



Transparency and Corruption in Mineral Abundant Economies – Evidence from T&T

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Format of Presentation

- Economic issues linked to oil rents and how in particular it can sprout a greater level of corruption in the economy
- The effects of corruption on citizens
- The effect of transparency on corruption
- EITI and corruption

Introduction

- Hydrocarbons are in particular a peculiar commodity, it is owned by the nationals of the nation state where it exists, but it is also the anchor behind industrialization at the international level. It is a commodity that is non-renewable and it is associated with volatile prices. The industry as a whole is also characterised by a high degree capital intensity. The hydrocarbon sector also tends to be enclave, attracts vast amounts of FDI, and is associated with at times, very high levels of rents.

		Average 2000-2012						
	Oil rents (% of GDP)	GDP Per Capita (constant 2005 US)	Gini Index	Literacy rate, adult total (% of people ages 15 and above)	Manufacture Value Added (% of GDP)	Trade (% of GDP)	Human Development Index	Corruption Perception Index 2013
Algeria	17.39	2951.21	..	71.26	7.46	67.26	0.71	36
Angola	18.46	3045.19	52.83	88.56	14.04	57.52	0.72	35
Azerbaijan	28	5662.47	47.68	94.55	16.53	50.46	0.75	20
Chad	28.81	2044.26	..	99.61	16.15	124.27	0.69	17
Congo, Rep.	29.06	821.39	37.69	60	6.94	74.51	0.46	18
Ecuador	30.06	3914.68	32.77	99.73	13.9	89.32	0.75	26
Gabon	30.84	811.47	45.88	52.93	3.87	60.5	0.47	25
Guinea	34.34	586.49	39.78	29.81	3.79	83.57	0.34	19
Iraq	43.94	2055.96	35.11	99.68	6.21	91.86	0.73	28
Kazakhstan	44.95	6339.27	41.45	86.39	4.33	91.14	0.68	34
Nigeria	53.49	1987.42	50.65	68.88	4.83	124.35	0.5	23
Turkmenistan	53.67	1977.41	30.86	76.27	..	100.6	0.58	16
Venezuela, RB	64.23	1740.12	47.32	..	4.27	133.63	0.53	22
Yemen, Rep.	..	303.05	39.83	27.51	6.09	65.74	0.35	19

Nigeria				
Year	Oil rents (% of GDP)	GDP per capita (constant LCU)	Oil production per annum	Poverty headcount at US\$1.25 PPP, % of population
1960	..	2614.1		
1965	..	2932.7	100.01	
1970	3.3	3246.6	395.66	
1975	23.5	3758.7	651.525	
1980	40.7	3929.3	751.535	
1985	43.5	2958.1	547.135	
1990	39.9	3368	682.55	
1995	33	3357.8	729.27	
2000	41.5	3445.5	788.035	
2005	37.6	4083.1	913.23	
2006	33.2	4223.8	873.08	
2007	29.5	4399.4	826.725	
2008	31.1	4551	771.245	
2009	22.4	4735.9	807.015	
2010	25	4968.8	920.895	67.98
2011	30.2	5161.3	897.9	
2012	26.8	5347.2	882.205	
Source:				

Venezuela

Year	Venezuela GDP per Capita (Constant)	Production BOPD (ooo)
1960	5939.8443	3503
1965	6667.9632	3754
1970	6873.4845	2422
1975	6689.8916	2228
1980	6370.8097	1744
1985	5298.7794	2244
1990	5284.2634	2959
1995	5593.5788	3097
2000	5255.6917	3308
2005	5444.6625	2838
2006	5879.8681	2766
2007	6287.0376	2725
2008	6509.5553	3033
2009	6199.0918	2838
2010	6010.027	2766
2011	6163.9679	2725
2012	6412.0412	

Source: WDI (2012)

T&T

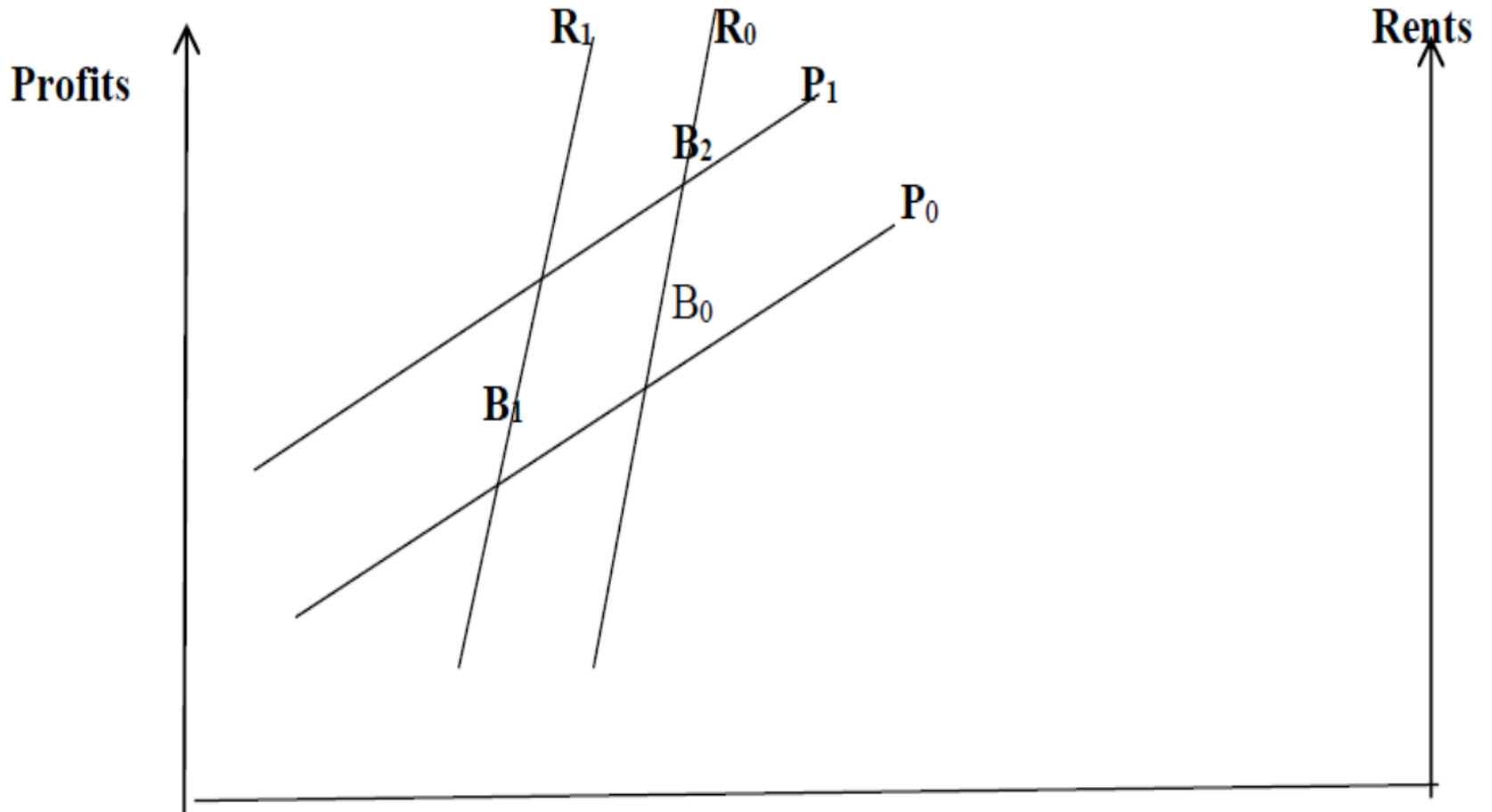
	Oil production annual, mn of barrels	nat gas prod mcm	nat gas mn boe	cr oil prod mn barrels	to prod mn boe	nat gas as a % total
1945	21,000	727.72	4.7	21	25.7	18.3
1950	20,632	914.85	5.9	20.6	26.5	22.3
1955	24,806	1156.89	7.5	24.8	32.3	23.1
1960	na	2482	15.9	42.4	58.3	27.3
1965	49275	3157.4	20.2	48.9	69.1	29.3
1970	51100	3428	22	51	73	30.1
1975	77380	3580.2	23	78.6	101.6	22.6
1980	68985	5601	35.9	77.6	113.5	31.6
1985	61685	7550	48.4	64.3	112.7	43
1990	54385	6645.5	42.6	55	97.6	43.6
1995	47171	7757.4	49.7	47.7	97.4	51
2000	41469	15473.6	99.2	43.7	142.9	69.4
2005	52105	33250	213.1	52.7	265.9	80.2
2006	43807	40057.8	256.8	52.1	308.9	83.1
2007	41828	41787.1	267.9	43.8	311.7	85.9
2008	41826	43073.7	280.7	41.8	322.5	87
2009	38966	45228	290	39.1	329.1	88.1
2010	35836	47647	300.1	35.9	336	89.3
2011	35550	45709	287.6	33.6	321.2	89.6
2012	29915	44516	286.7	29.9	316.6	90.6
2013	29617	42457	273.4	29.2	302.7	90.3

Source: Handbook of Key Economic Indicators and annual Economic Survey (various years).

Effect of corruption on people

Affected aspect of the Policy	Government Behavior	Effect Upon Citizens including Corporate Citizens
Exercise of Authority	Government responds only to special interests	Citizens experience government as unfair and unresponsive
Distribution of resources	Government provides resources based on bribes rather than demand and supply, thus distorting markets. Inefficiency thrives.	Citizens do not have consistent ability to obtain public goods or opportunities. Such resources may become scarce and or more expensive. Only individuals who can bribe have access to opportunities policies, and resources. Citizens experience government as inept, biased, and unresponsive, May lead to social unrest.
Ability to Manage the economy	Government may misread or simply not read the market. Without depending on citizens for taxation revenues generation, government is less inclined to be accountable	Poor market economy, limited employment opportunities, and poor health and education services and outcomes. Without effective market management, market failures and negative externalities further impact.
Rule of Law	Inconsistent enforcement	Citizen distrusts and fear government. Lacks protection of poverty rights, creates incentives to exploit resources and discourage capital investment.
Information deficit	Policymakers are disconnected from citizens and receive limited if any, feedback on policy design implementation and evaluation.	Citizens lack the information they need to influence government decisions and ensure responsiveness to public concerns. The policy making process is obscured so citizens cannot know where or from whom to seek redress.

Source: Transparency international



0 Entrepreneur



Transparency and corruption in resource rich economies

- Transparency is a conduit through which many of the ills in a society can be addressed; indeed Haufles (2010) has referred to transparency as the “Swiss army knife of policy”.
- Transparency can:
 - enhance levels of trust in society,
 - Strengthen institutions in the community,
 - enhance the legitimacy of the entire economic regime,
 - enhance the efficiency of the political regime,
 - ensure that public and private officials demonstrate a greater element of accountability, Haufles (2010).

The Role of the Press

- In theory, corruption may be explained by three types of determinants,
- Internal controls - which refer to the various **built in mechanisms** within the system. Corruption pervades more in environments where **there are not explicit standards**, so the bureaucrat has decision making flexibility and is compounded when the bureaucrat is **improperly supervised**. When **internal controls are weak and employment and promotion are influenced more by nepotism than merit**, then **corruption can become more pervasive**. Corruption also tends to be higher when public sector wages are much lower in the private sector.
- External control mechanisms can take many forms, but in more developed economies usually take the form of the **judiciary system** although in places like Singapore it has taken the form of **citizen Committees** which allow citizens to **express their grievances**.
- The literature has also indicated some indirect determinants of corruption to include **Culture**. One researcher, Lee (1986) noted that when an economy embraced a **culture of "bureaucratic elitism"** it had the capacity to precipitate a **disassociation of civil servants** from the rest of the economy.

The Principal Agent Problem

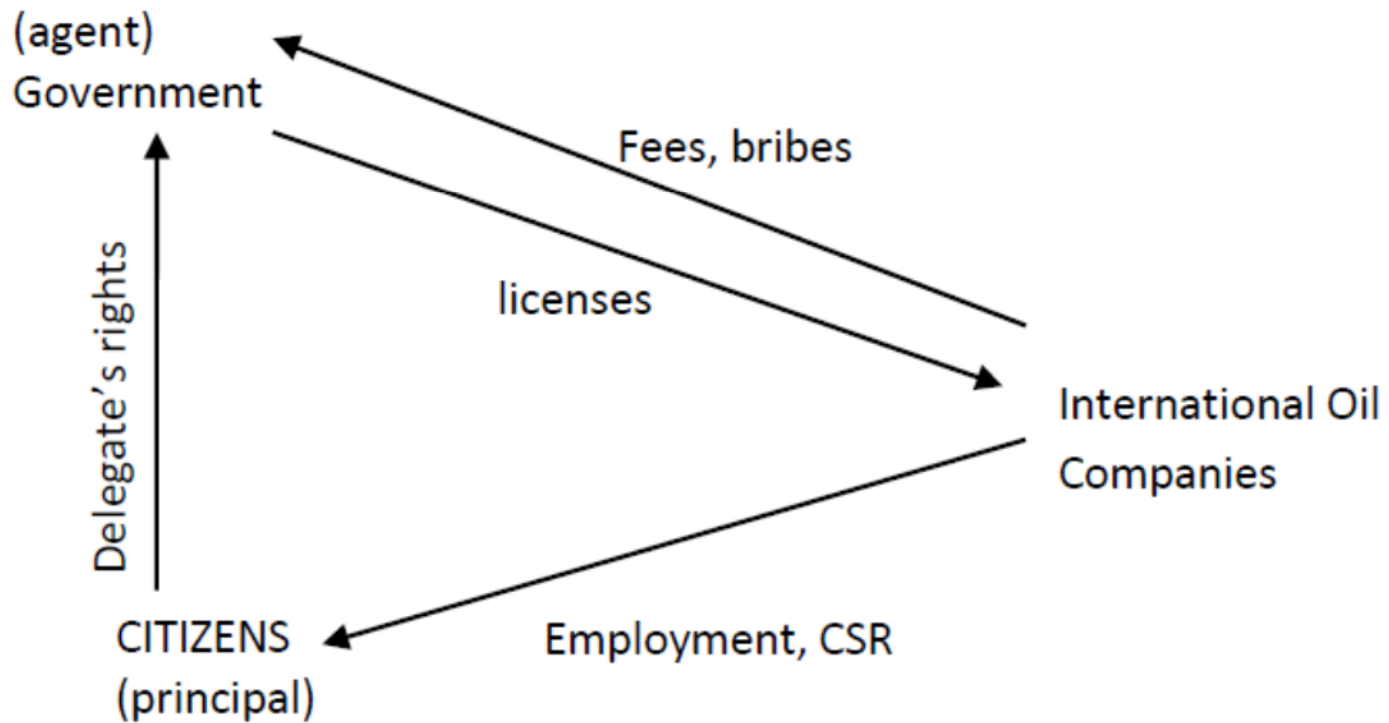
- The principal agent problem is a familiar one in economics and occurs when one entity (the agent) has to make decisions on behalf of another entity (the principal). The reason for the emergence of the principal agent dilemma is that sometimes the agent is motivated to operate on his/her own interest, rather than serve those of the principal. The typical principal agent problem occurs when information asymmetry exists and the principal and the agent have different interests. With information asymmetry benefiting the agent, it is not easy for the principal to determine if the agent is optimally acting in its interest and to bridge the information gap is costly. When the agent deviates from the principal's interest, there is mounting agent costs and a conflict of interest.

The Principal Agent Problem

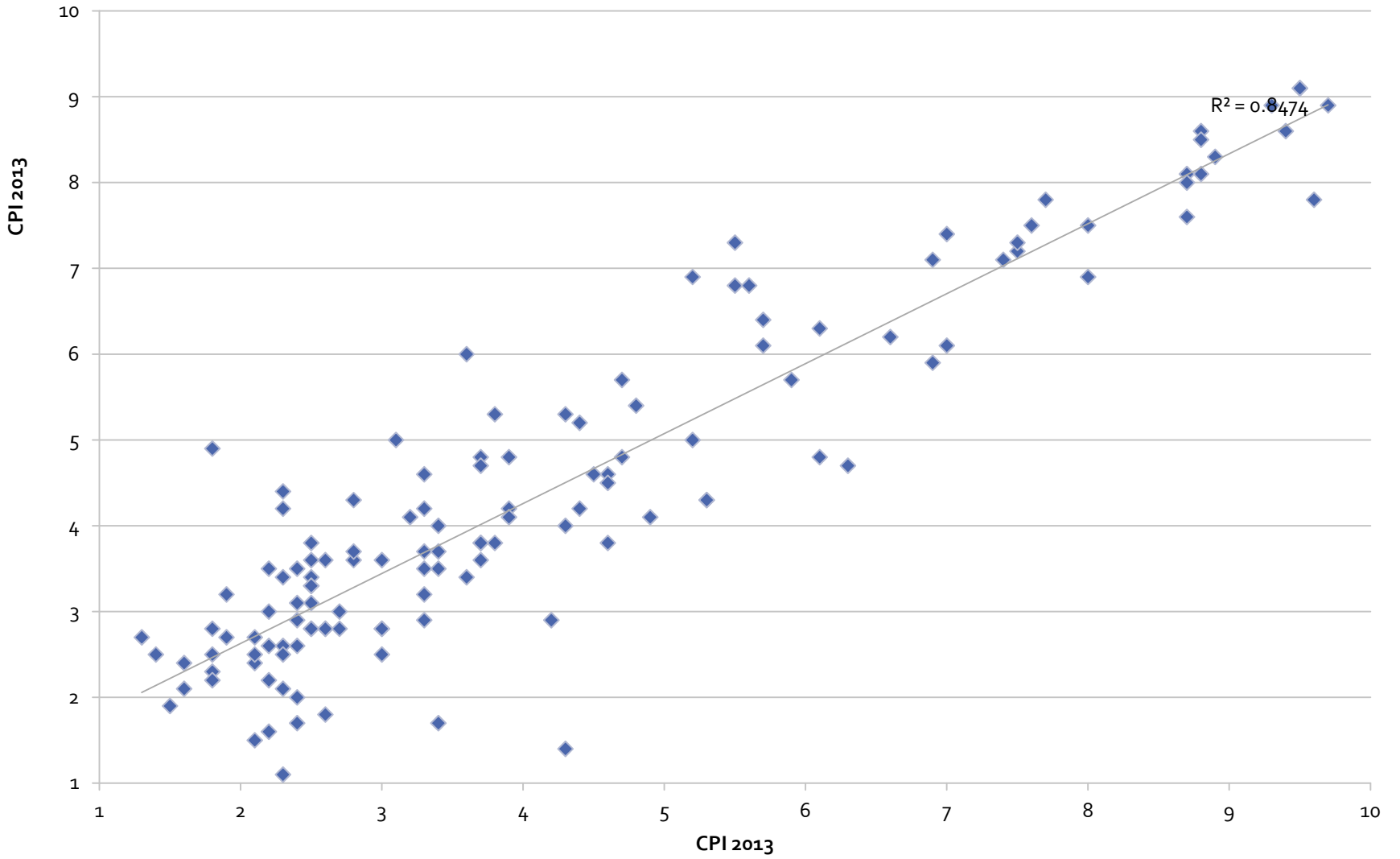
The extractive industry sector has a variety of principal agent problems. The principals are the people of the economy, who own the sovereign wealth and the agent is the government. There is room here for principal agent problems, when deals are non-transparent and shaky, as ministers can take bribes etc. from firms at a much higher level than any random citizen can provide.

Principal – agent relationship exist in the energy sector

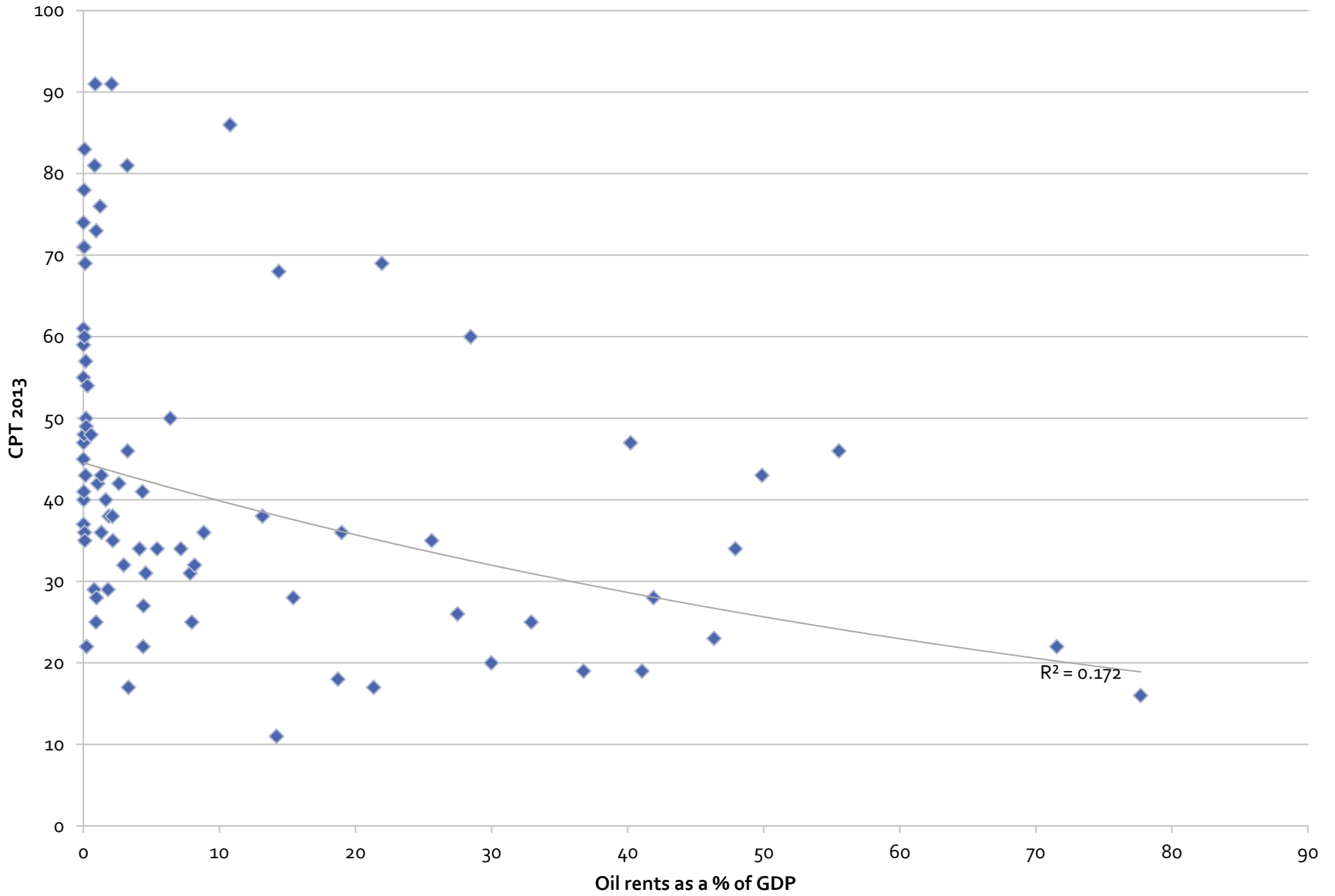
Figure 1: Illustration of relationship amongst the citizens (principal), government (agent) and MNCs



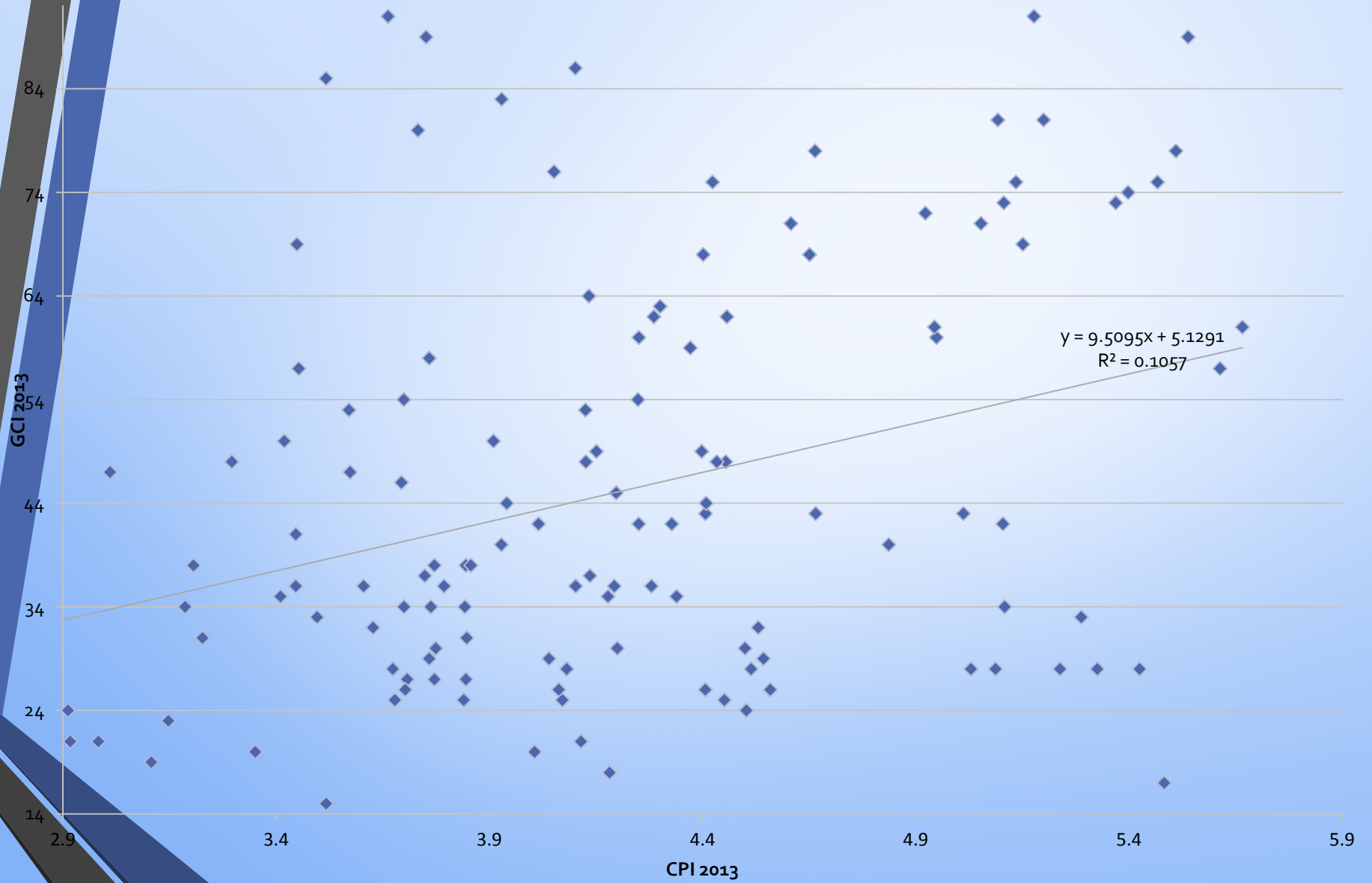
Scatterplot of CPI 2003 and 2013



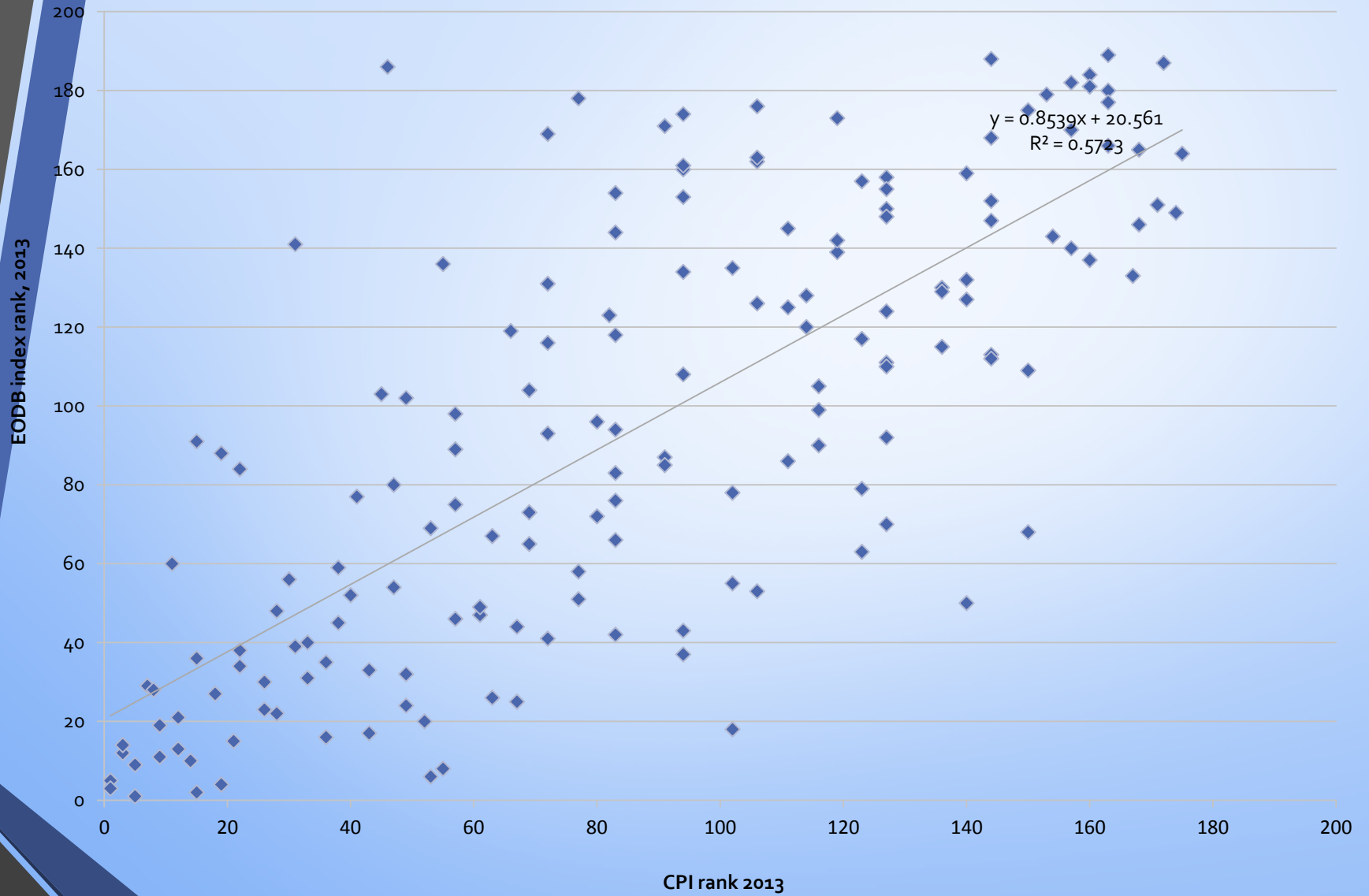
Scatterplot between CPI 2013 and oil rents as a % of GDP



CPI Score and GCI 2013



Scatterplot of CPI and EODB ranks, 2013



	CPI score 2013	CPI score 2003	CPI score 2006	difference 2013 and 2003	difference 2013 and 2006
Afghanistan	8			-	0.8
Albania	31	2.5	2.6	0.6	0.5
Azerbaijan	28	1.8	2.4	1	0.4
Cameroon	25	1.8	2.3	0.7	0.2
Central African Republic	25		2.4	2.5	0.1
Chad	19		2	-	-0.1
Congo, Democratic Republic of (Kinshasa)	22	2.2	2	0	0.2
Congo, Republic of (Brazzaville)	22		2.2	-	0
Côte d'Ivoire	27	2.1	2.1	0.6	0.6
Ghana	46	3.3		1.3	-
Guatemala	29	2.4	2.6	0.5	0.3
Guinea	24		1.9	-	0.5
Honduras	26	2.3	2.5	0.3	0.1
Indonesia	32	1.9	2.4	1.3	0.8
Kazakhstan	26	2.4	2.6	0.2	0
Kyrgyzstan	24	2.1	2.2	0.3	0.2
Liberia	38			na	-
Madagascar	28	2.6	3.1	0.2	-0.3
Mali	28	3	2.8	-0.2	0
Mauritania	30		3.1	3	-0.1
Mongolia	38		2.8	-	1
Mozambique	30	2.7	2.8	0.3	0.2
Niger	34		2.3	3.4	1.1
Nigeria	25	1.4	2.2	1.1	0.3
Norway	86	8.8	8.8	-0.2	-0.2
Peru	38	3.7	3.3	0.1	0.5
Philippines	36	2.5	2.5	1.1	1.1
Senegal	41	3.2	3.3	0.9	0.8
Sierra Leone	30	2.2	2.2	0.8	0.8
Tajikistan	22	1.8	2.2	0.4	0
Tanzania	33	2.5	2.9	0.8	0.4
Trinidad and Tobago	38	4.6	3.2	-0.8	0.6
Ukraine	25	2.3	2.8	0.2	-0.3
Yemen	18	2.6	2.6	-0.8	-0.8
Zambia	38	2.5	2.6	1.3	1.2

T&T and its EITI involvement

Trinidad and Tobago Corruption Perception Index (2001-2013)

Year	Number of countries	Rank	Score (Using a scale of 0-10)	Number of Surveys Used	Confidence Interval: Lower	Confidence Interval: Upper	Confidence Interval Used
2001	91	31	5.3	3	3.8	6.9	3.8-6.9
2002	102	33	4.9	4	3.6	6.9	3.6-6.9
2003	133	43	4.6	6	3.4	6.9	3.4-6.9
2004	146	51	4.2	6	3.6	5.2	3.6-5.2
2005	159	59	3.8	6	3.3	4.5	3.3-4.5
2006	163	79	3.2	5	2.8	3.6	2.8-3.6
2007	180	79	3.4	4	2.7	3.9	2.7-3.9
2008	180	72	3.6	4	3.1	4	3.1-4.0
2009	180	79	3.6	4	3	4.3	3.0-4.3
2010	178	73	3.6	4	3.0	4.3	3.0-4.3
2011	183	91	3.2	n.a	n.a	n.a	n.a
2012	176	80	3.9	4	3.2	4.7	3.2-4.7
2013	177	83	3.8	4	3.0	4.6	3.0-4.6

Scale: 0 (highly corrupt) to 100 (very clean)


Source: Transparency International

Concluding Remarks

- The EITI focuses in T&T on the amount of revenues collected by the state from various extractive sector companies and whilst this is useful the use of these resources is where in a democracy like T&T a lot of the corruption can take place. Indeed it is felt in some quarters that there is a tendency by government to **reduce the amount of money going into the Heritage and Stabilization Fund (HSF) by pitching at a high budgeted price of oil.** (The Heritage and Stabilization Fund was setup in T&T with the passing of the H&F act No. 6 in March, 2007. The higher the budgeted price of oil in relation to the actual price of oil, the lower the amount that goes into the Fund).
- The EITI should focus not only on upstream companies but midstream and downstream energy sector companies. Thus Atlantic, one of the biggest company in T&T by some criteria was not included. This is a serious omission and the EITI would do well to make such an inclusion in future .

Concluding Remarks

- There is perhaps the need for a training seminar for media representation on the state of the energy sector in the T&T economy. This will enhance their capacity to scientifically comment on the facts in a responsible manner. This in turn will widen the block of information that filters down to the average person on the street, reduce information gaps and help people in general to make more informed judgements and comments in holding their leaders accountable.
- The EITI assumes the existence of a vibrant civil society grouping that can look at the output of the EITI report and make meaningful use of it. In this regard what is required to complement the EITI report in Trinidad and Tobago is to provide training seminars for these various civil society institutions with a strong block of training so as to strengthen their absorptive capacity for information related to the energy sector. Reducing information asymmetry for this group will yield a greater impact in the fight for transparency against corruption.

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- Thank you
 - Questions and comments