influence over the government and is generally weak.

Therefore, it is interesting to observe if, despite the domestic situation, Azerbaijan follows EITI implementation as defined by the standard. If the introduction of transparency norms flows in roughly the same pattern and follows a similar scenario in every country, independently of the domestic level of development, we can assume that the ideal of cosmopolitan democracy about application of norms and values of democracy at different levels, from global to local, is not just a dream of remote cosmopolitan future.

Besides, non-governmental organizations take up an important role in EITI processes. Civil society is encouraged to oversee revenues from the extractive industries. They create public demand for transparency and are involved in monitoring, analyzing, spreading information to people and other political activism. The Media is also encouraged to get involved in the process, contributing to higher public awareness and publicizing. Thus, the case will also be used to check the public dimension in the EITI processes that supposedly EITI offers.

### 3.2 Country Background

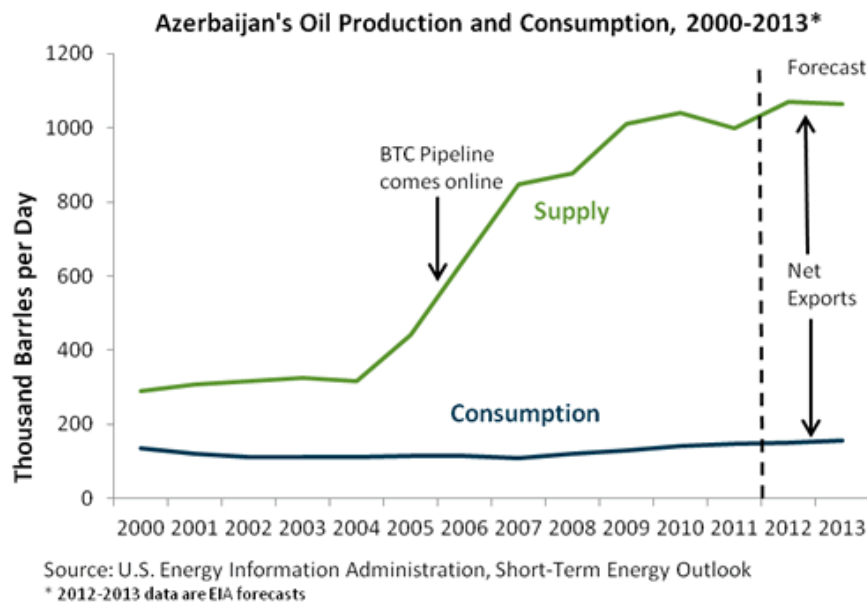
Azerbaijan is a post-soviet republic in the South Caucasus region with estimated population of 9.2 million. The country borders Russia, Georgia, Armenia, Iran and the Caspian Sea. Because of its vast resources in the Caspian Sea region, the country is in the midst of oil boom. The role of Azerbaijan in world economy is increasing as the country is current and future supplier of both oil and natural gas. In January 2012 *the Oil and Gas Journal* estimated Azerbaijan's proven crude oil reserves at 7 billion barrels.

Oil production in Azerbaijan increased 288,000 barrels per day (bbl/d) in 2000 to 1.1 million bbl/d in 2010. Azerbaijan exported an estimated 777,000 bbl/d in 2010, falling by about 8 percent compared with 2009. Although Azerbaijan has three export pipelines, about

80 percent of its oil is exported via the BTC pipeline. In addition, small amounts are shipped by trucks and railway.<sup>147</sup>

Foreign investments outside the hydrocarbon sector are very little and wealth remains heavily concentrated. ‘It’s an economy that is making central Baku wealthy, but the rest of the country is far behind,’ says Thomas de Waal, a Caucasus expert at the Carnegie Endowment for International Peace in Washington, DC. The opposition is fragmented and generally very weak to pose any risk to the regime. The main political focus is on elite groups rivaling for access to cash flows, rather than over the issues of representation and democracy.<sup>148</sup> Azerbaijan ranks 143<sup>rd</sup> out of 183 in corruption by Transparency International’s Corruption Perceptions Index. 7.75 percent of population lives on less than \$2 a day.<sup>149</sup>

Figure 2: Azerbaijan’s Oil Production and Consumption, 2000-2013



<sup>147</sup> - U.S. Energy Information Administration – Country analysis: Azerbaijan. Retrieved from: <http://www.eia.gov/countries/cab.cfm?fips=AJ> (last accessed: 13.04.2013)

<sup>148</sup> - Global Finance – Regional Report on Caucasus – “Three countries at a crossroad”, June 2012. Retrieved from: <http://www.gfmag.com/archives/154-june-2012/11798-regional-report-caucasus.html#axzz2QLdeLCXb>. (Last accessed: 13.04.2013)

<sup>149</sup> - Global Finance – Azerbaijan country report. Retrieved from: <http://www.gfmag.com/gdp-data-country-reports/324-azerbaijan-gdp-country-report.html#axzz2QLdeLCXb> (Last accessed: 13.04.2013)

The increase in oil production resulted in rapid increase of Azerbaijan's economy. Gross domestic product (GDP) in real terms expanded from 6.5% in 2001, to 10.2% in 2004, 26.5 % in 2005 and recording 34.5% in 2006. The oil sector made up 60 % of GDP in 2007. As major oil projects moved towards less intensive stages, foreign direct investments declined and real GDP growth fell to 0.1% in 2011.<sup>150</sup>

Despite the economic growth since 2001, domestic economy has seen the following negative tendencies:

- The economy now depends excessively on a single resource – oil;
- Sharp changes in oil prices and oil revenues due to the inflexible demand for oil and fluctuating supplies have caused Azerbaijan's economic to become highly dependent on the stability of the global oil market;
- Because of the sharp demand for investment and imported technologies at the time of oil industry's establishment, the transnational corporations have been vested with full power for payment and management issues;
- The oil industry usually accounts for no more than 1-2 percent of the total labor resources; limited employment opportunities have led to a sharp increase in unemployment and poverty;
- The oil sector, by employing highly-qualified labor, has appropriated and monopolized the most productive part of Azerbaijan's human capital;
- Although Azerbaijan is relying on the exploitation of long term depleting natural resources – oil and gas – its ample current revenues allow the Government to invest heavily in mega-projects that are distinguished by low profitability;

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<sup>150</sup> - Global Finance – Azerbaijan country report ...



- Instead of reducing the amount of red-tape, bureaucratic processes have mushroomed as state management expenditures have increased. Public salary expenditures financed by the State Budget in 2008 were 46% higher than in 2007.
- Transparency and accountability in the oil sector and public financial management has decreased compared with other sectors of the economy.
- As the State Budget is mainly based on the oil sector, individual taxpayers are not conscientiously traced, encouraging public indifference and stagnation in civic initiative.<sup>151</sup>

With the announcement of EITI in 2002 and launching of the project in 2004, Azerbaijan became the first to join the initiative. The aim of EITI to increase transparency of payments and revenues in countries heavily dependent on oil sector went in lines with the beginning of Azerbaijan's oil boom.

### 3.3 General Analysis

Azerbaijan is one of the pioneers in the implementation of EITI. As defined by EITI, the first step for EITI implementation is the expressed will from the government of the state to start implementing EITI. The government of Azerbaijan has expressed its support and desire to participate in EITI processes in June 2003. In May 2004, over 30 Azerbaijani NGOs signed a Memorandum and established the 'Coalition for Improving Transparency in

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<sup>151</sup> - Bayramov, V. – Anti-corruption Initiatives in Oil Sector in Azerbaijan: Do Civil Society Organizations Matter?, presented at 13th IACC Workshop on Citizens Against Corruption in the Management of Natural Resources, Athens, Greece, November 2008

Extractive Industries'. The main purpose of the Coalition is to guarantee public control of the income from the natural resources of Azerbaijan. With the government's enthusiasm, The National Committee on EITI was established, chaired by the State Oil Fund of the Republic of Azerbaijan (SOFAZ) which became actively involved in the EITI processes. In November 2004, a memorandum of understanding was signed between The National Committee on EITI, oil and gas companies operating in Azerbaijan and the Coalition of NGOs for Improving Transparency in Extractive Industry. All companies extracting natural resources of Azerbaijan are implementing the EITI, as suggested by EITI principles. Since joining the EITI, Azerbaijan regularly publishes two reports in a year. In 2007, at UN Public Service Awards, SOFAZ was even granted the Certificate for Improving Transparency, Accountability and Responsiveness in Public Service, for its commitments to EITI implementation. The same year, approximately 46% of the country's GDP came from mineral economy and with the plummeting international oil prices and increasing oil production, GDP growth of Azerbaijan has climbed to a record 29%, leading to Azerbaijan being the new largest non-OPEC contributor of oil supply in years 2006 – 2007.

With the significant growth of Azerbaijan's dependence on its mining industry, the importance of EITI raised constantly. In September 2007, at the 3rd International EITI Board meeting held in Oslo, Azerbaijan obtained an EITI Candidate status. According to the decision of the EITI International Board, Candidate countries wishing to become an EITI Compliant country should undertake the Validation process. In February 2009, the first validation of the EITI implementation was carried out in Azerbaijan by Coffey International Development<sup>152</sup>, well known and trusted international development consulting company, in association with International Petroleum Associates Norway (IPAN)<sup>153</sup> and PKF firm for accountants and business advisers<sup>154</sup>. This validation report (See appendix I)

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<sup>152</sup> - International Development Consulting Company, whose work is usually associated with UN; USAID; World Bank and other IGOs and INGOs, as well as working directly for domestic and foreign governments. For Further information see the official web-page: <http://www.coffey.com/>

<sup>153</sup> - For information about the association please visit official web-page at <http://www.ipan.no/>

<sup>154</sup> - For information about the firm please visit official web-page at [http://www.pkf.co.uk/pkf/about\\_us/home](http://www.pkf.co.uk/pkf/about_us/home)

outlined that Azerbaijan met all the indicators that led Azerbaijan to become first compliant country of EITI. It was the first EITI validation to be ever undertaken.

Despite the progress made so far, as independent researches show, many local activists point out the fact that EITI has not yet provided adequate information to hold government fully accountable. Besides, even though SOFAZ is the most transparent body of the Azerbaijan government, the country remains in the bottom 20 % of the corruption by the statistics of the World Bank and Transparency International.

Lately the government of Azerbaijan limited its interest and devotion towards EITI only to issuing the routine reports, in comparison to the years before. In Baku on 2 March 2012, a workshop was held, discussing how to breathe new life into Azerbaijan's post-validation EITI process, emphasizing that "Implementing EITI is like riding a bicycle. If you stop pedaling, you fall off".<sup>155</sup> On July 5, Azerbaijan's NGO Coalition released a statement pointing to the "stagnation" of EITI implementation in the country<sup>156</sup>. Whereas E.g In his speech at Caspian Oil and Gas exhibition and conference, which took place in June 2004 in Baku, the president of Azerbaijan was expressing its commitments to transparency in oil and gas industries. His speech included the tune of delight in being part of EITI. 'You know that Azerbaijan has joined the international Transparency Initiative. We have been involved in this for more than a year and support the initiative by the British Prime Minister. Azerbaijan is the only country that is actively taking part in this Initiative. It will bring about effective use of oil revenues in the future and every Azerbaijani citizen will feel the benefit in his or her daily life.'<sup>157</sup> Azerbaijan was participating and hosting different conferences and working groups on EITI. In 2006, the fourth meeting of the International Advisory Group to the Extractive Industries Transparency Initiative was held in Baku. The next day, on the international conference – 'EITI: Pilot Countries', the head of the state oil

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<sup>155</sup> - EITI in Azerbaijan: don't stop pedaling - <http://eiti.org/blog/eiti-azerbaijan-dont-stop-peddaling> (Last accessed: 13.05.2013)

<sup>156</sup> - Companies and Government Agencies Not Meeting EITI Standards in Azerbaijan, Revenue Watch. Retrieved from: <http://www.revenuewatch.org/news/blog/companies-and-government-agencies-not-meeting-eiti-standards-azerbaijan> (last accessed: 14.05.2013)

<sup>157</sup> - EITI Azerbaijan Official Page - EITI Implementation in Azerbaijan: <http://www.eiti.az/en/content/2/2/>

fund of the Republic of Azerbaijan, Mr. Samir Sharifov was boasting in front of the senior representatives of the countries including, the US, the UK, Norway, France, also the representatives of World Bank, IMF, BP, Anglo American, Chevron and non-governmental organizations, including Open Society Institute and Global Witness, about the success of Azerbaijan in EITI implementation, presenting - ‘Piloting EITI: Case of Azerbaijan’, and outlining that they have already publicized several reports.<sup>158</sup>

As mentioned earlier, governmental enthusiasm towards EITI was going in lines with the Baku-Tbilisi-Ceyhan pipeline construction. The construction of the pipeline, operated by *British Petroleum* – BP started in 2003 and finished in 2005. The first oil through pipeline reached Ceyhan in 2006. It should be noted that approximately 70 % of the project was financed by World Bank Group - International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD). As World Bank Acting Country Manager Saida Bagirova, stressed out, World Bank is ‘very interested to see this fund (SOFAZ) be transparent.’ the World Bank plans to distribute \$300 million over a three-year period through the fund. But Bagirova mentioned that the amount could be tripled if the public sector shows an interest in implementing the World Bank's recommended reforms.<sup>159</sup>

In 2011, the topic of EITI actualized again, which was outlined in connection with Ilham Aliyev’s proposed anti-corruption reform. Two days after Egypt’s day of rage, and several days after the fled of Ben Ali from Tunisia, the president of Azerbaijan started active anti-corruption reform, ordering the head of presidential apparatus to organize the anti-corruption commission. As the president outlined in his speech of 1<sup>st</sup> of March in Baku, ‘this is not a one or two year process, not a campaign, but our conscious choice! If we really want to see Azerbaijan as a modern country, if we want to see development in all areas, then we must wage a serious fight against negative phenomena. Bribery and corruption are a tragedy, a great wound, a great blemish.... We must make structural

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<sup>158</sup> - Baku hosts international EITI events: State Oil Fund, News Achieve, 2006, Retrieved from: [http://www.oilfund.az/en\\_US/news/276/100/Baku-hosts-international-EITI-events.asp](http://www.oilfund.az/en_US/news/276/100/Baku-hosts-international-EITI-events.asp) (Last accessed: 14.05.2013)

<sup>159</sup> - Woodbury, M.A. - Azerbaijan: Newly Independent but Mired in Corruption, <http://worldpress.org/Europe/211.cfm#down> (Last accessed: 14.05.2016)

reforms in such a way that corruption is eradicated.<sup>160</sup> But, as political commentators and the leaders of opposition opine, Alyev's anti-corruption is merely a propaganda, a short term campaign resulted out of the fear of spreading social unrests from Northern Africa, where one of the reasons of the outburst of revolts was connected with the deeply spread corruption and poverty in the countries.

Though the State Oil Company of Azerbaijan Republic (SOCAR) produces less than 20 percent of Azerbaijan's total output, it is responsible for producing oil and natural gas, participates in all of the international consortia developing oil and gas projects, operates the country's two refineries, runs the country's pipeline system, and manages the country's oil and natural gas imports and exports.

Figure 3: Azerbaijan Oil Fields



Source: U.S. Energy Information Administration

<sup>160</sup> - Fighting Corruption in Azerbaijan: The Importance of Transparency, Caspian Information Center, Occasional Paper N. 12, September 2011. Retrieved from: <http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan047821.pdf> (Last accessed: 14.05.2013)

The remaining 80 percent is being produced by Azerbaijan International Operating Company (AIOC). AIOC is consortium of 10 petroleum companies that have signed agreements on extraction with Azerbaijan. The AIOC is led by BP and includes TOCs like Chevron, Statoil, Turkiye Petrolleri, ExxonMobil, and SOCAR. BP is the largest foreign investor and has been involved in Azerbaijan since 1992.<sup>161</sup>

Today, BP extracts one third of its total global liquids production (gas and oil) from Azerbaijan. BP's investments in Azerbaijan amount over \$30 billion. As operator of Azerbaijan International Oil Company, BP is the operator of Shah Deniz, the BTC Pipeline and the Alov-Araz-Sharg prospects. In the past year it also signed a production sharing agreement with SOCAR to jointly explore the Shafag-Asiman block.

BP for years has been regarded as the most transparent and socially responsible company not only in Azerbaijan but in the world as well. However, after the Deep Water Horizon oil spill crisis in Gulf of Mexico in 2010, with BP's negligence and felony, lying to congress about the amount of oil it discharged, the question on appropriateness of Corporate Social Responsibility has been implicitly challenged.

Statoil is the second most significant Western petroleum investor in Azerbaijan. It operates the South Caucasus Pipeline, owns an equal share to BP on the BTC pipeline, and is the commercial operator for Shah Deniz, as well as owning a 10 percent stake in the Alov-Araz-Sharg field. ExxonMobil (15%) and Alberta Energy (5%) also have significant stakes in Alov-Araz-Sharg.

Civil society in EITI is represented by a Coalition of NGOs for Improving Transparency in Extractive Industries. The coalition now unites over 160 NGOs of working in different fields starting from human right, to environmental problems, social development, gender equality etc.<sup>162</sup> Though civil society feels that the EITI framework helped its voice to be heard in Azerbaijan, the main obstacle to actual involvement of public and civil society into EITI processes is connected with the lack of freedom of expression within the country. As

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<sup>161</sup> - U.S. Energy Information Administration – Country analysis, Azerbaijan. Retrieved from: <http://www.eia.gov/countries/cab.cfm?fips=AJ> (last accessed: 13.04.2013)

<sup>162</sup> - Full list of NGOs in the coalition can be accessed at: <http://eiti-ngo-azerbaijan.org/coalition/members/>

Revenue Watch Institute has observed, publishing the information in Azerbaijan to hold public officials responsible has become overly difficult due to government repression against the media. Several opposition newspaper reporters were intimidated by the police and government officials over the past years. World Press Freedom Review reported during October 2003 demonstrations and deceitful presidential elections, that 70 reporters were injured. Besides, there are incidents being reported when editors and journalists become victims of libel suits initiated by government. As stated by Human Rights Watch in 2007, increasing violence against media representatives followed by arrests of journalists and numerous defamation cases undertaken by government representatives decayed media freedom. Tougher crackdown on media took place on the eve of the 2008 presidential elections. All media was controlled and monitored by the state, despite the efforts and pressure from the OSCE and other organizations.<sup>163</sup> With no freedom of expression and freedom of media in Azerbaijan, it is highly unlikely that transparency through issued annual reports can lead to any accountability of the government, to reduction of corruption, to public control of the expenditures of state funds and overall benefit to the population.

In September 2011, Caspian Information Center issued a report 'Fighting Corruption in Azerbaijan: The Importance of Transparency.' The report starts with the perceptions about the corruption rate in Azerbaijan referring to 2008 opinion poll that showed that from 50 to 60 percent of Azerbaijanis considered bribe to be the way of solving problems with public institutions and officials. Besides, by the 2010 Corruption Perception Index of Transparency International, Azerbaijan in on 134<sup>th</sup> place out of 178. Nevertheless, the report considered the topic about the extent of corruption in Azerbaijan as being exaggerated and criticized the failure of taking into account the evidence of fight against corruption in Azerbaijan and the results that have already been achieved. For the author, the 'evidence' lays in two developments that have long term positive consequences. The first is

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<sup>163</sup> - Azerbaijan Transparency Snapshot, Caspian Revenue Watch, <http://caspianrevenuewatch.org/our-work/countries/azerbaijan-transparency.php> (Last accessed: 15.05.2013)

Alyev's anti-corruption reforms and the second is the government's decision to sign up for the Extractive Industries Transparency Initiative.<sup>164</sup>

The report tries to demonstrate the progress made under Alyev's reform, with the emphasis on 'multiple local investigations resulting in the dismissal of dozens of state employees including the head of the prisons service, the chief of the water utility company and senior officials at the Ministry for State Emergencies'.<sup>165</sup> Whereas concerning EITI, she outlined the important outcome of governmental decision to join EITI and that now all oil and gas revenues flow directly to SOFAZ and the state budget. As the author suggests, all the information regarding all the transactions in oil and gas industry are publicized.<sup>166</sup> While before the main concern of civil society was to pressure publicizing of reports, now with the fostering of demand for accountability their concerns have become more specific. Recent task of NGO Coalition is to pressure the companies to present disaggregated revenue reporting for EITI implementation.

It can be argued that civil society and the governmental attitude towards it has changed over years. In 2007 CIVICUS Civil Society Index Report for Azerbaijan was published. As the report concludes, by that time civil society in Azerbaijan has not yet established and generated any mechanisms of real influence on holding the state accountable, promoting freedom of the press, influencing public policy for refugees and internally displaced persons (IDPs), promoting transparency of oil incomes, informing and educating citizens and delivering services to marginalized groups. Besides, the report emphasizes the unsupportive environment in which civil society operates in Azerbaijan and outlines the negative consequences of the Soviet totalitarian system in this regard.<sup>167</sup>

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<sup>164</sup> - Fighting Corruption in Azerbaijan: The Importance of Transparency, Caspian Information Center, Occasional Paper N. 12, September 2011. Retrieved from: <http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan047821.pdf> (Last accessed: 14.05.2013)

<sup>165</sup> - Ibid. p. 3

<sup>166</sup> - Ibid.

<sup>167</sup> - Sattarov, R., Faradov. T., and Mamed-zade, I. – Civil Society in Azerbaijan: Challenges and Opportunities in Transition, CIVICUS Civil Society Index Report for Azerbaijan, International Center for Social Research, Baku, December 2007



After four years, in 2011 a report was issued on the role of civil society in Azerbaijan. The report depicts the changes in governmental attitude towards civil society. As it suggests, though some authorities, both at governmental and local levels, still cannot understand the role of NGOs, In July 2007 President Aliyev adopted a concept for NGOs support, which has had an impact on the level of support these organizations receive. In August 2008 A Fund for the State Support for the development of Mass Media under the President of the Republic of Azerbaijan was established with an aim to develop and support independent mass media. The Fund is financed by the state budget. In addition, the president is now orientated on carrying out different social projects. As the report emphasizes, President Aliyev has made education a priority and has used large amounts of money from the State Oil Fund to invest in the education sector. There are 4.510 schools in Azerbaijan, no illiteracy, with all children attending school even in remote mountain villages. Teachers are offered incentives to work in these remote parts of the country. In 2007 the President signed a State Program for the Education of 5,000 Azerbaijani students abroad at Government expenses.<sup>168</sup>

The expressed governmental support does not eliminate the problems that civil society encounters in everyday activities. But, under the limited environment, it can be argued that EITI still helps foster certain social dynamics, mostly in regards to strengthening civil society.

On April 8, 2012 Mr. Ogtay Gulaliyev – Coordinator of the ‘Kura’ Civil Society Headquarter, Member of the Coalition for Improving Transparency in Extractive Industries and Editor-in-chief of ‘Transparency’ was imprisoned under suspicious grounds. The EITI NGO Coalition reckoned that the arrest was related to Guliliyev’s professional activity as civil society activist in increasing transparency in spending of oil revenues. Using the new

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<sup>168</sup> - Orpan, M. E., Paul, A. et.al. - The Role of Civil Society in Modern Azerbaijan, Report on Mission to Azerbaijan, Black Sea-Caspian Sea International Fund, Brussels – Baku - Bucharest – London, July 2011

social media, and the Coalition spread a petition to free Mr. Gulaliyev<sup>169</sup>. Soon after, Mr. Gulaliyev's arrest was condemned by Amnesty International, Human Rights Watch, World Organization against Torture, International Federation for Human Rights, etc. On June 13, 2012, Mr. Gulaliyev was released.

Though one might argue that the changes in governmental attitude especially towards in pro-transparency and pro-civil society activities can be assessed as a business move to encourage foreign investments, especially that civil society and media are still often detained. But the PR strategy of the government has fostered certain dynamics by framing a new discourse on transparency and civil society in Azerbaijan which also contributed to forming a demand for accountability.

For closer analysis of stakeholders of EITI, the study examines two comprehensive independent reports on EITI Azerbaijan. The reports are carried out by surveys and interviews and give a possibility for a comprehensive analysis of all stakeholders involved. Besides, the first report was published in 2006, two years after Azerbaijan signed on to the initiative. The second one was issued in 2012, several years after BTC pipeline started to operate. Though they slightly defer in methodology and approach, both reports reveal the progress and problems of EITI implementation by the time they were published. The time gap between the reports gives an opportunity to explore the implementation progress over years.

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<sup>169</sup> - Azerbaijan NGO Coalition for EITI: Freedom to human rights activist Ogtay Gulaliyev, Petition. Retrieved from: <http://www.change.org/petitions/azerbaijan-ngo-coalition-for-eiti-freedom-to-human-rights-activist-ogtay-gulaliyev>

### 3.4 Report on EITI Azerbaijan, Economic Research Center, 2006

#### Three Views of EITI Implementation in Azerbaijan

In 2006 an independent study was carried out on EITI implementation – ‘Three Views of EITI Implementation in Azerbaijan’. The study was conducted by Economic Research Center and funded by Open Society Institute – Assistance Foundation (OSI-AF). This was the first independent study undertaken on Azerbaijan EITI implementation two years after Azerbaijan joined the EITI. The research concentrates on assessing the attitude of all EITI stakeholders towards EITI and the efficiency of their collaboration. Survey questionnaires were used as a methodological tool for the research. Only assessment of survey outcomes will be presented here.<sup>170</sup>

#### The Attitude of Extractive Industry Companies in Azerbaijan towards EITI Campaign

The survey for companies focused on 20 extractive companies operating in Azerbaijan to assess their support for EITI campaign. (See appendix 2 for the list of companies.) The questionnaires were not returned within requested (two-month) time period and only eight out of twenty companies sent their responses. (For the list of eight see appendix 3.) The rest of the companies did not reply and ignored repeated inquiries. So, about 60 % of companies failed to provide any information.

The data received from the questionnaires from 8 companies revealed the following outcomes:

- Although all companies surveyed joined the EITI, they are not interested in greater transparency and are not willing to disclose their activities to the public. The fact that only 8 out of 20 companies gave responses, can serve as one of the proofs for

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<sup>170</sup> - For full report see - Three Views of EITI Implementation in Azerbaijan, Economic Research Center, Baku 2006 Can be accessed at: <http://pasos.org/231/three-views-of-eiti-implementation-in-azerbaijan/>

the abovementioned statement. Besides, one company (Garasu) openly confessed about it in its response. In addition, only a few of them have internal normative document on public availability of information and all companies responded that reports on extractive sector revenue payments under production sharing agreements should remain confidential.

- The attitude of most of the companies surveyed towards NGOs and mass-media is far from the principles of transparency. Although they claim that they address their inquiries, only three companies could respond to the surveys within agreed two months time-period. Besides, the survey revealed that companies have poor access to the activity of the NGO Coalition for EITI. Surprisingly, national oil company – SOCAR reported that it is unaware of the NGO Coalition activities in terms of EITI. Similarly, Shell Azerbaijan and Lukoil noted that it had no information and access to the activities of NGO Coalition.
- The majority of the companies are informed about government's activity under EITI, however some find this activity unsatisfactory. Besides, although greater part of the companies surveyed had interest to access detailed information on the targeted use of funds paid to the government, they did not have access to this information, other than what was obtained through media.

#### The Attitude of Government Entities towards EITI Campaign

The study involved 11 governmental entities (for the list see appendix 4) and sought to find out: **First:** How important are transparency-ensuring measures for the government and related companies? **Second:** What strong is the government's interest in EITI? **Third:** What is the level of relations between the public sector entities and EITI participants?

The outcomes of the survey revealed that some governmental entities are insufficiently aware of the EITI. Official representatives of the Ministries of Taxes and Finance and the

Chamber of Accountants were not fully aware of the initiative. In addition, the Ministry of Finance (member of the national commission) and the Ministry for Ecology and Natural Resources had e no sufficient information on the NGO Coalition, established as part of the campaign.

The study also made clear that the governmental entities do not consider the level t of objectivity and professionalism in the NGO coalition unsatisfactory. On the average l, respondents assessed the NGO Coalition activity as 5.5 on a 10-point scale. Only Chamber of Accountants and the Ministry for Industry and Energy have expressed their grounds for their dissatisfaction towards Coalition:

- The NGO Coalition is unable to offer effective public oversight mechanisms to the government and companies in respect of increasing transparency of EI revenue payments.
- The NGO Coalition can not show adherence to principle for EITI implementation.

Yet in the meantime, all the respondents reported that the activity of both local and foreign EI companies is not transparent. In addition, the Ministry for Ecology and Natural Recourses and Chamber of Accountants noted the following problems they had experienced with EI companies:

- Failure to adhere to contractual liabilities on the environment issues
- Failure to secure employees' labor rights adequately
- Failure to transfer tax payments timely and fully
- Failure to comply with investment liabilities adequately

Surprisingly, the respondents pointed to insufficient transparency of companies, but on the other hand noted that there were no problems with them.

### The Attitude of NGOs and Media to the EITI Campaign

The survey conducted has involved 46 respondents of which 27 were representing NGOs and 19 media outlets. 18 of the NGOS surveyed are members of the NG Coalition for EITI. Other nine respondents are interested in EI sector and in accessing information on the initiative.

The survey showed that the overwhelming majority of respondents (97.8%) are dissatisfied with opportunities available for public oversight over the use of natural resource revenues. Close to 50% of organizations surveyed have access to information they need by obtaining statistic bulletins, reports, and publications issued by appropriate entities, as well as exploring their websites. Interestingly, 39.1% of respondents still prefer to tackle this problem by means of private contacts.

The attitude towards the activity of EI companies, to ensure transparency and accountability is as follows: The vast majority of respondents (89.1 %) say the companies' activity is unsatisfactory, while one respondent regards this activity transparent and two - as partly transparent.

The respondents emphasized the primary reason for lack of transparency in companies' activity which is the failure to submit reports to the public on their current operations and operational expenditure. 41.3% of respondents have accused the companies of failing to provide the public with full information on payments to state budgets (tax and other payments). As additional remarks, four respondents have grounded their opinions on (1) corrupt practices at companies, (2) failure to timely respond to inquiries , (3) misappropriation of funds by a group of individuals through overstating expenditure, and (4) groundless information. The list of problems among local NGOs/media and the extractive sector companies includes failures: to disclose full and duly information to the public (54.3 %), to submit reports for public view in due time (41.3 %), to secure their workers' labor rights as needed (37 %), to give responses to inquiries in a timely manner (30.4%), and to create conditions for monitoring (21.7%). As it can be seen from these items, NGOs and media outlets are chiefly dissatisfied with the companies' attitude towards

fundamental components of revenue transparency reforms, such as public availability, reporting, etc.

Regarding the activity of government-linked entities ensuring oversight over the extractive sector, particularly oil and gas producing companies, only one respondent deems that the activity of these entities is fully transparent. According to 41 respondents (95.5%), the government does not address transparency in their activities. The respondents claim this, as the government still fails to disclose to the public periodic reports on state financial oversight of outcomes; data on oil and gas revenue payments collected in public funds are not publicly accessible. 47.8% of respondents consider that the government restrains opportunities to hold monitoring of projects financed from the budget and the Oil Fund. The specific weight of respondents that reproach the government with showing no interest in cooperation with local NGOs and media with a view to increasing transparency is 41.3%. So, most NGOs and media outlets believe that extractive industry companies and related government-linked entities in Azerbaijan do not address transparency standards in their activities.

### 3.5 Report on EITI Azerbaijan, Crude Accountability, 2012

After the BTC Pipeline and EITI Validation:

Where are Prosperity and Transparency in Azerbaijan?<sup>171</sup>

Between May 4 and May 11, 2012, Crude Accountability met with civil society activists, corporate representatives, and state agencies in Baku, Azerbaijan to discuss social and environmental practices related to the extractive industry and to clarify questions about how the Azerbaijani economy and society have changed in the six years since the completion of the controversial Baku-Tbilisi-Ceyhan oil pipeline. (For the list of interviewees see

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<sup>171</sup> - After the BTC Pipeline and EITI Validation: Where are Prosperity and Transparency in Azerbaijan? Crude Accountability, September 2012, Retrieved from: <http://www.osce.org/odihr/94979> (Last accessed: 8.05.2013)

appendix 5) The report reveals both the progress and a number of civil society's most significant concerns.

As the report outlines, there have been several positive outcomes related to the growth of Azerbaijan's oil industry. GDP has increased, social programs such as housing for internally displaced people have been implemented, and the Azerbaijani government's involvement in EITI and large international projects such as the Baku-Tbilisi-Ceyhan pipeline have provided civil society with the opportunity to raise its voice.

But the achieved transparency is still of a limited scale. Production-sharing agreements between companies and the government are not public, and civil society organizations monitoring Azerbaijan's involvement in the EITI noted that a number of domestic oil sector companies have no physical offices or internet presence; therefore suspecting that they are possibly fronts for stealing through government contracts.

Activists and experts interviewed also discussed the macro level economic and social planning. They identified several critical democratic and social reforms that have not been adopted in Azerbaijan due to a lack of political will. Government spending on education and pensions has failed to keep pace with the fivefold increase in its GDP in the past decade, and approximately one million Azerbaijanis work abroad as a result of a non-diversified economy and low average wages.

The study emphasizes that Azerbaijan's government still remains politically repressive. It was ranked 2.4 out of 10 on a corruption scale in 2011 in Transparency International's Corruption Perception Index, and 162 out of 179 by Reporters without Borders with regard to media freedom in 2011. The latter organization has attributed negative pressures on free speech to the country's increasing petroleum wealth.



### Government and Companies

The report outlines the positive sides that Azerbaijan has seen in recent years. The rapid increase in oil and gas produced over the past decade has dramatically enriched the Azerbaijani government as well as foreign companies operating in the sector. In 2003, Azerbaijani daily oil production was roughly 300,000 barrels, and it was climbing. In 2010, the industry produced 1.1 million barrels per day. After more than a decade of growth, production is expected to peak between 2012 and 2014, with the majority of oil produced in the Azeri-Chirag-Guneshli (ACG) fields. In 2010, Azerbaijan exported 777,000 bbl/day of oil, about 80 percent of which went through BTC. In 2011, the country's total exports were \$23 billion, 90 percent of which was derived from oil and gas sales.

Besides Azerbaijani gas production is on the rise. The Shah Deniz field began producing gas in 2006. As BP's largest-ever natural gas discovery, it transformed Azerbaijan from a net importer to a net exporter of gas. Shah Deniz' "Full Field Development" phase is planned to come online in 2016-2017, and is projected to triple domestic production and supply natural gas to Europe. In addition to private funding by BP and other consortium members, Shah Deniz Stage was supported by a \$100 million loan from the European Bank for Reconstruction and Development (EBRD) in 2003 to SOCAR, and Lukoil secured a second loan, also from the EBRD for \$110 million in 2005. It remains to be seen whether international financial institutions will provide additional loans for further Shah Deniz development.

The State Oil Fund of the Republic of Azerbaijan (SOFAZ) collects revenues and taxes from companies that have concluded production sharing agreements with the Azerbaijani government. The Fund's goal is to 'manage efficiently accumulated oil revenues generated from development of [the] country's oil fields jointly with foreign companies and to assign these assets to the development of advanced areas and implement projects of social-economic importance.' SOFAZ' reserves have quadrupled in a decade from approximately \$5 billion in 2001 to \$23 billion in 2010. Nearly \$6 billion was transferred from SOFAZ to the state budget in 2010, which represented 52 percent of the Azerbaijani government's

revenues. Ninety-seven percent of SOFAZ's revenues in 2010 came from oil and gas sales. Civil society's largest criticisms of SOFAZ are that it has no civil society representatives on its supervisory board and that its social programs are at times ineffective.

In addition, Azerbaijan has dramatically improved its poverty rate in the past decade, comprising just 9.1 percent as of 2010. However, citizens above the poverty line face economic challenges such as high consumer prices compared to their wages.

### Civil Society

The collective goal of Azerbaijani civil society organizations active in the petroleum sector is to obtain the release of corporations' disaggregated revenue and tax payment information. Only BP and Statoil currently publish this information. A secondary concern is inconsistent information disclosure across borders. In the case of other European companies, civil society noted they received fewer responses to their requests for information than do their European counterparts. Additionally, civil society noted that the State Oil Company of the Azerbaijan Republic (SOCAR) is more transparent about its operations in neighboring countries.

The NGO Coalition for EITI expanded over years to approximately 160 organizations. The coalition currently has two top priorities: winning the public disclosure of petroleum company production-sharing agreements signed with the government, and making the companies' disaggregated reports of taxes and revenues publicly available. Both of these objectives are intended to reduce corruption in the government and private sector.

The coalition also conducts advocacy to improve the way SOFAZ invests and spends petroleum revenues. For example, a recent proposal to build a \$110 million new headquarters for SOFAZ' 110 employees ignited wide protest from civil society.

While the coalition has gained increased but limited access to government and corporate decision-making through its participation in EITI, it notes certain flaws in the process that

must be corrected to ensure greater accountability. First, EITI participation is voluntary for companies, and there are no sanctions for poor performers. This leaves civil society with little leverage when a company or government does not disclose information. Additionally, members of the coalition also reported that companies and the government sometimes used a ‘divide-and-conquer’ strategy to appease a few civil society organizations in order to weaken the ability of the larger group to present a unified front to achieve its goals.

### Operating environment for NGOs and Media

Freedom of the press is severely restricted in Azerbaijan, and the government regularly threatens civil society activists and journalists. In May 2012, the government cracked on journalists and activists protesting human rights abuses before the Eurovision 2012 Song Contest was held in Baku. Members of the hip hop group ‘Balistan’, a vocal critic of the government, were detained and beaten by the police following their role in a March protest. Five journalists were imprisoned in the first half of 2012, and one was murdered in 2011. The president’s office and the legislative branch have expressed hostility directed at free speech:

On May 31, 2012, Ali Hasanov, a political advisor to Azerbaijan president Ilham Aliyev, called for public hatred against journalists and newspapers critical of the regime, according to local reports. Speaking to a group of loyalist civic organizations, he said, ‘They must not appear in front of the Azeri public anymore. They should be afraid to go to the streets. We have to display the public hatred against them.’<sup>172</sup>

As the report outlines, in this environment, civil society organizations often face intimidation and harassment. The author of the report witnessed police ‘checking in’ at civil society offices where employees stayed past five p.m. One civil society activist reported that their office had been broken into and their emergency call card from the human rights

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<sup>172</sup> - Freedom House - Journalists Face Open Hostility and Crackdowns in Azerbaijan, Accessible at: <http://www.freedomhouse.org/article/journalists-face-open-hostility-and-restricted-access-information-azerbaijan>

organization Frontline and a copy of a production sharing agreement was stolen. The paperwork required to officially register a NGO is more difficult in Azerbaijan than in neighboring Georgia or Armenia; as a result, many NGOs remain unregistered and are more vulnerable to government harassment.

### Funding

Civil society reported that it has become increasingly hard to find funding for environmental and social work. One of the most significant foundations in the country, Open Society Foundations (OSF), is in the process of downsizing from several employees to one. OSF is also changing its funding model from providing large operational grants to small grants, the recipients of which will be selected by the New York office rather than local staff.

One participant in the EITI NGO Coalition reported that his organization had gone more than a year with no funding. Another reported that she had applied to the US and UK embassies for grants for sixteen years but had been consistently turned down, likely because of the nature of her work helping oil workers to organize themselves. In addition to the scarcity of funding sources, the conditions set by the government to receive a foreign grant are onerous, including a requirement that foreign grant documents be translated into Azeri and notarized.

### Accomplishments of NGO Coalition for EITI

The NGO coalition's greatest success, according to the report, has been delaying Azerbaijan's EITI validation until a Multi-Stakeholder Group (consisting of companies, the government, and NGOs) was established and a formal action plan that outlines annual activities within the initiative was developed and adopted. Multi-Stakeholder Group addressed the problem of information-sharing and active collaboration between stakeholders that was the case for the first years of EITI implementation. Azerbaijani civil society worked effectively with international civil society, the media, and the EITI

Secretariat to ensure that these conditions were met, and also advocated for the Multi-Stakeholder Group to produce its own press releases (rather than allowing the Azerbaijani EITI Secretariat, which is run by the Azerbaijani government, to write them), and succeeded. The coalition reports that as a result of the EITI process, BP and Statoil have become more open to public requests for information. Additionally, Open Society Foundations reports successful social and environmental negotiations between Azerbaijani civic activists and Chinese and Russian companies.

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For now, it can be said that despite the difficult situation for civil society to carry out its activities, and despite the fact that changes in governmental attitude towards pro-transparency and civil society activities should be understood as a PR strategy of the government to encourage foreign investments, certain dynamics of framing a new discourse on civil society and transparency has been fostered over the years.

#### 4. CONCLUDING ANALYSIS

As the process-tracing has shown, global civil society institutions played a crucial role in emergence of transparency norm in oil sector. Transparency in extractive sector as an idea emerged together with the vast protestations in Nigeria against Chevron and other TOCs. The report on Nigeria ‘Price of oil...’ that Human Rights Watch published in 1999 correlated oil industry with general issues of human rights and democracy and outlined the need for communities to be informed and involved in the industry developments. But the emphasis on transparency of the sector was first highlighted by Global Witness in its December 1999 report ‘A crude awakening ...’ on Angola. The idea was further elaborated by civil society when criticizing the World Bank involvement in extractive industries, with the formation of PWYP coalition and the EIR report where transparency of the sector was once again emphasized.

The campaign was grounded in the principles of ethical development such as social justice, responsibility, fairness etc. Besides, with the ‘norm entrepreneurship’ and formation of EITI, civil society legitimized its participation in extractive sector as an equal stakeholder in the processes, thus provided framework and criteria for deliberative procedures both on global and national level. The core of deliberative theory is that any system of democratic governance should be accountable to public reasoning. Decisions that affect people should be result of legitimate process of public reason therefore they should be acceptable by all stakeholders involved. As we have seen this idea is the central part of EITI decision-

making process at global level and one of the main objectives of the EITI to be achieved at national level.

It can be argued that EITI institutionalizes two norms at the same time – transparency and civil participation. Without strong civil society, the open information will not lead to any accountability. ‘It is one thing to enlighten citizens; it is another to empower them’<sup>173</sup>. Though EITI is criticized for being concentrated only on transparency in extraction process, it attempts to institutionalize a system addressing both ‘enlightening’ (through transparency discourse) and ‘empowering’ (through civil society discourse) of citizens, uniting the two into one coherent system.

The emergence of a norm does not presuppose its immediate validation. Many norms emerge, but disappear soon after unless shared by key actors. As the study showed, the main instrument for global civil society in pushing the norm-setting process was the campaign against the World Bank and the leaders of developed countries who played crucial role in the norm diffusing process. They embraced the norm because of the reputational concerns that were ascending with the pressure of the campaign that validated the norm. But as the second part of the study showed, the institutionalization of the norm as an important drive for general policy changes at local level has not yet occurred.

After the process-tracing, the ‘life cycle’ of the transparency norm in extractive sector can be observed in three stage-processes on Finnemore and Sikkink’s theoretical model.<sup>174</sup> As we have seen, though civil society rarely had any access to oil industries before, it played a crucial role in setting transparency norm in oil sector. As the norms of equality and protecting vulnerable groups have more transnational resonance than others,<sup>175</sup> the civil society groups, NGOs and individuals united to respond to the vast human rights violations in Africa’s oil rich countries. Through the criticism of the World Bank for financing extractive sector, through subsequent reports both on Nigeria and Angola and with the

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<sup>173</sup> - Shaxson, N. - Nigeria’s Extractive Industries Transparency Initiative, Just a Glorious Audit?, *Chatham House, The Royal Institute of International Studies*, November 2009

<sup>174</sup> - Finnemore, M., Sikkink, K. – “International Norm Dynamics and Political Change”, *International Organization*, Vol. 52, No. 4, Autumn, 1998, pp. 887-917

<sup>175</sup> - Ibid. p. 907

emphasis on public oversight of oil industry, the entrepreneurship led to the emergence of transparency norm in extractive sector.

The second stage refers to the broadening of norm acceptance – ‘norm cascade’ - and is related with the involvement of IFIs like the World Bank or G-8 and countries like UK or USA. As Finnemore and Sikkink argue, legitimation of norm is the main motivation for normative shift, which is often connected to the ‘reputation’ or ‘esteem’ issues. As they argue, actors will embrace norm if they are ‘insecure about their international status or reputation’.<sup>176</sup>

The reputation concerns after the pressure and criticism that civil society directed towards the World Bank, or the pressure on the British government within the country because of its investments in BTC pipeline has already been discussed. Rational choice theory could possibly explain the involvement of these actors in extractive sector transparency ‘norm cascade’ as well, as the extensive body of empirical research on norms reveals an intimate relationship between norms and rationality that constructivists call ‘strategic social construction’.<sup>177</sup> Whatever the strategic calculations, soon after the initiation of EITI, in December 2003, the World Bank endorsed EITI. In June 2004 EITI was endorsed by G-8 leaders. In 2005 EITI was already supported by extractive companies, over 70 institutional investors, international organizations such as G-8, G-20, EU, the African Development Bank, etc.

The role that global civil society played in emergence of the transparency norm in extractive sector justifies transformationalist approach to globalization. What has changed, is the opportunities that makes it possible to link like-minded groups in different parts of the worlds who can address demands not only to the states but to global institutions as well. Therefore, transformation of global politics can also be understood in conjunction with the rising of civil society, which is both an outcome and an agent of global interconnectedness.<sup>178</sup> Global civil society provides a way to supplement ‘traditional’

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<sup>176</sup> - Ibid. p. 906

<sup>177</sup> - Ibid. p. 910

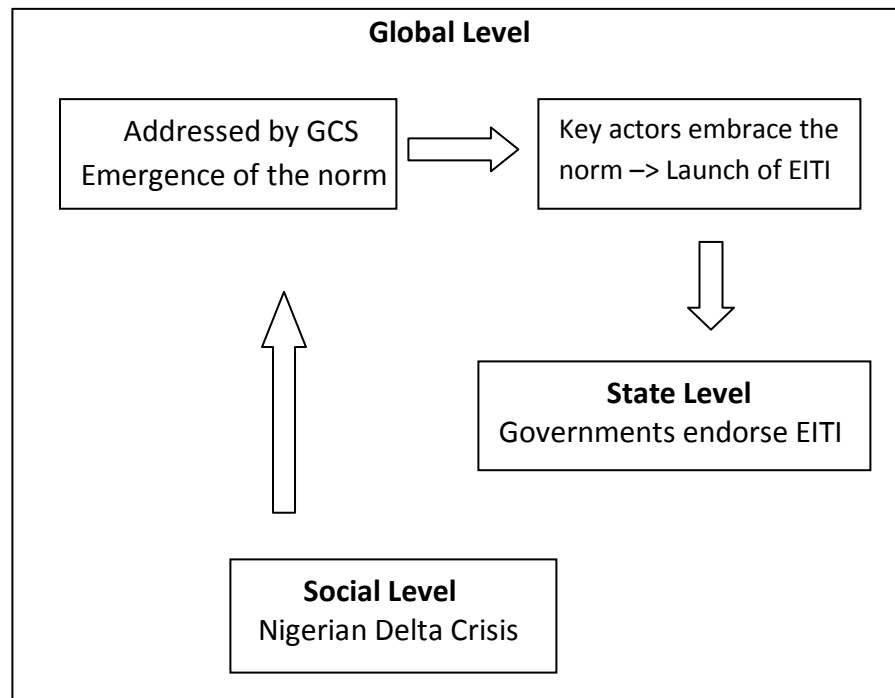
<sup>178</sup> - Kaldor, M. - *Global Civil Society. An Answer to War*. Cambridge: *Polity Press*, 2003 p. 2



democracy, creating new channels for global deliberation and offering ‘the possibility for the voices of the victims of globalization to be heard, if not a vote’.<sup>179</sup>

Besides, the emergence of the transparency norm echoes the ideal of Cosmopolitan Democracy. As the study showed the EITI standard was triggered by social groups locally, and transposed to the global level. It can be argued that EITI demonstrates a case suggesting a way of how democratic principles can be brought beyond the nation-states. Against the view that democracy can only be exercised in the nation-state type of organization, a ‘technique’ can be observed that creates the global to national, top down normative structure that Cosmopolitan Democrats advocate. For better clarity, the multi-level system can be observed on extractive sector transparency case:

Figure 4: Standard setting of transparency norm in extractive sector



<sup>179</sup> - Kaldor, M. - Global Civil Society. An Answer to War. Cambridge: Polity Press, 2003 p. 148

This case demonstrates one example of how democracy can be practiced beyond nation-states. Therefore, it can be argued that proliferation of such kind of standards makes international society more susceptible to normative changes.

The third stage of norm 'life-cycle' is 'norm internalization' when 'norm acquires a taken-for-granted quality'<sup>180</sup> and when it changes behavior of the actors in a manner that the norm is not questioned<sup>181</sup>. The second part of the case study concentrated on Azerbaijan's acceptance of EITI in order to research internalization of the norm in the first signatory country. As Finnemore and Sikkink outline 'procedural changes that create new political processes can lead to gradual and inadvertent normative, ideational, and political convergence.'<sup>182</sup> Stakeholder analysis was offered in the second part in order to find out whether procedural changes in Azerbaijan resulted in behavioral changes as well, which is especially important, for the 'soft' nature of EITI.

As the study showed EITI was important for the government of Azerbaijan during the times when foreign direct investments in BTC pipeline were streaming in the country. BP and the World Bank indirectly imposed conditionality on the government of Azerbaijan to embrace EITI in return for their investments. While finances were flowing in the country, the government was actively involved in EITI procedures; carried out various conferences, issued reports in a timely manner, made public presentations and expressed its commitment towards the initiative. But after the major oil and gas projects started operating and foreign finances moved towards less intensive stages the interest of government in EITI weakened.

The civil society within the country, together with international 'watchdogs' are concerned that transparency in extractive sector is descending lately. Besides, civil society reports about the lack of instruments for civil society to push for accountability and failure to translate revenues from oil sector into better living standards for average citizens.

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<sup>180</sup> - Finnemore, M., Sikkink, K. – "International Norm Dynamics and Political Change", International Organization, Vol. 52, No. 4, Autumn, 1998, p. 895

<sup>181</sup> - Ibid. p. 904

<sup>182</sup> - Ibid. 905

In order EITI to meet its aim and objectives and in order MSGRSs to offer a novel form of global governance to provide more legitimate, ethically grounded and ‘globally just’ alternative to current intergovernmental forms, a better mechanism for safeguarding civil society involvement and deliberative practice of multi-stakeholder processes is necessary.

The idea of EITI extending its agenda to transparency of revenue expenditures might solve the current problems of translating revenues into a social welfare. The direction towards this step is already visible, as stakeholders within EITI also outline the benefits that this kind of expansion might mean for EITI and the implementing countries. As the EITI Board makes its decisions based on consensus, it will be difficult to trigger this type of normative change. But if to take into account how transparency norm emerged in extractive sector, it is not that unimaginable.

When having a look at EITI stakeholder system (see table 2, p.65), it seems EITI promises benefits to all, but as stakeholder analysis showed results and benefits vary from stakeholder to stakeholder. It can be concluded that both the government of Azerbaijan and the companies operating in the country benefited, more or less, in accordance with EITI promises. Though there is no evidence to attest that the government and companies would not have gained same results if not EITI. Therefore, the direct causal relationship between their gains and EITI implementation is difficult to trace.

Azerbaijani government has seen increased investments, increased exports and increased revenues in the last years. In 2003, Azerbaijani daily oil production was roughly 300,000 barrels and climbing. In 2010, the industry produced 1.1 million barrels per day. In 2011, the country’s total exports were \$23 billion, 90 percent of which was derived from oil and gas sales. The companies are benefiting as well. After the success of BTC, BP now focuses on cooperation with Azerbaijani government in gas sector. The long-term cooperation in Shah Deniz’ filed is planned to come online in 2016-2017, and is projected to triple domestic production and supply natural gas to Europe.

After EITI and the support that it has received from leading IFIs, the criticism towards IFIs financing extractive sector reduced. The topic has not surfaced as organized protest since

EITI started to operate. In addition to private funding by BP and other consortium members, Shah Deniz Stage was supported by a \$100 million loan from the European Bank for Reconstruction and Development (EBRD) to SOCAR, and Lukoil secured a second loan, also from the EBRD for \$110 million.

The more visible positive link can be identified between EITI implementation and SOFAZ- being the most transparent governmental body in Azerbaijan. Oil and gas revenues currently flow directly to the SOFAZ and directly to the budget. SOFAZ publishes annual reports on its website that provides a breakdown of its sources of revenue. Some local activists told Revenue Watch Institute that the information was clear and useful. Besides, SOFAZ is now active in financing social projects.

As the study revealed, EITI, in the case of Azerbaijan, served as a regulatory standard more between states, companies and IFIs where civil society played a limited role. But this is due to the weak civil society in the country. It can be argued that institutionalization of normative discourse on transparency and civil society is within the already existing institutions of governments and companies, where behavior is dictated by profit maximization. Sometimes corporate and governmental actors may challenge the appropriateness of international norms - but, of course, this does not make them a less important subject for research, especially that EITI uses profit maximization as an incentive for the governments and companies to endorse EITI. Besides, the progress over the years and the positive effects of EITI, mostly in regards to the development of civil society should not be neglected.

As the study showed, collaboration between stakeholders improved over years. While the study of 2006 showed that there was no coordination between stakeholders to the extent that they did not have information about each other's activities (even existence of NGO Coalition was unknown for some of the companies and governmental entities) after several years and after establishment of Multi-Stakeholder Group the problems moved towards more concrete and specific matters. (E.g. civil society demanding disaggregated reports from the companies).

Analyzing the benefits that civil society gained from EITI is a challenging task. On the one hand, the study showed that transparency does not necessarily mean accountability; this is due to the unbearable situation for NGOs to carry out their activities because of governmental repression. But, the country background should be taken into account. Azerbaijan is an authoritarian country where the concept of civil society is new, where freedom of expression has been limited for decades (first under Soviet Union, and later under Alyev Dynasty) but the progress can still be traced. As the report showed, civil society feels its voice has been increased under EITI framework.

Arguably EITI implementation has different outcomes in different countries. In Azerbaijan EITI plays an important role in strengthening civil society, while it can be expected that in developed countries, with well functioning civil society the task of EITI is closer to its overall objective that is making government accountable and translating revenues into social welfare. But further research is recommended to test this premise.

In Azerbaijan EITI achievements can be credited towards strengthening local civil society. Now civil society feels empowered enough to protest SOFAZ investments in building its own headquarters. The fact that detained activists refer and use EITI as a shield against governmental oppression indicates the general attitude towards EITI. Civil society sees EITI as a powerful leverage against government. One indicator of this can also be the vast increase of NGOs with different agendas under EITI Coalition. On the other hand this attitude can indicate the normative power that a standard with a broad global reach can have on national governments. But the results of the empirical study are not sufficient enough to prove this type of normative capacity of EITI.

EITI is still a new system. If to take into account how fast EITI proliferated all over the world and how quickly it has developed to meet its overall objectives, more developments are expected. For this reason further research is highly recommended on this account. Cross-country research might be useful in identifying normative capacity of EITI on norm internalization and change of behavior of actors on national level. Now US has joined EITI and if to follow Finnemore and Sikkink's observation, 'norms held by states widely viewed

as successful and desirable models are thus likely to become prominent and diffuse.<sup>183</sup>  
Therefore, prediction on further broadening of EITI in the future is not without its grounds.

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<sup>183</sup> - Finnemore M. and Sikkink K, *"International Norm Dynamics and Political Change"* International Organization, Vol. 52, No. 4, p. 906

## CONCLUSION

The thesis has discussed a case of Extractive Industries Transparency Initiative as one of the pioneers of multi-stakeholder global regulatory standards, a recently proliferated global governance initiative. Though it has been just several years since EITI has started to operate, the rapid dynamics of the initiative gave opportunity for closer research.

The Study represents an attempt to address intricate relationship between states, companies, civil society organizations, international financial institutions and international organizations and the tension between the values of market and democracy in the context of globalization. As a response to much of the state centric research that had long dominated the study of International Relations, the thesis emphasized the role of non-state actors in international affairs.

The thesis started with an introduction to the globalization debate and introduces three different perspectives on the topic. The chapter discussed opposing views of three different groups of scholars, namely Hyperglobalists, Skeptics, and Transformationalists, following Held and McGrew's model. In response to Hyperglobalist and Skeptics' vision, the thesis demonstrated an example of how globalization is transforming international relations and world politics. While assessing the role that global civil society played in emergence of the transparency norm in extractive sector, the study displayed the changes taking place in the world, namely outlined the new opportunities that make it possible to link like-minded groups in different parts of the worlds to address demands not only to the states but to global institutions as well. As the thesis revealed, EITI is both an outcome and an agent of

global civil society activities. Therefore, the study has exposed the normative power of global civil society in triggering changes and pressuring ethical development of the world, thus transforming global politics.

The need for ethical development is determined by the spread of information on global poverty and social inequality. The study has presented the facts that are at the core of global justice movement and the works of proponents of humanizing globalization.

Giving a human face to the globalization is usually understood in connection with a demand for broadened political inclusion and public participation on global level, which is determined by the fact that current systems of global governance still remain unrepresentative of the needs of those who are mostly affected by global decisions. The thesis has discussed three distinct projects on transnational democratization: Deliberative Democracy, Cosmopolitan Democracy and Multi-Stakeholder Global Democracy. Though their agendas defer, each account prescribes practices that is essential to the construction of a more human world and that has been used for analyzing MSGRS in the given study. The theories of transnational democratization have usually been criticized on the basis that democracy can only be exercised in the nation-state type of organization. However, in response to the criticism, the study has demonstrated one example of how democratic principles can be brought beyond nation-states.

The thesis aimed to analyze both ideational characteristic of EITI and its efficiency in practice, in order to research if MSGRS provide more 'globally just', legitimate, but at the same time effective alternative to current intergovernmental forms. The study analyzed EITI at three different levels following Finnemore and Sikkink model: 'norm-setting', 'norm-cascade' and 'norm-internalization'<sup>184</sup>.

The empirical chapter was divided in three parts. First part concentrated on normative understanding of the case. By undertaking process-tracing of transparency norm in extractive sector, the study revealed that answer to the increasing need for humanizing

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<sup>184</sup> - Finnemore, M. and Sikkink, K. - International Norm Dynamics and Political Change, *International Organization*, Vol. 52, No. 4, Autumn, 1998



globalization might lie in global civil society which provides a way to supplement ‘traditional’ democracy and creates foundation for global deliberation. As EITI provides a multi-level and multi-stakeholder mechanism, governance structure of EITI on global level was studied in the second part. As the study showed despite the consensus-based decisions between three different constituencies and despite the highly political nature of the sector, the performance of multi-stakeholder executive Board of EITI appears to be smooth and effective, while it attains legitimacy because of its multi-stakeholder governance structure.

The third part concentrated on EITI multi-stakeholder mechanism at national level on the case of EITI Azerbaijan. As mentioned earlier, EITI operates globally but aims at establishing value-driven sociopolitical collective regulation of relations on national level to improve governance and trigger social welfare in the oil rich countries of the world. The scheme that EITI establishes goes in line with the main principle of cosmopolitan democracy, suggesting that application of norms and values of democracy at different levels should come from global scene.

EITI represents the case where different stakeholders come to work together. So, stakeholder analysis was offered to examine the efficiency of EITI global mechanism for improving governance at national level by providing incentives and benefits to all stakeholders involved. As the study showed, transparency alone is not enough to hold government accountable. Civil society should have capacity to carry out its activities and to demand accountability. Azerbaijan is an authoritarian country where the concept of civil society is still new. As one report outlined, some of the government representatives still do not understand general role of civil society in politics. Therefore, in a country like Azerbaijan EITI adopts two functions simultaneously, namely institutionalizes both transparency and civil society discourses, uniting the two into one coherent system. As the study revealed, this is the case both on national and global levels.

While so far there is a gap between development agenda of EITI and the outcomes of implementation, the EITI is still a new system of regulation. Therefore, the results are still to be seen. As Halliday argues, the reform in global governance should concern not only

institutions but values as well. Besides, new approaches should be designed to meet the challenges and should have a chance of being implemented. As the study demonstrated, EITI is value-driven, designed to meet the challenges of intensified transnational relations, the problems of social justice and the democratic deficit of global politics. Though it is a very small case to stretch its analysis on a bigger picture of world politics, MSGRSs already demonstrate its capacity to make international society more susceptible to normative changes.

Considering active mobilization of global civil society and the rising demand for transitional deliberation and representation of civil society organizations in different IGOs, further monitoring and research on multi-stakeholder processes is recommended as it is not without grounds to expect the model that MSGRSs institutionalize to some extent be extended to other institutions as well.

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## Results of Independent Validation of EITI Azerbaijan 1/2

## Appendix 1

Indicator	Validator Comments	Validator Judgement
7. Are companies engaged in the process?		Indicator met
8. Did the government remove any obstacles to EITI implementation?		Indicator met
9. Have reporting templates been agreed?		Indicator met
10. Is the multistakeholder committee content with the organisation appointed to reconcile figures?		Indicator met
11. Has the government ensured all companies will report?		Indicator met
12. Has the government ensured that company reports are based on audited accounts to international standards?	The semi-annual reconciliation of the reports is not, and was never intended as an audit in precise audit terms.	Indicator met
13. Has the government ensured that gov. reports are based on audited accounts to international standards?	Improvements to Azerbaijan's approach to the audit of Government accounts and Government entities are underway and the basic system appears to be in line with models applied internationally.	Indicator met
<b>Disclosure</b>		
14. Were all material oil, gas and mining payments by companies to government ("payments") disclosed to the organisation contracted to reconcile figures and produce the EITI report?	We appreciate that payments to the State Social Protection Fund may be considered as 'Material Payments' to the Government. However given that such payments are not included in established EITI reporting templates, we do not see their inclusion in the reporting as a requirement of the Validation.  This indicator should be reviewed so that the term "Material Payments" is clarified as its use without clear definition can lead to divergent interpretation.	Indicator met
15. Were all material oil, gas and mining revenues received by the government ("revenues") disclosed to the organisation contracted to reconcile figures and produce the EITI report?	We appreciate that payments to the State Social Protection Fund may be considered as 'Material Payments' to the Government. However given that such payments are not included in established EITI reporting templates, we do not see their inclusion in the reporting as a requirement of the Validation.  This indicator should be reviewed so that the term "Material Payments" is clarified as its use without clear definition can lead to divergent interpretation.	Indicator met

## Results of Independent Validation of EITI Azerbaijan 2/2

Indicator	Validator Comments	Validator Judgement
16. Was the multistakeholder group content that the organisation contracted to reconcile the company and government figures did so satisfactorily?		Indicator met
17. Did the EITI report identify discrepancies and make recommendations for actions to be taken?	<p>All differences in the reporting have been explained during recent reporting rounds. However the Validator is surprised by the number of repeated mistakes made in the company reports. These mistakes place additional and unnecessary burdens upon those involved.</p> <p>Whilst a large number of different measuring units and currencies are used in the industry, we appreciate that a certain skill level is required in order to report correctly. But such reporting should be well within the capacity of any oil company qualified to hold a stake in a PSA or license. We urge the companies to agree collectively on what measures will be required to improve the quality of their reporting.</p>	Indicator met
How have oil, gas and mining companies supported EITI implementation?		Indicator met
<b>Dissemination</b>		
<p>18. Was the EITI report made publicly available in a way that was:</p> <ul style="list-style-type: none"> <li>– publicly accessible,</li> <li>– comprehensive, and</li> <li>– comprehensible?</li> </ul>	The report is generally comprehensible and is disseminated widely. This indicator has been met.	Indicator met
What steps have been taken to act on lessons learnt, address discrepancies and ensure EITI implementation is sustainable?		Indicator met

List of targeted 20 extractive companies operating in Azerbaijan:

1. The State Oil Company of the Azerbaijan Republic (SOCAR)
2. Bp Exploration (Caspian Sea) Ltd
3. Exxon Mobil Azerbaijan Operating Company LLC
4. Statoil
5. ANSHAD Petrol
6. Shell Azerbaijan
7. Lukoil Overseas Service Ltd
8. Unocal
9. Devon Energy Caspian Corporation
10. TPAO
11. Azgerneft
12. Itochu Oil Exploration (Azerbaijan) Inc.
13. ConnocoPhillips
14. Garasu Operating Company
15. Total E&P Azerbaijan B.V.
16. Amerada Hess
17. Salyan Oil
18. Shangli Oil
19. Shirvan Oil
20. Middle East Oil

List of eight EI companies surveyed:

1. Garasu Operating Company
2. Bp Exploration (Caspian Sea) Ltd
3. Salyan Oil
4. ANSHAD Petrol
5. Lukoil Overseas Service Ltd
6. SOCAR
7. Shell Azerbaijan
8. Statoil

List of government entities surveyed:

- Ministry for Communications and Information Technologies
- Ministry for Taxes
- Ministry for Industry and Energy
- Ministry for Finance
- Ministry for Economic Development
- Ministry for Ecology and Natural Resources
- State Statistics Committee (SSC)
- State Social Protection Fund
- Chamber of Accounts
- The State Oil Fund (SOFAZ)
- Ministry for Transport

List of organizations interviewed:

Open Society Foundations-Azerbaijan

European Bank for Reconstruction and Development

British Petroleum (BP)

Economic Research Center

State Oil Company of Azerbaijan Republic

State Oil Fund of Azerbaijan

Revenue Watch Institute

The Coalition of NGOs for Improving Transparency in the Extractive Industry

Entrepreneurship Development Foundation

Oil Workers Rights Protection Organization



