

Synøve Almås

You can't sit with us

A quantitative analysis of the Middle Eastern and North African countries' reluctance to membership in the Extractive Industries Transparency Initiative

Master's Thesis

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Abstract

The Extractive Industries Transparency Initiative (EITI) was created in the early 2000s as a response to the growing concern of corruption in the natural resource industries. 52 states have since joined, but countries located in the Middle East and North Africa region are reluctant. Only three countries in this region have joined, despite the fact that Middle Eastern and North African countries often have an abundance of petroleum resources. By using relevant theory regarding the region and international cooperation, this thesis proposes a framework for analysis based on an earlier published paper to determine what causes Middle Eastern and North African (MENA) countries to not be interested in EITI membership. Three possible explanations are tested: 1) a MENA regional effect, 2) oil rents, and 3) membership in the Organization for Petroleum Exporting Countries (OPEC). The results show no significant unambiguous regional effect by MENA location on EITI membership. The analysis does, however, give evidence to suggest higher oil rents makes a country more likely to be an EITI member. OPEC does not prove to be a determinant of EITI membership overall, but there is some evidence that OPEC membership decreases the likelihood of EITI membership when the data analysis is done on highly resource-endowed countries. The results surprisingly indicate a positive impact of oil rents on EITI membership, which contradicts the existing assumption that oil abundant countries located in the Middle East or North Africa would be less likely to be EITI members compared to Western countries. These results are robust to a number of economic, political and development control variables. The findings illustrate that natural resources, OPEC membership and MENA regional effect are perhaps not as disadvantageous for a country's participation in international initiatives as previously thought.

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1. Introduction

Globalisation, caused by increasing trade and cooperation across borders, is debated as either advantageous or destructive for developing countries. Parallel with this debate, there are two factors among several others that have the potential to determine a country's fate when faced with increased globalisation – their natural resource wealth and their natural resource management. More trade and interaction is bound to increase demand for extractable resources, and how countries manage these resources will be vital to whether they reap the benefits – or suffer the consequences – of globalisation. Several empirical examinations of long-term growth rates have shown that countries rich in natural resources are among the poorest economic performers (Sachs and Warner, 2001). This trend is often referred to as the “natural resource curse”. The apparent paradox goes against classical economic theory, which sees natural resources as a significant factor of production giving resource-endowed countries a key advantage that should translate into economic growth and wealth.

One of the root causes of poor natural resource management is lack of proper institutions and framework to prevent corruption. Because extractive resources give high profits, there are large incentives for corruption, as successful corrupt actors could potentially reap large incomes. The International Monetary Fund and the World Bank have been reluctant to giving aid to severely corrupt countries (Samanta, 2011), which means there are economic incentives for countries to prevent corruption. Anti-corrupt measures could also increase efficiency in the extractive industries, and create more precise tools for welfare creation. Several studies shows that increased exposure of businesses is a good way to reduce corruption (David-Barrett and Okamura, 2016) and therefore transparency agreements has become a significant tool for countries involved in extractive resource industries.

The Extractive Industries Transparency Initiative (EITI) is an institution working to prevent corruption in extractive industries by increased exposure and was launched by Tony Blair in 2003. Ever since the organization has risen in size and influence, now counting 52 implementing countries. The initiative attempts, mostly through the publication of the EITI country report, to increase transparency along all the various parts of the production and consumption chain in the extractive industry. Some of the topics in the report cover fiscal conditions along with legislative information and licenses, but can also include more

provocative ideas such as contract disclosure and alteration of ownership. The overreaching idea behind EITI is that as the public gain access to information, it will not only be better suited to understand the particular extractive sector in their home country, but it may also inspire and inform debates on possible policy changes. Historically, countries with large resource endowments have kept tight about their extractive sectors due to the strategic importance. Revealing payments and other information means making public their business plan and decision making process, which might lower their competitive advantage. However, EITI is able to make its member countries disclose their finances, despite the costs the actors pay in form of revealing their strategies. The reason is that membership in international agreements create a common playing field for the members, and therefore lowers the barriers for trade and cooperation. The members thus gain access to larger markets (Ross and Voeten, 2016). To this day, EITI has been a particular success in Sub-Saharan Africa, where 22 of 46 countries (48%) are members. Contrary, in the Middle East and North Africa – a significant region for extractive industries – only 3 countries out of 23 (13%) are members.

The Middle Eastern and North African (MENA) countries are of great importance in a global context, as they possess 60% of the world's oil resources, despite only inhabiting 6% of the world's population (Investopedia, 2017). The MENA region is also the epicentre for many political movements that cause ramifications in the world, and the recent Arab Spring has only emphasized the region's global influence. As this region is particularly abundant with oil resources, their oil income from should have translated into welfare creation. However, the MENA countries are struggling to develop their societies, and lacks economic development (David - Barrett and Okamura, 2016). One of the possible explanations for their lack of development is corruption in the extractive industries (Transparency International, 2016).

Many of the MENA countries have primed conditions for corruption, as they have large resource endowments and many also lack proper institutions to prevent corruption (Sorenson, 2013). The Extractive Industries Transparency Initiative poses an opportunity for these countries to improve natural resource management and prevent corruption; still MENA countries seem reluctant to join. This is not just negative for corruption in MENA countries; it is also a loss for EITI. An extractive industry initiative without the participation of the perhaps most important extractive resource region will have limited influence. Imagine a table where all of EITI's member countries have each taken a seat, whilst the MENA countries are

standing on the side-line watching, reluctant to join the table. When battling corruption is up for discussion, MENA countries seem reluctant to participate. Why is EITI not given insight into the extractive industries of the MENA region? And why will MENA countries not sit with EITI? In this thesis, the following question is investigated:

Why are the Middle Eastern and North African countries reluctant to join EITI?

More precisely, three factors that may influence EITI membership for the MENA countries is investigated: 1) a regional MENA effect: a possible reason for the reluctance to join EITI could be some inherent trait in the MENA region, which has traditionally been called *MENA exceptionalism* and has been used to explain lack of growth and high conflict levels. 2) Membership in the Organization for Petroleum Exporting Countries (OPEC): OPEC membership might erase any need for EITI membership in petroleum producing countries because the benefits of cooperation achieved by EITI membership is already achieved with OPEC membership. 3) Oil wealth: some scholars claim that the reason for underdevelopment in MENA is the oil wealth in itself, as the benefits of high oil rents make the benefits of international agreements superfluous.

The analysis builds on existing work by Kasekende et al. (2016) who examined the determinants of EITI membership. Their model will be replicated and expanded in order to answer the hypotheses, and then the effects of the three above-mentioned factors on EITI membership will be examined. Apart from the factors found by Kasekende et al., how do OPEC membership, oil rents and MENA exceptionalism affect EITI membership? The initial analysis will build on the selection criteria used by Kasekende et al. (2016), where only countries with high resource dependency is included and the time period is from 2002 to 2012. After the initial analysis, a second analysis will be presented, where the country selection is expanded and the data spans from 2002 up to 2015.

The conclusion of this thesis is that amongst the three examined variables, oil rents relative to GDP is the most determining factor for EITI membership. In the analysis there does not exist any unequivocal regional or OPEC factor to explain why MENA countries are not EITI members, but there are combining factors that makes a country withhold. If a country is experiencing high relative oil rents, as well as being located in the Middle East or North Africa, the chances that the country is an EITI member increases. To some degree this result

contradicts the conventional theory of Middle Eastern exceptionalism, which predicts that MENA countries should be reluctant to join international agreements.

In the following thesis chapter 2 is a description and overview of the history and workings of the Extractive Industries Transparency Initiative. Chapter 3 is a section presenting the theory, empirics and literature on corruption, oil, OPEC, and the Middle East and North Africa. Next is chapter 4 with a description of the data used and the method is presented in chapter 5, before chapter 6 gives the results. Finally comes the discussion in chapter 7 and conclusion in chapter 8. Chapter 9 is a literature list.

2. The Extractive Industries Transparency Initiative

In the 1990s, as several actors started focused on battling corruption with transparency, there was an increasing demand for transparency indicators and organizations. One such non-governmental organization is Global Witness, established in 1993 (Kasekende et al., 2016). In 1999, they launched a campaign called “Publish What You Pay” (PWYP), which had as goal to encourage companies to disclose the payments they had transferred to governments (David - Barrett and Okamura, 2016). This was a new approach; not only would governments be investigated, but also companies. As result of of the campaign, British Petroleum in February 2001 published the details of a signature bonus they had paid to the Angolan government in order to gain an offshore license (Öge, 2016). The Angolan government was appalled by BPs disclosure, and threatened to revoke the license that had been given to BP (EITI, 2017d). As a reaction to the disclosure, oil companies now advocated that all companies in a country revealed their finances in order to create a level playing field. The UK government took into consideration the PWYP campaign and the demand of the oil companies and initiated the launch of EITI.

In 2003¹, a coalition of civil society organizations, governments, and extractive companies founded The Extractive Industries Transparency Initiative (EITI) in London (EITI, 2017d). In the early years, its main objective was to reduce grand corruption through voluntary scrutiny mechanisms. It has since evolved and now also have other goals, such as promoting good governance and increasing public influence on natural resource management (Rustad et al., 2017). The over-reaching goal is to establish universal standards of transparency for extractive industries around the globe (Öge 2016). The EITI membership process aims to improve anti-corruption and tax collection. It is also expected that joining the EITI improves trust and stability in extractive industries. This can in the long term encourage investments and ensure a higher degree of supply reliability (EITI, 2017c). Countries who join gain at least two benefits: increased foreign direct investments, and improved access to foreign markets (Ross and Voeten, 2016). This is because cooperation becomes easier if actors agree on common rules for business.

¹ It is a common misconception that 2002 is the founding year of EITI, because Tony Blair launched the idea that year, but the initiative was not formalised until 2003 .

² Few countries have been validated against the 2016 standard by present time, and therefore only the

EITI is supported by the UN, the EU, the OECD and the African Development Bank, in addition to numerous other global investment institutions. Many civil society organizations are also involved in the initiative, such as Oxfam, Global Witness, Publish What You Pay (PWYP), and Transparency International. One of the reasons why EITI has become popular is its public-private entity. The member countries are providing political, technical and financial support, whilst companies such as BP, ExxonMobil and Chevron are also key actors. More than 90 of the largest oil, gas and mining companies officially support the EITI. For example, ExxonMobil was very important for Equatorial Guinea's membership process (Committee 2008) and BP was a key player for Azerbaijan's accession (Öge, 2016). The initiative also has partnerships with the World Bank, the European Bank for Reconstruction and Development, as well as the Asian Development Bank (EITI, 2017g).

The number of member nations has steadily increased since it was founded, and increased especially when the World Bank gave its support. The EITI has become a facilitator for transparency and accountability along the whole resource production chain. It has set up standards for auditing, reporting and civil-society involvement. It is generally considered a success story, due to the high number of governments committed to the initiative (Rustad et al., 2017). However, all of the goals set out from the beginning are not accomplished. For example, there is no evidence that governance has improved in EITI member countries (Rustad et al., 2017). In fact, Sovacool and Andrews (2015) showed that Azerbaijan and Liberia was doing slightly worse after joining. The anti-corruption impact of the EITI seems to be context-dependent. Battling corruption involves dimensions that the EITI in itself cannot address (Rustad et al., 2017). Even though increased transparency is a honourable aim, it does not guarantee a fair system, as problems may lie deeper than what the EITI is able to address. There are also some big actors in the extractive industries that have not joined, such as Saudi Arabia, Iran and Russia. These countries control much of the sector, and without their cooperation a lot of information is lost.

By joining the EITI, governments are persuaded to disclose their revenues from extractive industries, and require that the companies operating on member countries' territory to disclose their payments to the government. One key actor within the EITI system in each member country is the Multi Stakeholder Group (MSG), which consists of representatives from the government, civil society groups and companies. This group supervises the whole process and creates the country's EITI Report. In the country reports, any discrepancies in payment and

spending is disclosed (David-Barrett and Okamura, 2016). This method entails that there are two accounts of one transaction, and ensures transparency on both sides of the production. Revenues can thus be spent better, social and economic welfare can be improved, and the public can benefit from the national oil wealth.

2.1 The different stages of EITI membership

Potential EITI member countries go through three stages to become fully integrated members; in chronological order these stages are: intent to implement, candidate, and compliance. The government must first make an announcement that they are willing to commit to implementation of the EITI requirements. After the intent to implement is announced, the country has 18 months to fulfil an EITI report. The content and extent of an EITI report is determined by each country's MSG, and will therefore vary. In general, though, the EITI report gives data on revenues from the extractive industries, what companies pay to the government, and also gives policy and reform recommendations (EITI, 2017c). Becoming a candidate country requires that the government makes it unequivocally clear that they have an intention of fulfilling the criteria for membership. The country has to meet several requirements, including agreeing on an implementation plan and establishing a multi-stakeholder group (MSG) (EITI, 2017b). The MSG publishes a work plan to fulfil the EITI requirements, and set measurable targets as well as a timetable for the implementation. If the country is then assigned status as candidate, it must produce EITI reports on an annual basis (EITI, 2017b). Countries can lose their status if they fail to fulfil the requirements at any stage.

If the process so far is approved by the EITI secretariat, the country can move forward and gain status as a compliant country. This stage requires even further action from both the government and the MSG. The applicant country must fulfil five conditions to the satisfaction of the EITI Board in order to become a candidate country (Kasekende et al., 2016, 118). They are (1) government public declaration of its intention to implement the EITI; (2) government obligation to work together with civil society and companies on the implementation of EITI; (3) government appointment of a senior person to supervise the implementation of the EITI; (4) establish a multi-stakeholder group (MSG) to oversee the implementation of the EITI; and (5) the MSG, in cooperation with key EITI stakeholders, should publish a work plan, which contains measurable targets and a timetable for the further process.

If all these steps are completed satisfactory, the country becomes a compliant country. After the country becomes compliant, it must uphold a satisfactory standard in all the requirements set by the EITI. The MSG must continue its work, and the government must ensure that the correct measures are taken to maintain the compliant status (EITI, 2017b). The table below shows all the EITI countries and their status, as of early 2016².

² Few countries have been validated against the 2016 standard by present time, and therefore only the countries' status up to early 2016 is presented. For updated information, see eiti.org.

Table 1: EITI countries

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

Note: Data correct as of early 2016. Collected from the country overview at eiti.com (EITI, 2016)

^aTemporarily suspended.

^bWithdrew in March 2017

Of the EITI countries in table 1, only three are located in the Middle East or North Africa. These are Azerbaijan, Iraq and Yemen.

3. Theory, empirics and concepts

Three aspects are relevant in order to understand why countries in the Middle East and North Africa are reluctant to become EITI members. The first is the exceptionalism of the MENA region, the second is the substitution effect of OPEC, and the third aspect is corruption and transparency. This chapter will be structured around these three aspects. Why are just these aspects important for the development of the argument? First, there is evidence that MENA countries are especially reluctant to join EITI, and therefore we want to investigate what in this region causes the reluctance and how MENA exceptionalism has affected other conditions. Rent seeking in the oil sector is an especially lucrative occupation in the MENA region, and is made possible by the same factors that cause MENA exceptionalism. Second, an investigation into OPEC is necessary because OPEC can act as a substitution for EITI, in that it fosters cooperation between member countries in the oil sector, making EITI membership superfluous. Third, transparency, here represented by the EITI initiative, prohibits unproductive rent seeking, and could therefore illuminate or reduce the resource curse by reducing corruption. At the end of the chapter, the hypotheses are presented.

3.1 What is so special about the Middle East and North Africa?

”Middle East exceptionalism is mostly used to denote the region’s resistance to democracy but also includes the region’s lack of success in economic and social development, a prominent example being the position of women, in addition to the persistent state of conflict” (Sørli et al., 2005, 145-146)

This quote summarizes the notion of poor performance on several aspects by the Middle Eastern and North African countries, which is referred to as MENA “exceptionalism”, which can be explained as some inherent trait(s) that separates this region from other regions. Exceptionalism could explain MENA countries’ lack of interest in transparency and EITI membership, and why natural resource management is failing. It is possible that there are some inherent traits of the Middle East and North Africa region that prevent these countries from wanting to join EITI. Exceptionalism might be a possible answer to the research question, because the underlying reasons for the MENA reluctance to EITI might be difficult to pinpoint, and therefore we can use the regional factor as an all-embracing explanation capturing the inherent traits of the region.

Lack of interest in EITI can be explained by the authoritarian regimes of the MENA region. Eva Bellin argues that the MENA region's exceptionalism lies in that "the state's coercive apparatus to suppress democratic initiative have extinguished the possibility of [democratic] transition." (Bellin, 2004, 143). Eva Bellin (2004) points to a number of factors in the MENA region that signals failing democracies. First off, labour unions are weak and lack credible autonomy. Civil society is not able to fight for democracy, partly due to their inefficiency. Nongovernmental organizations are lacking in strength and number. The state often stands for an overwhelming large part of the economy, and most of the resource industry in the region lie in state hands. The state therefore must initiate an EITI membership process itself, if the civil society lacks initiative, and an authoritarian regime is not likely to do so. Bellin argues that what makes the MENA region exceptional is not the lack of ability to consolidate democracy, but rather a lack of a democratic tradition in the first place. Other resource-endowed countries have been developing more rapidly than the MENA region, meaning there must be something inherent in the region preventing development.

Authoritarian MENA governments rely on oppressing civil society, and might therefore not want to join EITI in the fear of developing a stronger and more powerful civil society. As EITI represents transparency and thus an attempt at a democratic transition, the state could have a desire to resist membership. Thus the lack of democratic state bodies stands in the way of EITI. To this day, the MENA region is the region with the lowest share of democratic countries (Diamond, 2010, Marshall and Jagers, 2015). This is not surprising given its high degree of natural resources, because research shows that resource-dependent states are more likely to develop authoritarian regimes and undermine democracy (David-Barrett and Okamura, 2016). Natural resources, corruption and transparency are linked to democracy because countries with proper democratic traditions are more likely to hold state bodies accountable, and accountability requires transparency. Thus, MENA exceptionalism does not only explain lack of democracy, but also lack of EITI membership in the region.

Eva Bellin wrote the article on democracy in the Middle East and North Africa in 2004, but ever since, the recent Arab Spring has challenged the theory. The Arab Spring proved that the people do have some power over the state, and are able to bring forth democratic values. However, her theories on MENA countries resisting democracy still have value. The Arab Spring was a "democratic impulse" that we have yet to see the final outcome of. Such impulses have appeared in the region several times, but have again and again been squashed

by an overwhelming state (Bellin, 2004)³. Therefore, MENA exceptionalism being caused by lack of democracy might not hold up in the aftermath of the current changes in the region.

Economic structures and oil dependence is another possible explanation to the Middle Eastern exceptionalism. Out of sixteen Arab countries, eleven of them are states that depend heavily on oil and gas rents (Diamond, 2010). More than 70 percent of the export revenues in these countries come from oil and gas. In fact, most of these states are so abundant with revenue that taxing the population is not necessary to keep the states afloat. Diamond (2010) claims the large oil wealth and lack of taxes is the reason why there are no Arab democracies. The economic structure of many MENA countries inhibits a functioning democracy, because lack of tax commitment means lack of accountability. The government does not demand anything from the citizens; therefore, the citizens cannot demand anything from their government (Diamond, 2010). Because of the lack of taxes, the oil rents are considered no one's property – certainly not the people's money, and is therefore object of corruption. The profits from oil production are circulated amongst the wealthy people in power, and thus never reach the public. Further, the steady profits create fewer incentives for government to make investments or innovate. Larry Diamond (2010) points to Norway and Britain (as do many others) as examples of where oil wealth has benefited the population. The reason, according to Diamond, is the presence of accountable states and tax systems in place before the oil revenues pour in. Joining a transparency initiative, such as EITI, would prohibit the governments to be corrupt, and instead would set demands for effective institutions. Reducing corruption might not be in the MENA countries' interests.

Lack of property rights and institutions could explain the resistance towards transparency and EITI in MENA countries, because lack of institutions makes rent seeking possible, as there are less control mechanisms to discover and prevent illegal activities. Since extractive industries often provide high incomes, there is a need for competent natural resource management in order to prevent a resource curse from emerging. Sachs and Warner (2001) presented a theory on a natural resource curse by showing that natural resource abundance is negative for growth in general, and it seems MENA countries is no exception. A resource curse might be spurred by corruption, because corruption and other forms of unproductive

³ This is, again, less true in the context of the Arab Spring, where the people was in fact able to hold some power over the state.

rent seeking stands in the way of economic growth. In the MENA region competent anti-corrupt institutions are less prevalent compared to elsewhere (Devlin, 2010).

Of all the crude oil reserves in the world, about 50 percent is found in the Middle East (OPEC, 2016). Oil and gas abundance is one of the aspects separating the MENA region from the rest of the world. Petroleum is one of the few marketable natural resources in the region, and most of it can be found in the Persia region. There are other factors besides the size of the reserves that makes the petroleum attractive in the Middle East; most of the oil is easy to excavate, and the costs of production are relatively low (Sorenson, 2013). Oil rents⁴ are therefore high in MENA countries. These rents could have been used to benefit the economy if the income was invested in for example human capital. In the MENA region, however, something is missing that prevents oil rents from benefiting the population as a whole. Unproductive rent seeking occurs when actors in an economy seek the rents from production and thus prohibit the industry from acting out its full potential. Torvik (2002) suggested that the availability of natural resource rents shifts the focus of entrepreneurs and other actors away from productive behaviour, and towards rent seeking behaviour. An underlying theme in the rent seeking theory is that ineffective political institutions inhibit the economy from realizing the benefits of natural resources (Deacon and Rode, 2015). One possible reason for this behaviour is lack of properly defined and respected property rights. In countries where rent seeking has been less prevalent, such as in Norway, Chile and Botswana, strong institutions have stood in the way for corruption.

Ross and Voeten (2016) find that in general, oil-rich countries are less likely to join *any* international agreement – regardless of its focus area – than other countries. Pitlik et al. (2010) show that oil-producing countries are less likely to join EITI specifically compared to non-oil producing countries. The reason for their reluctance to join is, according to Ross and Voeten (2016), that oil resources makes countries so rich that they don't need the benefits that comes with international agreements. The explanation for this is threefold. First, oil is a very profitable industry, and therefore overseas investors will overlook a bad investment climate because the potential oil rents are enormous. For example, Sudan experienced high conflict levels in the beginning of the 2000s, and the UN imposed economic, financial and trade sanctions on the country. Despite the seemingly unattractive investment climate, Sudan

⁴ Oil rents are the difference between the value of crude oil production at world prices and total costs of production.

received large petroleum investments from state-owned companies from countries like India, Malaysia and China. The massive potential for oil wealth overshadowed the worsening investment climate. Another reason for oil-exporters lack of commitment to agreements is oil's strategic importance. Achieving steady access to energy reserves can ensure an investor's income for many years in the future. Oil is a good with relatively inelastic demand; countries need oil and gas in order to fuel their transportation, and often there are no substitutes for oil and gas without making huge investments. It is also difficult to stockpile oil and gas in large quantities; therefore countries need the flow of energy resources to be uninterrupted. This makes oil a secure income source for companies and states. The third reason for oil exporters reluctance to international agreements is the lack of need for foreign investments in other sectors. Countries that have large incomes from oil, do not need foreign direct investments because they can use their oil profits to finance other domestic projects. These three factors reduce oil-rich countries incentives to make the costly commitments to international agreements (Ross and Voeten, 2016)

David-Barrett and Okamura (2016) claim that there are two types of motivation that lies behind committing to norms such as transparency. One is the pressure from *socialization*, where states alter their behaviour in order to better fit in with the international "club". States wish to have status amongst other states, and also want soft power. Complying with norms can benefit in this regard. The other motivation is the *instrumental* behaviour in order to gain benefits. Reputation is relative to peers, and it is possible to climb or descend the "reputational ladder" according to their reputation with investors (David-Barrett and Okamura, 2016). For developing countries, the targeted audience when joining the EITI are donors, lenders and peers in the international community. Upon joining, the governments signal the intent to reform, and also commit themselves to better governance and more openness. Reputation is crucial for cooperation in the international community because it creates trust. However, MENA countries with large incomes might not have the need for such reforms or a better reputation. These countries might not depend on the international community for income because their national resources create sufficient funds.

3.2 Corruption in the Middle East and North Africa

Could the reason for the lack of interest in EITI be because of a large presence of corruption in the MENA region? As EITI aims to reveal corruption, joining EITI would reduce the

possibility for corrupt actors. According to a report from Transparency International, in 2016, 50 million adults in the Middle East and North Africa had to pay bribes in order to get access to basic services (Transparency International, 2016). Corruption is widespread in MENA; several countries in the region show corruption rates much higher than global averages, according to several corruption indexes (Johnson and Martini, 2012). People in the region are also deeply unsatisfied with the efforts of the government to handle corruption (Transparency International, 2016). Members of parliament and other government officials are perceived as some of the most corrupt people in the region. Courts in the MENA region have the highest bribery rate of all the institutions, and these payments are often made multiple times (Transparency International, 2016). If corruption is so embedded in society as the report from Transparency International shows, then the costs of reducing corruption could be too high for these countries to see it beneficial to join EITI. Transparency entails collecting data and changing practices if corruption is detected. The costs of EITI membership are smaller for countries with low levels of corruption than for countries with high levels of corruption.

Cross-country regression analysis shows that resource wealth stimulates corruption and erodes legal systems (Ploeg, 2011). It makes politicians and bureaucrats corrupt, as their incentives are higher than for actors in resource-poor areas. For example, an experiment showed that in Sao Tome, there was increased corruption after an announcement on discovery of oil in the late 1990s (Ploeg, 2011). Corruption on the island increased by nearly 10 percent after oil was discovered, compared to the island Cape Verde, who has similar history, culture and political institutions, but lacks natural resources. This is one of a large body of research showing that corruption follows oil resources. Kerem Öge (2016) writes that transparency can help improve bureaucracy and thereby increase efficiency. Transparency entails public availability of information resource management, and more specifically it involves revenues, expenditures, contracts and licenses, as well as open budget processes, which is what the EITI requires of its member countries (EITI, 2017e).

In a context of political realism, it is beneficial for governments to join transparency initiatives, in order to increase their reputation (David - Barrett and Okamura, 2016). Once so many actors adopt a norm that the “tipping point” is passed, it becomes costly for a government to be “outed” as a non-compliant. Easy access to rents, as is the case in the MENA region, creates incentives to be corrupt and makes transparency less attractive. In

Kasekende et al. (2016), the countries with the highest resource dependency (Equatorial Guinea, Iraq, Republic of Congo) experienced the highest level of corruption, whilst the countries with low resource rents (Norway, UK, US) had lower levels of corruption. Thus, the countries that are highly reliant on natural resources are more prone to corruption.

3.3 OPEC as a substitute for EITI

The Organization for Petroleum Exporting Countries (OPEC) consists of 14 countries⁵, in which oil and gas production is the biggest source of export revenues (Montinola and Jackman, 2002). The initial idea was to cooperate in order to control prices, by unifying petroleum policies (OPEC, 2017a). It was created in 1960 and is a permanent intergovernmental organization (OPEC, 2017a). Even though OPEC membership is beneficial for member countries in terms of creating a predictable future and cooperation as it helps improve their international reputation, it has also been a destabilizing factor (Devlin, 2010). The output restrictions create huge fluctuations in price, and primes conditions for market speculation. Fear of supply disruption unleashes further market speculation and volatile oil prices. These speculations are what caused the oil crisis of 1973 and 1979 (Devlin, 2010). The respective member governments' attempt to compensate for the volatility has created large expenditures and rising public investments. The cyclic nature of the oil sector also has spillover-effects on to other, non-oil industries and the private sector (Devlin, 2010). A volatile domestic market prevents actors from having a feeling of predictability that is needed in order to make investments and plan for the future. Still, MENA countries continue to favour OPEC over EITI; only 3 of 23 (13%) MENA countries were EITI members in 2015, whilst 8 of 23 (34%) MENA countries are OPEC members in 2017. With the exception of Azerbaijan⁶, Yemen⁷ and Iraq, none of the oil-rich countries in Middle East and North Africa are EITI members.

Another possible reason for MENA countries resistance to EITI membership is OPEC membership. OPEC gives its member countries benefits in terms of trade and monopoly behaviour, which leads to higher profits. Therefore, EITI membership might not give enough

⁵ The member countries as of July 2017, as well as their year of entry in OPEC are Iran (1960), Iraq (1960), Kuwait (1960), Saudi Arabia (1960) (1960), Venezuela, Qatar (1961), Libya (1962), the United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador (1973), Gabon (1975), Angola (2007), and Equatorial Guinea (2017).

⁶ As of March 2017, Azerbaijan has withdrawn from EITI

⁷ As of 2017, Yemen is suspended from EITI due to political instability

benefits to weigh up the costs of joining, compared to OPEC. Even though MENA countries do want economic benefits through cooperation, they may not be willing to sign international agreements that “only” affect norms and reputation and does not give any direct benefits such as lower trade barriers, which OPEC does (OPEC, 2017a). EITI membership does come with benefits, but these benefits are not direct economic outcomes of the agreement, but rather consequences that will appear over a longer term. The costs of EITI could outweigh the benefits for MENA countries.

The benefits of EITI are of a “softer” character than those of OPEC, such as better reputation and bargaining benefits. However, the soft values also give the member countries a common playground, and thus enable countries to receive more foreign direct investment and gives access to foreign markets in the longer term. OPEC countries, however, already have access to large markets and rarely have a crucial need for foreign investments (Ross and Voeten, 2016). Also, foreign countries are often dependent on an uninterrupted supply of oil, and cannot afford to cut off OPEC imports, even though OPEC don’t operate under transparency agreements. Therefore, OPEC countries already experience the benefits that EITI countries do in terms of cooperation with others, even if they are not members. OPEC can thus act as a substitute for EITI.

Montinola and Jackman (2002) found that OPEC membership is correlated with higher levels of corruption compared to non-OPEC countries. They claim that there is a certain form of rent seeking happening in OPEC. The governments of OPEC states often have big incentives to be corrupt because of the high potential rents they can gain from their natural resources. Corruption in OPEC countries is possible because the government itself is often involved in the management of natural resources. “OPEC states are distinctive in their high degree of direct engagement in national economic issues” (Montinola and Jackman, 2002, 154). Controlling national economic affairs makes it easier to hide corruption and create benefits for the state officials instead of prioritizing welfare for the general population. Kasekende et al. (2016) found that people in OPEC membership states have a perception of less corruption than people in non-OPEC states. The same result was also found by Pitlik et al. (2010). If we assume *perceived* corruption captures true corruption in a society, OPEC membership is substituting EITI membership, because OPEC membership provides sufficient transparency.

According to Pitlik et al. (2010) and Kasekende et al. (2016), OPEC members are less likely to join the EITI. Of all the OPEC countries, only two – Iraq and Nigeria – are members of the EITI (EITI, 2017; OPEC, 2017b). Even though few OPEC countries are members of EITI, OPEC countries do advocate transparency. For example, the crude oil production of each member state is published in the *Monthly Oil Market Report*. In addition, OPEC is in these days launching a database, “The Oil and Gas Big Data” to enhance transparency and make it possible to compare cross-country data on oil and gas production (OPEC, 2017d). EITI countries have more comprehensive requirements for revealing payments, but OPEC also makes efforts. Still, OPEC countries have more possibilities for cheating and practicing underreporting than EITI countries (Pitlik et al., 2010). OPEC say themselves that they are committed to improving transparency and exchanging information across countries (OPEC, 2017c), but stating that one is working towards transparency and actually reducing corruption are two different things. Opportunities for corruption would most likely be reduced with an EITI membership, more than with an OPEC membership, seeing as EITI sets higher demands for transparency than OPEC does.

Resource rich countries such as OPEC members that experience corruption will have little interest in joining and implementing the EITI because the costs are too high (Rustad et al., 2017). For countries that do not depend on a good reputation in the international community to a large extent the EITI will also be less attractive. States that have much resource wealth, for example, will be less reliant on international aid, credit or investment, and therefore can afford to stay outside global transparency norms (Ross and Voeten, 2016). MENA and OPEC countries often belong to the category of countries with an abundance of resources and thus have incentives for corruption. Some OPEC countries are “free-riding” on the OPEC cartel (Pitlik et al., 2010) because OPEC does give legitimacy to their oil industry. As long as OPEC countries are not making a joint effort to genuinely reduce corruption, these countries will not have incentives to enter EITI.

3.4 Previous empirical research on EITI membership

There are so far three research papers that have used EITI membership as the dependent variable in an analysis. These three articles are “The demand for transparency: An empirical note” by Hans Pitlik & Björn Frank & Mathias Firchow, “To disclose or not to disclose: How global competition for foreign direct investment influences transparency reforms in extractive

industries” by Kerem Öge, and ”Extractive industries and corruption: Investigating the effectiveness of EITI as a scrutiny mechanism” by Elizabeth Kasekende, Charles Abuka, and Mare Sarr. These three will be more closely presented below.

Kasekende et al. (2016) found that, on average, corrupt countries and countries attracting greater shares of foreign direct investment (FDI) are more likely to join the initiative. Probably, EITI membership enables these countries to signal their commitment to greater transparency. In this manner, they expect to reap some benefits in the form of more investments and assistance. Kasekende et al. (2016) found no evidence that EITI has been effective in reducing corruption. On the contrary, their analysis highlights the fact that EITI membership is positively associated with *poorer* governance through enhanced perceived corruption. Kasekende et al. (2016) also found democracy to be insignificant for EITI membership, but EITI members seem to, on average, enjoy higher scores of press freedom than non-members. They also find that total resource rents are positively correlated to EITI membership, which is supported by findings in Öge (2016) and Pitlik et al. (2010).

Öge (2016) found that EITI membership is correlated with lower levels of income and higher levels of resource dependency, corruption, and FDI inflows. Especially is the impact of FDI crucial in explaining policy decisions on revenue transparency. Increased foreign investments are a huge incentive for countries to join EITI, which means poor countries should be most interested in EITI membership. His results also showed that many corrupt governments apply for membership as a gesture to please foreign investors while industrialized countries join the initiative to set an example for developing states. The process where countries join international agreements with alternative intentions is known as mock compliance. Öge (2016) therefore raises doubts about the potential ability of EITI to act as a driver of transparency reforms in resource-rich countries. He suggests that the initiative suffers from a utilitarian use by corrupt governments.

Pitlik et al. (2010) show that EITI member countries has an average resource export share of .44, which is almost two times the mean share of all other countries, which has a share of .23. This is in contrast to previous research implying that EITI has had little success in gaining commitment from the most resource-abundant and resource dependent countries. Pitlik et al. (2010) also find a positive impact of ethnic fractionalization on the probability of joining EITI, also when using different measures of ethnic fractionalisation. They also find that

countries joining the EITI show on average more political corruption, at least when applying the Control of Corruption measure. They also use a variable called "Voice and Accountability", which is an indicator showing the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Voice and Accountability is used to test the degree of civil liberty and democracy rights in a country. Pitlik et al. (2010) find a positive correlation between this variable and EITI membership. EITI member countries are more free than non-member countries. Finally, the results showed that OPEC countries were less likely to join EITI, which is supported by Kasekende et al. (2016).

3.5 Hypotheses

Based on the above-mentioned theory and previous research on the topic, three possible variables making MENA countries uninterested in EITI membership will be investigated in more closely; a MENA regional effect, an OPEC effect and an oil rents effect. The first hypothesis predicts that Middle Eastern and North African countries are less likely to join EITI. Several authors have pointed out how MENA exceptionalism affects democracy, economic development and social outcomes. Is there also a MENA exceptionalism explanation behind the lack of interest in EITI? The first hypothesis to be investigated is therefore:

H1: Countries in the Middle East and North Africa are less likely to be EITI members than other countries.

The fact that a country is part of the Middle East/North Africa region is not the only explanation that could make an oil-abundant country resist EITI membership. Another possible explanation could be OPEC membership. Of the biggest and most influential oil exporting countries, many are members of OPEC. However, OPEC membership could for some countries be considered a substitute for EITI membership, as OPEC does have some demands for transparency and corporate social responsibility. Some OPEC countries are "free-riding" on the OPEC cartel (Pitlik et al., 2010) and are actually corrupt, and membership in EITI would be costly as they would have to make a genuine effort to combat corruption. An EITI membership would prevent the countries from practicing underreporting of their activities, and remove incentives for cheating behaviour. This would make OPEC

countries less likely to be EITI members. OPEC countries often also have good access to foreign markets, and are not in need of aid, which means their benefits from joining international agreements are lower than more aid-dependent countries. Therefore the second hypothesis is:

H2: OPEC membership makes countries less likely to be EITI members

Third, we investigate if oil rents could explain the MENA region's lack of interest in EITI. Ross and Voeten (2016) showed that countries with high oil rents are reluctant to join international agreements in general. The reason is that the benefits of joining such agreements are 1) to gain access to foreign markets and 2) increase foreign investment. These two benefits are already achieved for oil-rich countries. Oil-abundant countries often are engaged with foreign countries because recipient trade partners are dependent on a stable and uninterrupted flow of oil. Foreign countries cannot afford *not* to deal with the oil-rich countries. Second, oil-rich countries often have so large incomes that attracting foreign investments are not necessary for domestic investments. Therefore, the third hypothesis is:

H3: Countries with large oil rents will be less likely to be EITI members

4. Data

Before describing the method in more detail, this chapter will give an overview of the data used in the analysis. The starting point for the analysis is the work done presented in “Extractive industries and corruption: Investigating the effectiveness of EITI as a scrutiny mechanism” by Kasekende et al. (2016). The authors use EITI membership as a dichotomous dependent variable in a probit analysis and include 76 countries with high resource rents. The time period spans from 2002 to 2012, which is the first decade of EITIs existence. The variables used by Kasekende et al. (2016) will be presented below, as well as the variables that are added to their original work in order to investigate the three hypotheses on MENA countries’ reluctance to EITI membership. In the following chapter there is first a description of the dependent variable, and how this is coded. Section 4.3 presents the explanatory variables that are added to the original Kasekende et al. (2016) model, which will be able to address the hypotheses. In section 4.4, the control variables are presented, and section 4.5 presents the descriptive statistics.

4.1 Dependent variable

In order to be considered an applicant for EITI membership, several criteria has to be fulfilled, and the process is rather complicated (David-Barrett and Okamura, 2016). The process is described in detail in chapter 2. In the analysis, EITI membership is a dummy variable, where the only two values it can take is 1 (member) or 0 (non-member). The coefficients in the models will tell us the likelihood of a country being a member of EITI – if the independent variable’s coefficient is positive, the chances of membership increase when the independent variable increase. If the coefficient is negative, the evidence points to a decrease in the likelihood of membership as the independent variable increase. Since a country goes through several stages before full implementation in EITI, coding the dependent variable is not straightforward. Next is a discussion on how to code EITI membership is, and how this is solved in the analysis.

4.1.1 Differences in categorizing

One problem of investigating EITI membership is defining when a country can be defined as an EITI member because there are different degrees of membership. The stages of

membership were described in detail in section 2.1, and there are two statuses a member country can have: candidate country or compliant country. Kasekende et al. (2016) has chosen to use the candidate status as membership criteria. Thus, countries that became candidate countries up until early 2014 were listed as members in table A1 of Kasekende et al. (2016). Colombia, for example, got their candidate status in late 2014, and is defined as member. The Seychelles, on the other hand, which got their candidate status in the late half of 2014, is *not* defined as EITI member by Kasekende et al. (2016).

At the EITI, however, the countries that are listed as members are all those where the government has announced commitment to implement EITI (EITI, 2017a). Intent to implement is a stage before candidate country, and this means that some country statuses could be misleading. For example, Gabon is listed as member in Kasekende et al. (2016), whilst on the EITI webpage, it is stated that Gabon lost its status as compliance in 2013 due to lack of reporting⁸. They are still registered as members in Kasekende et al. (2016) because they were only downgraded from compliant to candidate – they did not lose their membership all together. This shows how difficult it is defining an EITI member. A list of the 76 countries included in Kasekende et al. (2016) is presented below.

⁸ For further details, see <https://eiti.org/gabon>

Table 2: Country selection of Kasekende et al. (2016)

Afghanistan	Indonesia	Russia
Albania	Iran	Sao Tome and Principe
Algeria	Iraq	Saudi Arabia
Angola	Ivory Coast	Senegal
Azerbaijan	Jordan	Seychelles
Bahrain	Kazakhstan	Sierra Leone
Bolivia	Kuwait	Solomon Islands
Botswana	Kyrgyzstan	South Africa
Brunei	Liberia	Sudan
Burkina Faso	Libya	Syria
Cameroon	Madagascar	Tajikistan
Central African Republic	Mali	Tanzania
Chad	Mauritania	Togo
Chile	Mexico	Trinidad and Tobago
Colombia	Mongolia	Turkmenistan
Congo	Mozambique	Ukraine
Democratic Republic of the Congo	Myanmar	United Arab Emirates
East Timor	Namibia	United Kingdom
Ecuador	Niger	United States of America
Equatorial Guinea	Nigeria	Uzbekistan
Ethiopia	Norway	Venezuela
Gabon	Oman	Vietnam
Ghana	Papua New Guinea	Yemen
Guatemala	Peru	Zambia
Guinea	Philippines	
Honduras	Qatar	

4.1.2 Coding

Another issue when working with EITI membership is how to code membership for the dependent variable. This can have a severe impact on the outcome of the models. One method for coding EITI membership is to assign a country the value 0 when it is not member, assign 1 to the year the country becomes a member, and missing value in the years after membership. This method allows for a result that takes into consideration that a country cannot join several times, and therefore gives the likelihood of a country *becoming* member of EITI. A different method is to assign 0 to every year the country is not member, 1 for the year of membership, and 1 for all following years that it remains a member. This gives the likelihood of a country *being* a member, and staying a member after the year of initial membership. Without an accurate description of the proceedings as a reference, and no explicit explanation in the paper, it is difficult to know what coding Kasekende et al. (2016) have done in their analysis.

To illustrate, below is a figure showing the different methods of coding, using Norway and Mauritania as examples. Norway became a candidate country of EITI in 2009, and is therefore assigned 0 in all the years up to 2009. For 2009, Norway is assigned “1” on EITI membership, but in the following years, Norway has a missing value (.) for EITI membership. The alternative method is showed in the row for Mauritania, which became a candidate country in 2007. Here, the country is assigned “0” in all the years leading up to 2007, and is assigned “1” in 2007, and “1” also in the following years.

Figure 1: Coding of EITI members

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Norway	0	0	0	0	0	0	0	1
Mauritania	0	0	0	0	0	1	1	1	1	1	1	1	1	1	1

I have chosen to use the latter method, where all candidate countries are coded 1 from the time they become a member and all the years after. In figure 1, I will code the variable as shown with the Mauritania example. There is valuable insight to be gained if the years after initial membership is coded as “1” and not “missing”, because this gives insight into what qualities makes a country *stay* with EITI. Further, this way of coding gives more observations to work with and thus improves the likelihood of getting a significant result on the variables.

There are 780 observations on the variable “EITI member” in total in the Kasekende selection, and 2213 observations of “EITI member” in the new analysis.

4.2 Descriptive statistics

Below is a table of descriptive statistics for the variables used in the analyses.

Table 3: Descriptive statistics

Variable	EITI member countries					Non-EITI member countries				
	Obs	Mean	Std. Dev.	Min	Max	Obs	Mean	Std. Dev.	Min	Max
Corruption score	165	3,22	0,57	0,24	4,13	610	2,953	0,864	0	4
Aid (%GNI)	165	10,14	20,5	-0,22	181,19	588	5,454	10,409	0	69
GDP pc (log)	165	8,07	1,11	6,35	11,06	599	8,908	1,306	6	11,8
Total rents (%GDP)	165	29,15	37,45	1,75	322,9	602	24,9	27,7	0	344
Total rents (%GDP), <i>drop forest</i>	165	23,58	38,84	0,00	322,06	586	22,34	28,35	0	343,5
Total rents (%GDP), <i>drop oil and forest</i>	165	7,30	10,98	0	56,62	584	6,56	10,64	-27,7	78,5
OPEC	165	0,05	0,23	0	1	610	0,197	0,398	0	1
Polity 2 score	162	2,76	5,01	-7	10	594	1,175	6,691	-10	10
Press freedom	165	55,44	17,36	10	84	615	58,5	21,4	9	97
Year	165	2009	1,66	2005	2012	610	2006	3,014	2002	2012
Oil rents (%GDP)	165	16,28	37,56	0	327,3	606	15,4	26,4	0	343
MENA dummy	165	0,1	0,29	0	1	615	0,22	0,4	0	1

Since the models here are based on the models of Kasekende et al. (2016), the descriptive statistics will be compared to the ones given in table 1 of their article. Three of the variables given by Kasekende et al. (2016) is dropped from table 3 because they are not relevant for the analysis. These three are “corruption when joining EITI”, “Federal States” and “British dummy”. There are also some variables added in table 3 that are used in this thesis to answer the hypotheses. Most variables are similar to those found in table 1 of Kasekende et al. (2016), but they will hereon be discussed more closely.

4.3 Explanatory variables

The three independent variables presented below will be added to the model in order to investigate how they influence EITI membership and thereby give insight in order to address to the hypotheses.

4.3.1 The Middle East and North Africa region

This is a dummy variable where a country gets the value 1 if it is located in the Middle East or North Africa, and the value 0 if it is located elsewhere. Since we are controlling for regional effects, and therefore including dummies for all regions, the variable is interpreted different than it would have if it were the only regional dummy. The other regions are Asia, South America, Sub-Saharan Africa and Western. The reference category is chosen by the alphabetical method, i.e. Western is the reference category. The interpretation of the MENA

dummy is then in comparison to the Western region. In the data, there are 165 observations on the MENA dummy for EITI member countries, and 615 for non-EITI member countries.

4.3.2 OPEC

The OPEC variable is a dummy, where OPEC member countries are assigned a value of “1”, and non-OPEC countries is assigned “0”. The information on which countries are members is collected from the overview on the OPEC website (OPEC, 2017b). There are 13 OPEC countries in the analysis.

4.3.3 Oil rents

This is a variable showing the amount of oil rents as a percentage of GDP and it is collected from the World Bank Development Indicators (World Bank, 2017). The mean oil rents for EITI members are 16.3 percent of GDP, whilst for non-EITI countries it is 15.4. The amount of oil rents is therefore similar between for the two groups. Amongst the EITI member countries, Timor-Leste had the highest value of oil rents, with 327.3 percent oil rents of GDP in 2008. Timor-Leste also had the highest value of oil rents of the non-EITI member countries, which they experienced in 2006, before becoming member of EITI. They then had oil rents of 343 percent of GDP.

Aside from using the variable alone, oil rents will also be multiplied with other variables to make an interaction variable in order to control for more complicated effects. While two variables might point to a correlation in one direction, interaction variables is used to look at combined effects. The interpretation of the interaction term will also affect the interpretation of the other coefficients. The interaction terms that will be used here are of MENA and oil rents (Oil Rents* MENA) as well as OPEC and oil rents (Oil Rents*OPEC). This means that for example, the coefficient of the oil rents*MENA variable must be looked at in combination with the oil rents variable and the MENA variable, respectively.

4.4 Control variables

The control variables are based on the model used in Kasekende et al. (2016). These are corruption, democracy, total rents, foreign aid, GDP per capita and press freedom.

4.4.1 Corruption

To measure corruption, there are two indicators to choose from. The first one is developed by Transparency International, and is called the Corruption Perception Index (CPI). This index does not have data for all the countries in the sample in 2002. Therefore, Kasekende et al. (2016) uses the second option, namely the Control of Corruption Index (CCI) from the Worldwide Governance Indicators (WGI) at the World Bank. It measures, based on perception, to which extent public office is exercised for private gain, including petty corruption, grand corruption and state capture. The higher score a country is assigned, the more corrupt it is. The CCI is ranges from -2.5 to 2.5 . In order to ease the interpretation of the results, the variable was rescaled to range from 0 to 5, where 0 is the least corrupt and 5 is the most corrupt. For example, among the included countries, Norway has the lowest value of corruption (0.4). Table 3 shows that corruption is higher for EITI member countries than for non-EITI countries.

4.4.2 Democracy

Studies have found that democracy matter for corruption (Kasekende et al., 2016). And democracy is a political determinant contributing to a country's likelihood of participation in international agreements (Ross and Voeten, 2016). Pitlik et al. (2010) also finds that the higher the number of NGOs in a society, the higher the likelihood of EITI membership. Therefore, a democracy variable is included in the analysis to control for this effect. Polity 2 is a measure of democracy, collected from the report Polity IV from 2013, made by Centre for Systemic Peace (Marshall and Jagers, 2015). The report measures several indicators for democracy, including political competition and executive authority. There are two countries that have missing values for democracy in the analysis here; Iraq and Afghanistan (Marshall and Jagers, 2015). These are missing due to lack of reporting.

In Kasekende et al. (2016), EITI member countries and non-member countries have values of 1.8 and 1.5, respectively. The polity 2 score in the descriptive statistics of table 3, however, is more than halved for EITI members compared to non-EITI members countries. Democracies are defined as those countries with a value between 6 and 10 in the Polity report (Marshall and Jagers, 2015). Amongst the non-EITI countries, there is a clear overweight of democracies (6.7 in table 3). For EITI member countries, however, the case is different. In table 3, democracy has a value of 2,76 for EITI-member countries. A value of 2,76 is defined

as an *anocracy* by Polity; something between a democracy and an autocracy. The lowest value amongst the EITI member countries is assigned to Azerbaijan, who scored -7 in the years 2007 to 2012. Amongst the non-EITI member countries both Saudi Arabia and Qatar are both assigned -10 for several years.

4.4.4 Other natural resource rents

Total resource rents is one of the independent variables used in Kasekende et al. (2016). However, they do not give any specific explanation of what the variable measures, except for that it measures “Natural resource rents as a percent of GDP” (Kasekende et al., 2016). Which natural resources these are, is not specified. Therefore, the original total rents variable given by the World Bank’s World Development Indicators will be used. This includes resource rents from coal, mining, gas, minerals and forest. However, in some of the models, oil rents is included as a separate control variable, and in those cases it does not make sense to also include oil rents in the total rents variable. Therefore, the oil rents are excluded from the total resource rents-variable in the models where oil rents are controlled for separately.

Also, because EITI does not address forest resources in their work, forest rents are excluded from the total resource rents variable in all the models, except in the replication of the original Kasekende et al. (2016) model. The remaining sources for total resource rents left in the variable after removing forest rents are coal, mining, gas, and minerals. These are all extractive industries and covered by the EITI. The average value of total resource rents is 29,15 and therefore slightly higher for EITI member countries than for non-EITI countries, which has an average of 24,9. Timor-Leste has the highest share of total rents: 344 percent of GDP in 2006, before they became EITI members, and 322 percent of GDP in 2008, after joining EITI. However, after removing forest and oil rents from the total resource rent variable, the average is 7,30. The highest value of total rents excluding oil and forest rents is found in Mongolia in 2011, of 56,6 percent of GDP. Of non-EITI countries, the average value of total rents when dropping oil and forest is slightly lower, of 6,56. Uzbekistan has the highest value of natural resource rents excluding oil and forest rents; in 2006 they had 78 percent of GDP.

4.4.5 Foreign aid

EITI has proven to increase the levels of aid going in to a country (David - Barrett and Okamura, 2016), therefore and is included as a variable in the model of Kasekende et al. (2016). Aid is relevant because being an EITI member could increase the flow of aid to a country. Therefore, we expect foreign aid to be positively correlated with EITI membership. The measure of foreign aid is collected from the World Bank Development Indicators (World Bank, 2017). It is measured by official development assistance (ODA) as a percentage of gross national income (GNI). In the data, Liberia has the highest value of foreign aid, of 181,2 ODA of GNI in 2008. The lowest value is found in 2010, when Peru was given -0,22 in ODA. For non-EITI member countries the highest level of aid was given to Solomon Islands in 2010, when they received 68 percent of their GNI in ODA.

4.4.6 GDP per capita

GDP per capita might be considered as a “catch all” variable, as it is often correlated with other variables such as education, growth and general social welfare. It thus captures other factors that influence a country’s development and could therefore affect its commitment to international agreements. Since EITI has been successful in poor regions such as Sub-Saharan Africa, the expectation is for GDP per capita to be negatively correlated with EITI membership. The poorer a country is, the more likely EITI membership is. The variable is logged in order to stop outliers from disrupting the variable. In the tables, the variable is presented as GDP pc (log). Norway has the highest value of GDP pc amongst the EITI member countries in the data, with a value of 11.06 in 2012. The non-logarithmic GDP pc for Norway in 2012 was 63620 dollars. Amongst the non-EITI member countries, Qatar has the highest value, with 11.8 in 2011, which equals 132972 dollars.

4.4.7 Press freedom

The press freedom variable is collected from Freedom House, and measures to what extent the media in a country is able to operate without external influence (Freedom House, 2015). It is based on a survey that is divided into three main categories, covering the legal, political and economic environment of a country. These categories again cover all together 109 indicators. The measure ranges from 0 to 100 where 0 is “most free” and 100 is “least free”. The measure is then reversed, so that 100 is best and 0 is worst, as this makes more sense in the analysis of

the results. For EITI member countries the average press freedom score is 44,6, and therefore slightly lower than press freedom in non-EITI member countries, of 41,5. The highest-ranking country amongst the EITI member countries is Norway, which had a press freedom score of 90 in 2009,2001 and 2012. The lowest ranking EITI country is Kazakhstan, who scored 16 in 2012. Press freedom is used by Kasekende et al in their models, but is for some unknown reason left out of the descriptive statistics table.

4.5 Challenges in replicating Kasekende et al. (2016)

Since the starting point for this paper is the paper “Extractive industries and corruption: Investigating the effectiveness of EITI as a scrutiny mechanism” by Kasekende et al. (2016), it would be an advantage to be in contact with the authors. Since table A1 in their article contains a list of all the countries used in the selection, the sample can be replicated, and they also included descriptive statistics for all the variables used, making it easier to replicate the analysis. Upon further inspection of the descriptive statistics, however, it becomes apparent that Kasekende et al. (2016) has made some decisions that should have been elaborated in more detail. For example, there is a measure of “Corruption when joining the EITI” and one “Aid when joining the EITI”. These variables seem relevant when discussing EITI member countries, however, the authors have also stated that they have observations of these variables for *non*-EITI member countries. How can a country that is not a member of EITI be measured on corruption or aid when joining EITI? Kasekende et al. (2016) solve this problem by making assumptions of these values. They compute an average value and use this as a hypothetical value for the aid/corruption values for the year of EITI membership. The authors state themselves that this method suffer from some degree of randomness (Kasekende et al., 2016).

4.5.1 Openness – or lack thereof

Because of the inconsistencies in the descriptive data, I attempted to make contact with the authors behind the paper. After receiving their reply a few months after my inquiry, it turned out they had experienced a computer breakdown, and the data was thus unavailable. Researchers’ openness is crucial when doing research and the data needed to replicate findings should be readily available as resources for anyone to use. Replication studies are commonly used in order to ensure consistency and development within a research field, and conditions should be laid out so that perfect replication is possible. Any article should be

presented with all relevant background information and data sets, or the authors must be willing to answer question and present information when requested. Therefore, the data and method of this thesis is based on the closest approximation to Kasekende et al. (2016) as possible under the circumstances.

5. Method

5.1 Analytical framework

In Pitlik et al. (2010), the decision whether or not to join the initiative is the dependent variable in a probit analysis; EITI membership is also the dependent variable in Kasekende et al. (2016), and the same method will be used here. The model of which the analysis here is based on is presented in Kasekende et al. (2016) on page 123, in panel B. As in Kasekende et al. (2016), probit⁹ estimates will be used. The problem with probit coefficients is that they are inherently standardized because they depend on the magnitude of the disturbance variance. This is not a problem in linear regression models, but has some consequences in probit analysis, as the coefficients do not represent the causal effects. Due to this trait of probit coefficients, the results will be interpreted based on whether the coefficients are negative or positive, in addition to their significance. The size of the coefficients is not of primary interest here, because they cannot be directly interpreted.

Kasekende et al. (2016) controls for both time fixed effects and regional effects, which will also be done here. Kasekende et al. (2016) does not mention clustering in the paper, and therefore the replication of the analysis will not use clustering. Whether or not to use clustering in an analysis is often based on the researcher's own preferences, and how clustering affect the results (Kannan et al., 2004). The justification is often based on the specific case, although theorists have attempted to make universal guidelines for clustering. Therefore clustering will not be used in the initial analysis, but the analysis will be tested both with and without clustering around the country codes, in order to capture any differences, and the results of the analyses using clustering will be presented in the appendix.

5.4 Statistical methods

5.4.1 Finding the best fit model

When dealing with continuous dependent variables in a normal regression analysis, an F-test is applied in order to determine how well the model fits the population for which the data was

⁹ The difference between probit and logit is that the logit model assumes the error term is logistically distributed, whilst the ordered probit model assumes the error term is normally distributed (Borooah, 2001). Which model one chooses is mostly just based on individual preferences.

sampled. However, when working with dichotomous dependent variables, these measures are meaningless. Therefore, we need a different measure, and one such measure is the pseudo-R². This is a measure of goodness of fit, and is often called the “coefficient of determination” (King, 1986) because it measures goodness of fit for dichotomous models. In Kasekende et al. (2016) pseudo-R² is not given for the models; instead they use the log likelihood as a measure of the fit of the models. Since STATA can provide a value for pseudo-R², the value of the log likelihood will not be given in the tables, only pseudo-R². The value of pseudo-R² indicates how much the model explains compared to the *zero model* (Ringdal, 2007). The *zero model* is the model that contains only the regression constant, and none of the variables. The test observer is basically the difference of fit for a model without the added coefficients, and a model with all the coefficients (Ringdal, 2007). If the zero model and the estimated model have the same likelihood, then pseudo-R² is close to 0. The higher value, the better does the model fit the data. There are different types of pseudo-R² test observers, but STATA uses as default the one called McFadden’s pseudo-R²:

$$R_{McFadden}^2 = 1 - \frac{\log(L_c)}{\log(L_{null})}$$

where L_c denotes the (maximized) likelihood value from the current model, and L_{null} denotes the corresponding value for the zero (null) model. In social science, it is agreed upon that a very high pseudo-R² value is unlikely. Doing natural science research in laboratories, with precise instruments and controlled circumstances leads to a high pseudo-R². In social sciences, however, the circumstances are out of the researcher’s control and, generally, lower values are common. These should still be considered valid models. Hair et al. (2013) suggests that outcomes of 0.75, 0.50 and 0.25 should be considered strong, moderate and weak models, respectively.

5.4.2 Log transformation

In order to avoid extreme values of the variables skewing the distribution, log transformation is applied to some of the variables. This is a method where you take the log of the data values, and thereby create a new distribution. It is quite common for researchers to use this method when doing models including gross domestic product per capital (GDP pc).

There are other variables besides GDP that might have a skewed distribution, but that are traditionally not used with log transformation. Resource rents, for example, varies greatly between countries, and it is likely that there are some extreme values skewing the distribution and obstructing the result. How substantial an increase in a country's resource rents is, will depend on the initial value. In some of the models, a log variable for the total resource rents variable will replace the original "total rents (%GDP)", and log of oil rents will replace the original "oil rents (%GDP)" variable. The models will all be run first with the original resource variables without log transformation, and then these results will be compared to the findings when using models with log-transformed variables.

5.4.3 Significance

In the analysis there are three different significance limits: 0.10, 0.05, and 0.01. The significance limits are expressed by asterisks behind the coefficients in the results tables of chapter 6. The significance level for a study, α , is the probability of the study rejecting the null hypothesis (the hypothesis that there is no correlation between the independent and dependent variable); and the p-value of the study, p , is the smallest significance level where the null hypothesis would be rejected. The result is statistically significant within the model when $p < \alpha$ (Ringdal, 2007). For example, if the p-value is 0.05, there is a 5% chance of observing a value of the variable outside the observed values, given the null hypothesis. It is though not necessary to be overly strict and only accept p-values of 0. Therefore, a 10% significance value is accepted in the results here. However, where it is relevant and productive, results whose significance is outside even the conventional accepted level will be included in the discussion.

5.5 Models

We are looking at the probability of being an EITI member country depends on regional location, OPEC membership, and oil rents. EITI membership is the dependent variable. The models in this paper is based on the one found in Kasekende et al. (2016). Below are the four different models that will be used, and the variables are listed in the order they will be presented in the result tables. The initial model by Kasekende et al is as follows:

$$\begin{aligned} EITI\text{-membership} = & \text{Corruption} + \text{Aid} + \text{GDP } p.c. + \text{Total Rents} + \text{Democracy} + \\ & \text{OPEC} + \text{Press Freedom} \end{aligned}$$

Because we are interested in the effects of oil production on a country's likelihood of being an EITI member, a variable controlling for oil rents is included. The oil rents variable will also be log transformed in order to see how the results change, compared to the original variable. Adding oil rents to the model means oil rents is dropped from the total rents variable to avoid autocorrelation. Forest rents are also dropped from the total rents variable because EITI does not address forest industries.

$$EITI\text{-membership} = Corruption + Aid + GDP\ pc + Total\ Rents\ (excl.\ forest\ and\ oil\ rents) + Democracy + OPEC + Press\ Freedom + Oil\ rents$$

A third model will include an interaction variable between oil rents and OPEC member countries. We already know from previous studies that OPEC affects EITI membership, and based on the theory and previous literature it is likely that oil rents also affects EITI membership. Therefore it is interesting to see how the combined effect of OPEC and oil rents correlate with EITI membership.

$$EITI\text{-membership} = Corruption + Aid + GDP\ pc + Total\ Rents\ (excl.\ forest\ and\ oil\ rents) + Democracy + OPEC + Press\ Freedom + Oil\ Rents + Oil\ rents * OPEC$$

This thesis will also look into the effects of the Middle East and North Africa region. In all the models, regional dummies are applied, which means that a dummy for MENA is also included. The regional dummies are coded so that the Western region is the reference category. The theory chapter discussed how the MENA region is heavily abundant with oil resources and that oil abundance can affect their inclination to participate in international agreements. Therefore, in order to investigate the effect of oil rents and MENA combined; the model includes a dummy for the Middle Eastern and North African countries, multiplied with oil rents.

$$EITI\text{-membership} = Corruption + Aid + GDP\ pc + Total\ Rents\ (excl.\ forest\ and\ oil\ rents) + Democracy + OPEC + Press\ Freedom + Oil\ Rents + Oil\ Rents * MENA$$

6. Results

The following chapter is divided in three parts; first is the replication of model 5 in Kasekende et al. (2016), with 76 countries, 712-722 observations and a time period of 2002-2012. The second part is an extension of this original model, where variables are added to suit the purpose and research question of this thesis. The same country selection and the same time period as in section one are used. In the third section more countries and more years are added; the model has 158 countries, 1395 observations and the time period is 2002-2015. All the analyses are run using STATA¹⁰.

6.1 Replicating Kasekende et al. (2016)

As already stated, my intention was to replicate the results found in “Extractive industries and corruption: Investigating the effectiveness of EITI as a scrutiny mechanism” by Kasekende et al. (2016), and to then add variables to the model in order to answer my hypotheses. However, the authors have not provided enough information to make an exact replication possible. The results below are therefore based on the closest approximation possible based on the information given in the article. In table 4, model 1 is a direct copy of the results found in the article of Kasekende et al. (2016) (model 5, panel B), whilst model 2 is my replication. The dependent variable is EITI membership, coded as a dummy where a member country gets the value “1” and all other countries are assigned “0”.

¹⁰ STATA version 14 (StataCorp, 2015) is used to run the analyses. STATA is able to handle large amounts of information simultaneously, as well as perform commandos quickly. STATA works by inputting 1) a data set and 2) a procedure file (a «do» file). Every analysis iterates over the procedure file and applies it to the data set in memory, thus heightens the method's traceability.

Table 4: Replication of Kasekende et al. (2016)

EITI membership	(1) Original Kasekende	(2) Replication Kasekende
Corruption	0.571 *** (0.000)	0.450*** (0.005)
Aid (%GNI)	-0.0657*** (0.000)	-0.000885 (0.858)
GDP pc (log)	-0.643*** (0.000)	-0.117 (0.193)
Total Rents (%GDP)	0.0193*** (0.000)	0.00681*** (0.00306)
Polity 2	-0.0107 (0.369)	0.0317 (0.103)
OPEC	-0.940*** (0.000)	-0.823*** (0.0013)
Press Freedom	0.0275*** (0.000)	0.0108* (0.071)
Regional fixed effects	YES	YES
Time fixed effects	YES	YES
Number of countries	76	69
Observations	614	733
Log pseudo-likelihood	166.4	132.2

Replication of model 5, panel B in Kasekende et al. (2016)

p-values in parentheses

*** p<0.01, ** p<0.05, * p<0.1

As stated, the results in Kasekende et al. (2016), model 5 panel B, is presented in model 1. Model 2 is the replication. The sample in model 2 consists of 69 countries with 733 observations over a period from 2002 to 2012. Compared to Kasekende et al. (2016), there are 119 more observations, which is substantial. Without more information from the authors, the reason for the difference is not known, but some guesses can be made. One possibility is the difference in coding of the dependent variable. As explained in the data section (more specifically chapter 4.1), there are several possibilities for coding EITI membership, and the method here involves that no years are coded as “missing”. An alternative method would be to code “1” the year of membership, and missing values in the following years – but this coding would give fewer observations. If Kasekende et al. (2016) used missing values when coding EITI membership, this could explain the smaller number of observations. Missing data in Kasekende et al. (2016) can also cause the smaller number of observations in model 1.

Without more information for replication of their article, knowing exactly what causes the discrepancy will only be guesswork. Whilst Kasekende et al. (2016) have used 76 countries, there are only observations from 69 countries here. Unfortunately, some of the countries in the Kasekende selection were not available in the data set at hand. These “missing” countries include Sao Tome and Principe, Ethiopia, the Seychelles, Vietnam and Brunei – these are all included in the country selection of Kasekende et al. (2016), but not in the analysis here. Of these, the Seychelles, Sao Tome and Principe and Ethiopia are EITI members and could therefore be of importance.

The coefficients in model 2 are similar to those found in Kasekende et al. (2016) and model 1, with some exceptions. In the replication – model – aid and GDP pc are not significant by conventional accepted levels; their p-values are above 0.4. GDP per capita in the replication is negative, as it is for Kasekende et al. There is thus evidence, although not significant, that higher income for a country makes a country less likely to be an EITI member. Aid is not significant in model 2 with a p-value of 0.858. Aid is negative and significant in model 1. Kasekende et al. (2016) thus shows evidence suggesting that the more aid a country receives, the less likely it is to be an EITI member. The discrepancy in the aid variable can be explained by the fact that Kasekende et al. use a different variable to measure aid than the one used here. In table A2, Kasekende et al. (2016) state that aid in their model is measured by *foreign direct aid as a percentage of gross national income (GNI)*. The data available to me, however, is the measure *official development assistance as percentage of GNI*. Both are collected from the World Bank, and are part of the World Development Indicators. Using different measurements could be the reason for the difference in the aid coefficients. Another possible reason for the discrepancy is that Kasekende manipulate the data for non-EITI countries. Section 4.4.1 mentioned how Kasekende et al. based the aid variable for non-EITI countries on estimated values, which would skew the outcome of the aid variable in the analysis.

The polity 2 variable, which measures democracy, was negative and insignificant (p-value of 0.369) for Kasekende et al. (2016) as shown in model 1, but in model 2, the democracy variable is positive and has a p-value of 0.103. This p-value is higher than what is normally accepted as statistically significant. However, it is still worth noting that the variable points to an opposite correlation with EITI membership in model 1 compared to model 2. As mentioned in section 4.2 on descriptive statistics, the polity 2 variable used here differs from

the one in Kasekende et al. (2016) for EITI member countries, and this could explain the discrepancy in the variable between the two models. In the data here, the average polity 2 score for EITI members is 3.1, whilst for Kasekende et al. (2016) the corresponding value is 1.8. Thus, EITI countries in this data are more likely to be democracies compared to the EITI countries in Kasekende et al. (2016).

Finally, both in model 1 and in 2 corruption, total rents and press freedom are positively correlated to EITI membership, whilst OPEC membership is negatively correlated with EITI membership. These three variables all have similar coefficients in model 1 and 2.

6.2 Expanding the model

In this section, the explanatory variables presented in chapter 4.3 are added to the model in order to investigate the three hypotheses:

H1: Countries in the Middle East and North Africa are less likely to be EITI members than other countries

H2: OPEC membership makes countries less likely to be EITI members

H3: Countries with large oil rents will be less likely to be EITI members

The models are still based on the work of Kasekende et al. (2016), but the explanatory variables presented in section 4.3 are added to the original model. Model 1 in table 5, below, is the same as model 2 in table 4, with one important difference. Forest rents will from now on be excluded from the total rents variable, as EITI is not aimed at transparency in the forest industry. Table 5 also presents the coefficients for the MENA dummy specifically in order to investigate any potential MENA exceptionalism. All the regional dummies are included in table 4 as well, but since they are not treated to any length in Kasekende et al. (2016), the MENA dummy was not presented. In model 2, a variable for oil rents is added. In model 3 an interaction variable of oil rents and the OPEC dummy is added (Oil Rents*OEPC), and in model 4 an interaction variable of oil rents and the Middle Eastern/North Africa dummy is added (Oil Rents*MENA). In table 5 there are 723 observations in 69 countries, and the time period is still 2002-2012.

Table 5: Expanding the model

VARIABLES	(1)	(2)	(3)	(4)
	Kasekende model without forest rents	Adding oil rents	Adding oil rents and oil rents*OPEC	Adding oil rents and oil rents*MENA
Corruption	0.543*** (0.000)	0.435*** (0.006)	0.445*** (0.005)	0.408** (0.011)
Aid (%GNI)	0.00196 (0.695)	0.00179 (0.723)	0.00206 (0.684)	0.000678 (0.892)
GDP pc (log)	-0.0722 (0.418)	-0.124 (0.174)	-0.118 (0.199)	-0.158* (0.090)
Total Rents (%GDP) excl. forest rents	0.0112* (0.088)			
Total Rents (%GDP) excl. forest and oil rents		0.0141** (0.036)	0.0141** (0.035)	0.0137** (0.042)
Polity 2	0.0254 (0.186)	0.0315 (0.105)	0.0311 (0.110)	0.0341* (0.081)
OPEC	-0.776*** (0.002)	-0.809*** (0.001)	-0.310 (0.574)	-0.945*** (0.000)
Press Freedom	0.0128** (0.029)	0.00989* (0.099)	0.0101* (0.0912)	0.00918 (0.125)
Oil Rents (%GDP)		0.00591** (0.011)	0.00612*** (0.008)	0.00539** (0.021)
Oil Rents*OPEC			-0.0159 (0.324)	
Oil Rents*MENA				0.0297** (0.024)
MENA	0.580* (0.096)	0.495 (0.159)	0.524 (0.136)	-0.411 (0.458)
Constant	-3.182** (0.011)	-2.339* (0.071)	-2.443* (0.060)	-1.926 (0.144)
Nr. of countries	69	69	69	69
Observations	723	723	723	723
Pseudo R²	0.308	0.316	0.317	0.323

p-value in parentheses

*** p<0.01, ** p<0.05, * p<0.1

In table 5, corruption is highly significant and positive in all the models. There is evidence that corrupt countries are more likely to be EITI members than less corrupt countries, as there is a positive correlation between the variables. The variable becomes less significant as the control variables are added to the model, which means that oil rents and the interaction variables weakens the effect of corruption. The MENA dummy is positive and significant in

model 1, which indicates that countries in located in the Middle East and North Africa are more likely to be EITI members, compared to countries in the Western region. In model 2, oil rents as a percentage of GDP is added to the original Kasekende et al. model. The coefficient of oil rents is positive and significant, implying that higher oil rents make countries more likely to be EITI members. The MENA dummy becomes less significant when oil rents are added, and thus oil rents weakens the regional factor. Press freedom is significant and positive in model 1, 2 and 3, which means higher press freedom increases the likelihood of EITI membership.

In model 3, an interaction variable is added. An interaction variable can tell us something about the effect of one variable *through* another variable. The variable in model 3, OPEC*Oil Rents, can tell us the effect of OPEC on EITI membership *given* a country has oil rents. Likewise, the variable can tell us the effect of oil rents, *given* a country is an OPEC member. The coefficient for the interaction variable is not statistically significant at a 5% level, which means that we cannot draw confident conclusions about the interaction variable and its effect on the dependent variable. The p-value is 0.324, and although this value is higher than conventional requirements, there is still *some* evidence that a country is less likely to be an EITI member the higher oil rents, given the country is an OPEC member because the interaction term coefficient is negative. Thus, the results suggest that if a country is an OPEC member, it is less likely to be an EITI member, the higher their oil rents are. Although higher oil rents increase the likelihood of being an EITI member, this is not the case for the OPEC countries. It is possible that OPEC countries do not see the need to join EITI, because the benefits from their OPEC membership are good enough.

In model 4 an interaction variable that multiplies oil rents with the regional dummy for the MENA region is added – Oil Rents*MENA. In this model, the interaction variable is significant and positive, meaning that a country that is located in the Middle East or North Africa will be more likely to be an EITI member the higher their oil rents are, compared to being located in the Western region. There is thus an opposite correlation of MENA compared to OPEC on oil rents, as the latter interaction variable was negative. Model 2, 3 and 4 show that higher oil rents will make any country more likely to be an EITI member, because the oil rents variable is positive and significant. Being located in the MENA region increases the chances of EITI membership even further, compared to being in the Western region, as the Oil Rents*MENA variable is also positive.

Model 4 gives a negative and significant result for GDP per capita. Pitlik et al. (2010), Kasekende et al. (2016), and Öge (2016) find the same result; a country's income has a negative correlation with EITI membership. This indicates that richer countries are less likely EITI members than poor countries. Considering EITIs relative success in poor Sub-Saharan Africa compare to the Asian and MENA region, these results are not surprising. Since only model 4 gives a significant result for the GDP pc variable, the interaction variable of oil rents*MENA is needed to capture the income effect that was found in Pitlik et al. (2010), Kasekende et al. (2016), and Öge (2016).

The democracy variable (Polity 2) is only significant in model 4, and not in models 1, 2 or 3. The coefficient is positive and significant in model 2 with a p-value of 0.081; therefore democracy is positively correlated with EITI membership. This result suggests that more democracy increases the likelihood of a country being an EITI member. Although the other models give a non-significant result for democracy, the p-values are all below 0.2. There is thus some evidence for democracy being a positive influence on EITI membership in all the models. Since the democracy variable is positive for all the models, we can with some certainty say that being a democracy increases the chances of being an EITI member, regardless of what control variables are included in the model. Kasekende et al. (2016) did not find a significant result for regime type in their analysis (p-value of 0.369), and the coefficient was negative (table 4, model 1). There was thus some evidence that democracy decreased the chances of a country being an EITI member in the Kasekende model, which is the opposite result of the findings in table 5.

All the models control for time fixed effects and regional fixed effects. The coefficients for the fixed effects dummies are omitted from the table, with the exception of the dummy for North Africa and Middle East. The reference category for the regional dummies is the Western region. Only in model 1 is the coefficient for the MENA dummy significant at the conventional level. However, in models 1, 2 and 3, the p-value is below 0.2, and therefore worth commenting, although these models give less certain evidence of the effect of the MENA dummy. In all the models besides model 4 the coefficient is positive, showing a positive correlation between the MENA region and EITI membership. Being located in the Middle East or North Africa makes a country more likely to be an EITI member, compared to countries in the Western part of the world. This is a surprising finding, given the Middle

Eastern/North African exceptionalism that disfavors the region in terms of democratic indicators, such as transparency. Model 4 is the model that gives the least significant result for the MENA dummy (the p-value is 0.458).

A separate bivariate analysis with EITI membership as the dependent variable and MENA dummy as the independent variable gives a positive and highly significant MENA coefficient. Thus, ignoring all other possible influences, MENA location gives a higher likelihood of EITI membership. The models of table 5 are also run using Sub-Saharan Africa as the reference category for the regional dummies, instead of the Western region as reference category. Seeing as there are only six Western countries in the analysis, using Sub-Saharan Africa as the reference category is fairer. However, the change of reference category does not change the coefficient for the MENA dummy in the results. It is still negative and insignificant.

The pseudo- R^2 value for the first model is 0.302. The highest pseudo- R^2 is found in model 4, where it is 0.318. This is only marginally higher than the other models, and can therefore not be called a substantially better model, but still a slightly better model. The lowest value is found in model 1. However, we know that the more variables in a model, the higher value of R^2 . The pseudo- R^2 is similar in all the models, which means they all explain the variance in the dependent model fairly similar. The pseudo- R^2 is relatively high in all the models, as they are above 0.3. In social sciences, this is considered a quite good result. According to Hair et al. (2013), a value of pseudo- R^2 above 0.25 is *weak*, but is still a valid model.

6.2.2 Adding log of rent variables

In order to check for outliers, log transformation is applied to the rents variables: total rents, oil rents and the interaction variables involving oil rents.

Table 6: Kasekende model with logged variables

VARIABLES	(1) Kasekende model	(2) Adding oil rents	(3) Adding oil rents and oil rents*OPEC	(4) Adding oil rents and oil rents*MENA
Corruption	0.242 (0.151)	0.119 (0.507)	0.125 (0.489)	0.0806 (0.661)
Aid (%GNI)	0.00368 (0.488)	0.00126 (0.811)	0.00136 (0.797)	-0.000288 (0.956)
GDP pc (log)	-0.274*** (0.007)	-0.324*** (0.003)	-0.320*** (0.004)	-0.383*** (0.000)
Total Rents (log, %GDP) excl. forest rents	0.257*** (0.000)			
Total Rents (log, %GDP) excl. forest and oil rents		0.0988 (0.113)	0.0982 (0.115)	0.0920 (0.144)
Polity 2	0.0384* (0.0515)	0.0601*** (0.004)	0.0597*** (0.004)	0.0673*** (0.001)
OPEC	-0.866*** (0.000)	-1.055*** (0.000)	-0.598 (0.668)	-1.177*** (0.000)
Press Freedom	-0.00776 (0.202)	-0.00636 (0.293)	-0.00652 (0.283)	-0.00500 (0.412)
Oil Rents (log) %GDP		0.287*** (0.000)	0.286*** (0.000)	0.304*** (0.000)
Oil Rents (log)*OPEC			-0.138 (0.739)	
Oil Rents (log)*MENA				1.248** (0.018)
MENA	0.383 (0.284)	0.595 (0.106)	0.605 (0.101)	-3.699** (0.047)
Constant	0.0752 (0.951)	0.619 (0.642)	0.581 (0.663)	1.161 (0.396)
Nr. of countries	68	68	68	68
Observations	711	702	702	702
Pseudo R²	0.331	0.346	0.346	0.354

p-value in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Time fixed effects and regional fixed effects are applied to all models

In table 5, total rents were associated with a higher likelihood of EITI membership, as the coefficient was significant and positive. After performing log transformations, however, this is no longer the case. In table 6, only model 1 gives a significant result for total rents. The coefficient is positive, indicating that higher other rents besides oil increase the likelihood of EITI membership. In models 2, 3 and 4, however, the coefficient loses its significance. In

these three models, the total rents variable no longer includes oil rents, because oil rents are included as a separate variable. The variable is still positive, though, indicating that the conclusion from model 1 – that higher total rents gives a higher likelihood of EITI membership – still applies. The evidence is though less convincing due to higher p-values in table 6 compared to in table 5. Most likely, there are some extreme values in the total rents variable, which affect the results in table 5, and overestimate the effect of total rents on EITI membership. Therefore, it is oil rents, income, OPEC membership and democracy that matter whether or not a country is an EITI member according to models 2,3 and 4 above.

The MENA dummy is significant only in model 4 of table 6. It is also negative, indicating that being a MENA country decreases the likelihood of EITI membership, compared to being located in the Western region. This is in line with the theory on Middle Eastern and North African exceptionalism. In table 5, however, the opposite result was found: the MENA dummy was positive (albeit only mildly significant in model 1), giving evidence that a MENA country is *more* likely to be an EITI member relative to a Western country. The interaction variable of oil rents*MENA in table 6 is positive, which indicates that a country located in the MENA region will be more likely to be an EITI member, the higher their oil rents, compared to being located in the Western region. However, since the MENA dummy alone is negative, we can see that oil rents is determining for a country's likelihood of being EITI member; if it has no oil rents, the MENA region effect is negative, if it has oil rents, the MENA region effect is increasing as oil rents increase.

Logging the resource rent variables makes the corruption variable less significant in all the models. None of the models give a significant coefficient for corruption, as the p-values are all above 0.1. While in table 5, corruption was positive and highly significant in all the models, performing log transformation on the rents variable makes the corruption variable lose its significance. There therefore seems to be some outliers in the resource rents data, which severely affects the corruption variable. There are some countries with very high oil rents, such as Kuwait and Saudi Arabia. These countries are also fairly corrupt and may therefore have affected the outcomes in table 5, by overestimating the effect of corruption and thus making the corruption variable more significant.

The effect after log transformation on the resource variables is also to make the GDP per capita variable significant and negative. In table 5, GDP per capita was only significant in

model 4. It was also negative, showing that higher GDP per capita reduces the likelihood of EITI membership, when the effect of oil rents*MENA is controlled for. In table 6, however, the GDP pc variable is much more significant, and thus provides stronger evidence on the effect of income on EITI membership. All the models in table 6 give a highly significant and negative coefficient for GDP pc. As in table 5, the coefficient is negative, but in table 6 the coefficients are more significant. This table reaffirms and strengthens the evidence that the poorer a country, the more likely it is to be an EITI member.

The democracy variable is also more significant in the models in table 6, compared to the democracy variable in the models of table 5. Democracy was only significant in model 4 of table 5, but in the table above it is highly significant and positive in all the models. There is thus evidence indicating that democracy increases the chances of EITI membership, because the coefficient for Polity 2 is positive in all the models. This was also the conclusion from table 5, but the evidence is strengthened in table 6.

The models in table 6 all have higher pseudo-R² values than their corresponding models in table 5. The log transformation thus improves the models overall.

6.3 New analysis

In the following section, the model presented by Kasekende et al. (2016) is still used, but more years and countries are added. Since EITI did not exist before 2002, it is reasonable to continue using 2002 as the time period starting point, as Kasekende et al. (2016) does. In the analysis below, the time period is from 2002 and up to the latest available year, 2015. The number of observations has substantially increased, from 733 in the models of chapters 6.1 and 6.2, to 1395 here. The number of countries has also increased, from 69 in the previous section, to 158. Increasing the number of countries included will give further insight into the MENA countries' relation to EITI, as the number of MENA countries included in the sample increases from 14 to 23. Increasing the sample size also gives estimates with smaller margins of error. However, the countries that have total rents of 0 is not included in the analysis, as EITI would not be interested in these and they would never join EITI in any case.

Table 7: New analysis

VARIABLES	(1) Kasekende model	(2) Adding oil rents	(3) Adding oil rents and oil rents*OPEC	(4) Adding oil rents and oil rents*MENA
Corruption	0.498** (0.045)	0.354 (0.137)	0.361 (0.130)	0.324 (0.173)
Aid (%GNI)	0.00880 (0.285)	0.00764 (0.353)	0.00786 (0.339)	0.00574 (0.491)
GDP pc (log)	-0.0790 (0.653)	-0.165 (0.337)	-0.159 (0.356)	-0.204 (0.236)
Total Rents (%GDP) excl. forest rents	0.0353*** (0.000)			
Total Rents (%GDP) excl. forest and oil rents		0.0394*** (0.000)	0.0393*** (0.000)	0.0389*** (0.000)
Polity 2	0.00165 (0.959)	0.0120 (0.716)	0.0116 (0.725)	0.0208 (0.536)
OPEC	-0.177 (0.731)	-0.349 (0.514)	0.101 (0.908)	-0.775 (0.264)
Press Freedom	0.0127 (0.183)	0.00908 (0.346)	0.00924 (0.339)	0.00872 (0.374)
Oil Rents (%GDP)		0.0121** (0.0117)	0.0124** (0.0137)	0.0104*** (0.00559)
Oil Rents*OPEC			-0.0142 (0.587)	
OilRents*MENA				0.0439*** (0.005)
MENA	0.437 (0.334)	0.334 (0.460)	0.352 (0.431)	-0.486 (0.348)
Constant	-2.067 (0.343)	-0.751 (0.725)	-0.836 (0.697)	-0.304 (0.887)
Nr. of countries	158	158	158	158
Observations	1,395	1,395	1,395	1,395
Pseudo R²	0.326	0.351	0.352	0.371

p-value in parentheses

*** p<0.01, ** p<0.05, * p<0.1

In model 1 above, corruption is significant and positive, indicating that higher corruption levels make a country more likely to be an EITI member. In model 2, 3, and 4, however, corruption is insignificant. The added explanatory variables thus weaken the effect corruption has on EITI membership. Both the total resource rents variables (with and without oil rents) are positive and highly significant in all the models of table 7. Thus, the higher resource rents

a country experiences, the more likely it is that the country is an EITI member. The oil rents variable is also significant and positive in all the models. The results indicate that an oil-abundant country will be more likely to be an EITI member, which is contrary to what Ross and Voeten (2016) suggest. They claim that oil-abundant countries will be reluctant to join international agreements because they will already have access to the markets and the cooperation that international agreements can provide.

As in the results tables of section 6.2, the interaction variable Oil rents*OPEC is not significant in table 7. Higher oil rents makes a country more likely to join EITI (as the oil rents variable coefficient is positive) but this happens without any influence of OPEC membership. The other interaction variable, however, oil rents*MENA, is significant and positive. This means that oil rents makes a country more likely to be an EITI member, and if the country is located in the Middle East or North Africa, the chances increase even more. The MENA dummy alone is not significant at conventional levels, however, which means that the MENA dummy coefficient value should be treated cautiously. There is some evidence, however, that being located in the MENA region has a negative impact, as the dummy coefficient is negative in model 4, and has a p-value of 0.348. The conclusion from chapter 6.2.2 is then the same as here; oil rents are undisputedly a positive contribution to the likelihood of EITI membership, as it changes the impact of being located in the MENA region. The effect of being located in MENA – compared to being located in the Western region – without oil rents is negative, but if a country has oil rents *and* is located in the MENA region, the likelihood of EITI membership increases.

In all four models the OPEC variable is insignificant, as the p-value is above 0.1. However, in the fourth model, the significance and coefficient changes. The p-value is down to 0.264, and the coefficient is negative, which gives some support to the theory of OPEC member countries being less likely to be EITI members. The p-value in model 4 is not significant at the conventional level (above 0.1), but it is still interesting to see how the introduction of the interaction variable oil rents*MENA makes OPEC increase in significance (0.908 in model 3, 0.264 in model 4) compared to the other models, and how the coefficient becomes negative. There is thus some evidence OPEC has a negative impact on a country being an EITI member, which is in line with the theory that OPEC acts as a substitution for EITI membership, and that OPEC countries might not need EITI membership.

With regards to the fit of the models, we again see values for pseudo-R² above 0.3, which Hair et al. (2013) considered *moderate*. The measures in these final models are, however, all higher than the pseudo-R² in the extended Kasekende models of section 6.2. Adding more country-years to the models gave better models, but this does not have to entail that the models in itself are better. Adding more observations has a tendency to increase the R² regardless of other factors.

6.3.2 Adding log of rent variables

In the table below, the variables for total rents and oil rents have been log transformed in order to limit the impact of extreme values that skew the distribution. This is the same selection of country-years used to make table 7 above, and the same models. There are still 158 countries in the analysis. In model 1 there are 1510 observations, whilst in models 2, 3 and 4 there are 1388 observations.

Table 8: New analysis with logged variables

VARIABLES	(1) Kasekende model	(2) Adding oil rents	(3) Adding interaction variable	(4) Adding oil rents*MENA
Corruption	0.0702 (0.745)	0.106 (0.632)	0.109 (0.623)	0.0786 (0.721)
Aid (%GNI)	0.0116 (0.181)	0.00660 (0.401)	0.00666 (0.397)	0.00447 (0.569)
GDP pc (log)	-0.493*** (0.006)	-0.446** (0.025)	-0.444** (0.026)	-0.491** (0.014)
Total Rents (log, %GDP) excl. forest rents	0.560*** (0.000)			
Total Rents (log, %GDP) excl. forest and oil rents		0.261** (0.010)	0.261** (0.010)	0.259** (0.012)
Polity 2	0.0314 (0.373)	0.0522 (0.136)	0.0521 (0.139)	0.0614* (0.085)
OPEC	-0.710 (0.172)	-0.850* (0.0950)	-0.511 (0.828)	-1.216** (0.037)
Press Freedom	-0.00819 (0.425)	-0.00962 (0.394)	-0.00968 (0.392)	-0.00917 (0.427)
Oil Rents (log, %GDP)		0.424*** (0.000)	0.424*** (0.000)	0.414*** (0.000)
Oil Rents (log)*OPEC			-0.102 (0.887)	
Oil Rents (log)*MENA				1.338*** (0.005)
MENA	0.0296 (0.952)	0.202 (0.694)	0.207 (0.685)	-3.768** (0.020)
Constant	2.836 (0.183)	4.326* (0.085)	4.359* (0.083)	5.732** (0.032)
Nr. of countries	142	142	142	142
Observations	1,510	1,388	1,388	1,388
Pseudo R²	0.447	0.448	0.448	0.487

p-value in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Time fixed effects and regional fixed effects are applied to all models

There are some differences between table 8 and table 7 worth commenting. Corruption was significant and positive in model 1 of table 7, and not significant at conventional levels in the other models. Table 7 therefore indicated that corruption makes a country more likely to be an EITI member. Corruption in the table above, however, is not significant at conventional levels in any of the models. All the corruption coefficients in table 8 have p-values above 0.6, which

is too high to give any credible evidence. The effect of corruption on EITI membership is therefore not possible to deduce based on the models in table 8. GDP per capita, however, is *more* significant in all the models of the table above, compared to the results in table 7, where the GDP pc coefficient was not significant at conventional levels in any of the models. There is strong evidence from the table above that poorer countries are more likely to be EITI members. This is not surprising given the large portion of Sub-Saharan countries that have joined, as well as other poor countries.

In table 7, the OPEC variable had p-values above conventional accepted levels, and did therefore not give very valuable findings. The OPEC coefficient in table 8, however, is negative and significant in model 2 and 4, indicating that OPEC countries are less likely to be EITI members than non-OPEC countries. Oil rents is still a positive contributor to the likelihood of a country being member of EITI; as in table 7, the coefficient for oil rents is significant and positive in models 2, 3 and 4. In addition, the interaction coefficient of oil rents and the MENA dummy is significant and positive. There is thus evidence that being located in the MENA region makes the oil rents effect even bigger. A country with high oil rents is more likely to be an EITI member. If that country is also located in MENA, the effect of oil rents is even greater. The interaction term of oil rents*OPEC is not significant, with a p-value of 0.887. Thus, there is no evidence of OPEC affecting the impact of oil rents on EITI membership.

The Middle East and North Africa dummy, which was not significant in any of the models of table 7, is now significant in model 4 in the table above. The coefficient is negative; suggesting that MENA countries are less likely to be EITI members, compared to Western countries. This is in line with the theory of MENA exceptionalism, which predicted that countries in this region would not be interested in transparency agreements due to high levels of corruption. Seeing as the oil rents variable, as well as the interaction term of oil rents*MENA were both positive, it becomes evident that being located in MENA is only a positive contributing factor to EITI membership *if* a country has substantial oil rents; it is not enough to only be located in the MENA region, as this alone will decrease the likelihood of EITI membership. Oil rents thus determines if a MENA country is likely to be an EITI member or not.

All the models in table 8 have higher pseudo-R² values than the models in table 7. Log transformation of the rents variable thus gives more reliable models than models without log transformation.

6.4 Using clustering in the analysis

For the Kasekende model, the expanded model, and the new results, the models were run both with and without clustering (clustering by countries). The results after adding clustering on the models of table 5 can be seen in appendix 2. For the models using the Kasekende selection, adding clustering did not provide any meaningful new insights. The coefficients became, in general, less significant. Only the oil rents variable remained significant and positive in all the models. The OPEC variable was still negative, but lost some significance with clustering. Total rents were no longer significant in any of the models, besides in model 1, where oil rents are included, and GDP pc also lost its significance in model 4. Thus, adding clustering made it much harder to draw conclusions, as the p-values were higher than without clustering.

However, when clustering was applied to the new analysis, the outcome changed and the results are more fruitful for discussion. Adding clustering to the analysis made some of the coefficients *more* significant (see appendix 3). Corruption after clustering became highly significant and positive in all the models after clustering. This indicates that higher corruption makes a country more likely to be an EITI member. Press freedom was not significant in any of the models of table 7, but after clustering was applied, the press freedom variable is significant and positive in all the models. This supports the view that higher press freedom increases the likelihood of EITI membership. The MENA regional dummy was not significant in any of the models of table 7, but with clustering it was significant in model 1, where none of the explanatory variables are added. The positive coefficient means that MENA countries are more likely to be EITI members relative to Western countries.

6.5 Brief summary of the results

With regards to the explanatory variables – the MENA dummy, oil rents and OPEC dummy – there are some general results worth emphasizing. The MENA dummy is positive in some models, but mostly not significant at conventional levels. There is thus no strong evidence of

a single MENA exceptionalism affecting EITI membership. Oil rents are positively associated with EITI membership in most models, which means that higher oil rents increases the likelihood of EITI membership. The OPEC dummy is negative in most models, indicating that an OPEC country is less likely to be member of EITI than a non-OPEC country.

7. Discussion

In this section, the three hypotheses presented in the method chapter is revisited, and in the context of the results either confirmed or rejected. Limitations of the thesis are also presented, and there are some comments on the method.

7.1 Reviewing the hypotheses

H1: Countries in the Middle East and North Africa are less likely to be an EITI member than other countries.

The results from table 5 shows that Middle Eastern and North African countries are not less likely to join EITI than countries from the Western region, as the regional MENA dummy MENA was not significant in any of the models. The hypothesis is neither confirmed nor rejected, as the results do not give a unequivocal result. As states in chapter 6.2, however, the regional dummy for MENA in table 5 is still worth discussing, as the p-values in models 1, 2 and 3 are fairly low, although they are above 0.1 and thus the conventionally accepted level. The positive correlation between the regional dummy and EITI membership suggests that being located in the Middle East and North Africa region increases the likelihood of a country being an EITI member, compared to a country in the Western part of the world.

There is thus some evidence of a regional factor, but the positive relationship is surprising, given the existing theories on Middle Eastern exceptionalism, because it describes MENA countries as lagging behind on democratic values (Devlin, 2010, Melo and Ugarte, 2012). The results here give a different impression. If transparency is considered a democratic value, MENA countries are not lagging behind, quite the contrary. Western countries are often described as the most democratic, but still MENA countries seems more likely to join EITI, despite low levels of democracy. A bivariate analysis using democracy as the dependent variable and MENA dummy as the independent variable gives a negative and significant coefficient for MENA countries. This simple model shows that democracy is lower in MENA countries than others, and therefore we might expect MENA countries to be less involved in democratic practices, such as transparency.

In the new analysis in table 7, the p-values for the MENA dummy is again above conventional accepted levels (all above 0.3) and therefore do not provide definite evidence.

However, in table 8, where the resource rent variables are logged, the MENA dummy is negative and significant in model 4. Model 4 includes the variables oil rents and oil rents*MENA. The negative coefficient is more in accordance with the theory of MENA exceptionalism, because it provides evidence to show that MENA countries are less likely to be EITI members than Western countries. In fact, all the tables show that when oil rents are multiplied with the MENA regional dummy (Oil rents*MENA), the coefficient is positive and significant. The positive correlation between the interaction variable and EITI membership entails that the higher oil rents, the more likely it is that a country is member of EITI, *if* the country is located in the Middle East or North Africa. For oil producing countries the MENA regional factor is definitely present, but not in the way many MENA-researchers would predict. In the theory chapter, it was argued that both oil wealth and location in MENA would entail a lower interest in adopting a transparency norm. The findings here, however, suggest otherwise, and that oil-producing MENA countries are in fact more likely to be EITI members than Western countries.

The evidence presented in the results suggests countries are willing to accept international norms, as long as oil rents are high enough. Oil rents are positively correlated with EITI membership throughout the models. When the stakes are high enough, “even” MENA countries will accept democratic values and join EITI at the table. The competition mechanism described by Öge (2016), where countries compete for foreign direct investment and therefore join EITI because they want to get ahead in the competition, has been used to explain the interest of Sub-Saharan countries to join, but it could also explain the interest of the Middle East/North Africa region to join EITI. In a globalized world, most countries depend on cooperation with the international community. EITI compliance can ease the cooperation.

Azerbaijan, Iraq and Yemen are the only EITI members who are also located in the MENA region. Yemen is experiencing a humanitarian crisis and is therefore suspended due to political instability since 2015. Azerbaijan withdrew from EITI in 2017¹¹. These EITI countries located in MENA have an average of oil rents of 35.8 percent of GDP. The corresponding figure for non-EITI MENA countries is much lower, of 19.3 percent of GDP.

¹¹ Since Yemen was suspended and Azerbaijan withdrew after the time period used in the analysis here, this will not affect the coding of the variable “EITI membership”.

Their high oil rents and their location in the Middle East and North Africa are contributing factors for their interest in EITI, according to the results.

H2: OPEC membership makes countries less likely to be an EITI member

In Kasekende et al. (2016), as well as in Pitlik et al. (2010), the OPEC variable is highly significant and negative. The same result was found here, presented in table 5, as the OPEC variable was highly significant and negative in model 1,2 and 4. In these models, there is evidence to support the hypothesis that OPEC membership makes countries less likely to be EITI members. Further, the negative correlation points to a substitution effect where countries that are OPEC members are not EITI members, perhaps because they consider the transparency requirements of OPEC to be sufficient. Or, perhaps they don't need EITI membership because of their OPEC membership. Examining the data more closely, the only OPEC members that are also EITI members are Iraq and Nigeria. These are huge oil producers. Nigeria is Africa's largest producer of crude oil, and 77% of the revenue to the government comes from the oil and gas sector (EITI, 2017f).

In table 5, model 3, the OPEC variable coefficient becomes insignificant when the interaction variable oil rents*OPEC is added. In all the other models of table 5, the OPEC variable is significant at conventional levels, but in model 3 the interaction variable, Oil Rents*OPEC, weakens the effect of the OPEC variable. Apparently OPEC is not actually the determining factor for EITI membership, as it may seem at first glance, because it is oil rents that affect EITI membership through OPEC. Although the coefficient of Oil Rents*OPEC is non-significant (0.324), it is also negative, thus giving some evidence that the higher oil rents an OPEC country experience, the less likely the country is member of EITI, compared to a non-OPEC country with similar level of rents.

In the new analysis presented in table 7 – with more country-years added – the OPEC variable is insignificant, as all the models give fairly high p-values (above 0.5) for the OPEC coefficient¹². The OPEC effect is thus reduced when we increase the time period and the number of countries. The reason for the reduced impact of OPEC in the new analysis could be a selection bias in the Kasekende-based models. These models are based on the Kasekende selection of countries, which are chosen because their resource rents are high. Therefore, the

¹² Models 1, 2 and 3 all have p-values for the OPEC variable above 0.5. Model 4 give a lower p-value (0.264) than the other models, but it is still higher than conventionally accepted levels.

selection is somewhat biased as these countries are all experiencing high resource rents. This means that large oil producers are included in the country selection. In that selection, OPEC membership makes countries less likely to be an EITI member. A bivariate regression analysis shows that OPEC is significant and positively correlated to oil rents. OPEC countries tend to have higher oil rents in general than countries that are not OPEC members.

A consequence of finding OPEC membership to reduce likelihood of EITI membership is that we also find that non-OPEC oil producers are relatively *more* likely to join EITI. There is thus some evidence that oil producers who do not benefit from OPEC membership find the benefits of EITI membership high enough. Non-OPEC oil producers will have other incentives to join EITI than OPEC countries do. Seeing as involvement with other countries (through trade and FDI) increases when international agreements are made, non-OPEC countries might have incentives of increased foreign interest in their country if they adhere to international transparency norms. As OPEC countries already have a great deal of trade, and access to foreign markets, they might not see the need to commit to transparency in order to reap the benefits of EITI membership.

As mentioned in the theory section, Montinola and Jackman (2002) found that OPEC membership makes countries more susceptible to corruption. If people working in government are receiving great benefits from corruption, their incentives to join EITI are low. This could also explain the negative correlation. As Torvik (2002) explains, avoiding complete transparency might make the economy less productive because actors in the economy are doing unproductive rent seeking instead of more constructive policies. Pitlik et al. (2010) explains that OPEC countries do have incentives for practicing underreporting of illegal activities due to the high available rents in the resource sector. Therefore, they will avoid EITI membership, as it would require full disclosure.

H3: Countries with large oil rents will be less likely to be an EITI member

The oil rents variable was positive and significant in all the models, showing that a country with higher oil rents are more likely to be an EITI member than countries with lower oil rents. The hypothesis is thus rejected, and instead we find that countries with large oil rents will be *more* likely to be an EITI member. Both the oil rents variable and the other rents variable (total rents excluding forest and oil rents) is positive and significant (see table 5 and 7). Since both resource variables are positive and significant, they both contribute to a country's

likelihood of being an EITI member. More resources, regardless of which sector, makes a country more likely to be an EITI member. These findings are rather surprising considering the literature and theories regarding oil abundant countries. These countries are often described as dodging international commitments and accused for being more corrupt than non-oil producing countries (see Pitlik et al., 2010, Alexeev and Conrad, 2009, Montinola and Jackman, 2002). Ross and Voeten (2016) find evidence that oil-exporting countries are less likely to join international agreements and argue that oil-rich countries do not need the benefits that follow such commitments, such as the the foreign direct investments or the access to foreign markets.

One possible explanation for the surprising discovery can be found in the discussion of David - Barrett and Okamura (2016) regarding reputation. If oil abundant countries are experiencing reluctance from the international community due to the bad reputation of the oil sector, the reputation could be unfair, and some oil-producing countries could be perceived as more corrupt than they actually are. If this were the case, it would involve low costs and little effort for them to join EITI and gain a better reputation. A false bad reputation could explain why oil rents and EITI membership has a positive correlation. It could be true that oil rich countries do not have an *as* large need for foreign investments as other countries due to their high incomes. Still, any rational country would seek the opportunity to gain even more income through cooperation, especially if the costs are not really that high.

7.2 Limitations

In any model there is a possible omitted variable bias, where some relevant factors are not included in the model. As quantitative researchers we are limited to a simplified world where nothing other than the variables within the model change, and then we measure the outcome; the results are really only valid within the model. This is because there is a range of factors that can affect the results in the real world that is not accounted for in the model. When researching transparency it is important to be aware of other aspects that can affect the outcome. For example, corruption and lack of transparency can be heavily affected by the embedded culture in a country. Inherent norms affect people's behaviour. However, culture is a highly subjective and volatile measurement, and is difficult to measure quantitatively. Including social trust or public trust of the government/institutions could be relevant as a

measure of culture and norm, but it is still not a perfect measurement. This could be an idea for further research on the topic.

7.2.1 Measuring oil dependency

In this thesis, oil rents as a percentage of GDP was used as the measure of oil dependency. If a country's GDP originates from their oil income, they are highly dependent on oil. However, there are alternative methods of measuring a country's degree of oil abundance. For example, oil exports is a good way to measure not only oil abundance internally, but also degree of cooperation and interaction with foreign countries. Oil exports could also be relevant when doing research on international agreements, such as EITI. Another possibility for measuring oil abundance is to create a dummy for oil rents, where a threshold value is set to capture those countries that produce above a certain level. Threshold values effects within the natural resource literature are widespread, and could be applied to the results here.

7.2.2 The country selection criteria

Since EITI works to improve natural resource management through reduced reducing corruption in the natural resource industry, one can discuss how relevant it is for them to focus on corruption in countries that are not resource rich. The country selection in the new analysis of table 7 is not based on any criteria, but is a collection of countries available. Countries with no oil rents are dropped from the selection because they are irrelevant for EITI, as EITI's aim is to battle corruption in countries where extractive industries dominate. These are the areas and countries where they can do most good. Therefore, using the selection criteria of Kasekende et al. (2016) might be more useful than using a more randomized selection of countries. However, even though there is arguably more potential for EITI to make an impact where extractive industries dominate, there is also a tipping point where so many actors join that not being a part of the initiative is more costly than joining (David - Barrett and Okamura, 2016). In order to get to this tipping point, enough countries have to join. In this sense, it *does* make sense to investigate the determinants of EITI membership in general, and not only in resource rich countries.

8. Conclusion

This thesis investigates the reasons for why Middle East and North African countries' are reluctant to join the Extractive Industries Transparency Initiative. It first replicates the analysis in "Extractive industries and corruption: Investigating the effectiveness of EITI as a scrutiny mechanism" by Kasekende et al. (2016). After that, new explanatory variables are added. The model by Kasekende et al. (2016) is applied also in a new analysis, where the data includes more countries and a longer time period. The results from the probit analyses suggest that there is a strong contribution of oil rents in determining a country's likelihood of being an EITI member. As there is a positive correlation, this implies that higher oil rents increase the likelihood of EITI membership.

Further, the analysis shows that there is no clear MENA regional factor, as the MENA dummy was mostly above conventional levels of significance. However, the results suggest that the MENA regional factor matters in determining the effect of oil. Oil rents and MENA location affect a country's EITI membership likelihood together, and there are indications that being located in the Middle East or North Africa makes EITI membership less likely, compared to being located in the Western region, whilst the effect of higher oil rents is strengthened by a MENA location. Further, there is evidence to suggest that higher oil rents makes a country more likely to be an EITI member, and being located in MENA strengthens the positive impact of oil rents, even though the MENA location in itself decreases the likelihood.

Lastly the results suggest that when analysing resource rich countries, OPEC membership makes a country less likely to be an EITI member. However, when the data is expanded and countries with fewer resources are added, the results imply that there is no single OPEC factor affecting EITI membership. Amongst the OPEC countries, only Nigeria and Iraq are EITI members, and previous research has also suggested that OPEC membership, as well as oil dependency, decreases the will to cooperate in international agreements. The evidence here does not point to a clear OPEC effect, and thus it is not possible to conclude on how OPEC membership and EITI membership affects each other.

The thesis contributes to the existing debate on natural resource management with insight on how countries with a large relative proportion of oil income is likely to adhere to the

requirements of EITI and thus increase transparency in the natural resource sector. MENA countries with high oil rents will very much like to join EITI at the table, and the idea that oil rich countries maintain an attitude of “You can’t sit with us” is rejected.

8.1 Recent changes in the Middle East

Researching the Middle East and North Africa today is particularly challenging due to the very recent changes and upheavals that have occurred in the region. The Arab spring, the Syrian war, and the refugee crisis have all taken place during the time period used in this analysis, and the long-term ramifications are still unknown. The extreme conditions make natural resource management extremely difficult. Private enterprises might be forced out of the country if the business climate becomes too harsh, and the state might have to control even more of the natural resources. What will happen in these countries in the future is also difficult to predict. The consequences of the political changes could be changes in democracy, openness, trade, and international politics in general.

8.2 Further research

The results of this paper show that there does exist some Middle Eastern and North African exceptionalism. The MENA dummy, which gives a correlation relative to the Western region, gives significant results when combined with other variables, and is significant when the resource variables are logged. However, MENA exceptionalism is not treated at length due to capacity limits. One interesting aspect to investigate is the differences within the MENA region, and what specific traits that causes lack of transparency commitment. Religion, fractionalisation and civil society are all indicators that vary amongst MENA countries and could be more closely investigated. It would also be interesting to undertake case studies in order to explore the legal, regulatory, and administrative climate in specific countries and thus determine the effects of oil, gas and other natural resources on international cooperation. There is no doubt that EITI and other natural resource agreements can reduce the impacts of the resource curse; it is therefore important that research on participation in such agreements continue.

9. Literature

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Appendix 1: Descriptive Statistics in Kasekende et al. (2016)

Table 1
Mean difference EITI vs. non-EITI.

Variables	EITI members		Non-EITI members	
	Obs.	Mean	Obs.	Mean
Corruption score	167	3.214	669	2.933
Corruption when joining EITI	167	3.170	669	2.640
Aid when joining EITI	163	12.048	546	5.748
GDP per capita (log)	167	8.051	647	8.888
Openness (% GDP)	160	34.861	638	41.883
Resource rent (% GDP)	167	22.303	651	22.621
OPEC	167	0.054	669	0.184
Polity2 score	145	1.807	616	1.580
British Dummy	167	0.21	669	0.326
Federal States	167	0.054	669	0.167

Table 1 in “Extractive industries and corruption: Investigating the effectiveness of EITI as a scrutiny mechanism” by Kasekende et al. (2016, 120)

Appendix 2: Table 5 with and without clustering

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Kasekende model without forest rents	Without clustering		With clustering				
		Adding oil rents	Adding oil rents and oil rents*OPEC	Adding oil rents and oil rents*MENA	Kasekende model without forest rents	Adding oil rents	Adding oil rents and oil rents*OPEC	Adding oil rents and oil rents*MENA
Corruption	0.543*** (0.000)	0.435*** (0.00608)	0.445*** (0.00503)	0.408** (0.0114)	0.440 (0.124)	0.435 (0.130)	0.445 (0.120)	0.408 (0.157)
Aid (%GNI)	0,00196 (0.695)	0.00179 (0.723)	0.00206 (0.684)	0.000678 (0.892)	0.00128 (0.853)	0.00179 (0.789)	0.00206 (0.756)	0.000678 (0.920)
GDP pc (log)	-0,0722 (0.418)	-0.124 (0.174)	-0.118 (0.199)	-0.158* (0.0909)	-0.121 (0.453)	-0.124 (0.437)	-0.118 (0.464)	-0.158 (0.320)
Total Rents (%GDP) excl. forest rents	0.0112* (0.088)				0.00639*** (0.00817)			
Total Rents (%GDP) excl. forest and oil rents		0.0141** (0.0358)	0.0141** (0.0355)	0.0137** (0.0422)		0.0141 (0.193)	0.0141 (0.192)	0.0137 (0.212)
Polity 2	0,0254 (0.186)	0.0315 (0.105)	0.0311 (0.110)	0.0341* (0.0807)	0.0308 (0.422)	0.0315 (0.417)	0.0311 (0.423)	0.0341 (0.382)
OPEC	-0.776*** (0.002)	-0.809*** (0.00169)	-0.310 (0.574)	-0.945*** (0.000540)	-0.839* (0.0818)	-0.809* (0.0934)	-0.310 (0.707)	-0.945* (0.0764)
Press Freedom	0.0128** (0.029)	0.00989* (0.0987)	0.0101* (0.0912)	0.00918 (0.125)	0.0105 (0.314)	0.00989 (0.356)	0.0101 (0.343)	0.00918 (0.390)
Oil Rents (%GDP)		0.00591** (0.0109)	0.00612*** (0.00865)	0.00539** (0.0215)		0.00591*** (0.00580)	0.00612*** (0.00557)	0.00539*** (0.00763)
Oil Rents*OPEC			-0.0159 (0.324)				-0.0159 (0.489)	
Oil Rents*MENA				0.0297** (0.0236)				0.0297 (0.137)
MENA	0.580* (0.096)	0.495 (0.159)	0.524 (0.136)	-0.411 (0.458)	0.493 (0.483)	0.495 (0.487)	0.524 (0.459)	-0.411 (0.672)
Constant	-3.182** (0.011)	-2.339* (0.0715)	-2.443* (0.0605)	-1.926 (0.144)	-2.393 (0.277)	-2.339 (0.285)	-2.443 (0.267)	-1.926 (0.374)
Nr. of countries	69	69	69	69	69	69	69	69
Observations	723	723	723	723	725	723	723	723
Pseudo R²	0,308	0.316	0.317	0.323	0.315	0.316	0.317	0.323

*** p<0.01, ** p<0.05, * p<0.1

Appendix 3: Table 7 with and without clustering

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Kasekende model	Adding oil rents	<u>Without clustering</u> Adding oil rents and oil rents*OPEC	Adding oil rents and oil rents*MENA	Kasekende model	Adding oil rents	<u>With clustering</u> Adding oil rents and oil rents*OPEC	Adding oil rents and oil rents*MENA
Corruption	0.498** (0.0450)	0.354 (0.137)	0.361 (0.130)	0.324 (0.173)	0.498*** (3.96e-06)	0.354*** (0.00135)	0.361*** (0.00110)	0.324*** (0.00385)
Aid	0.00880 (0.285)	0.00764 (0.353)	0.00786 (0.339)	0.00574 (0.491)	0.00880 (0.105)	0.00764 (0.155)	0.00786 (0.146)	0.00574 (0.271)
GDP pc (log)	-0.0790 (0.653)	-0.165 (0.337)	-0.159 (0.356)	-0.204 (0.236)	-0.0790 (0.315)	-0.165** (0.0413)	-0.159** (0.0489)	-0.204** (0.0136)
Total Rents (%GDP) excl. forest rents	0.0353*** (0.000)				0.0353*** (0.000)			
Total Rents (%GDP) excl. forest and oil rents		0.0394*** (0.000)	0.0393*** (0.000)	0.0389*** (0.000)		0.0394*** (7.48e-10)	0.0393*** (8.06e-10)	0.0389*** (1.86e-09)
Polity 2	0.00165 (0.959)	0.0120 (0.716)	0.0116 (0.725)	0.0208 (0.536)	0.00165 (0.911)	0.0120 (0.432)	0.0116 (0.447)	0.0208 (0.185)
OPEC	-0.177 (0.731)	-0.349 (0.514)	0.101 (0.908)	-0.775 (0.264)	-0.177 (0.429)	-0.349 (0.127)	0.101 (0.843)	-0.775*** (0.00285)
Press freedom	-0.0127 (0.183)	-0.00908 (0.346)	-0.00924 (0.339)	-0.00872 (0.374)	-0.0127*** (0.00519)	-0.00908* (0.0536)	-0.00924* (0.0500)	-0.00872* (0.0665)
Oil Rents (%GDP)		0.0121** (0.0117)	0.0124** (0.0137)	0.0104*** (0.00559)		0.0121*** (7.25e-08)	0.0124*** (5.02e-08)	0.0104*** (5.11e-06)
Oil Rents*OPEC			-0.0142 (0.587)				-0.0142 (0.336)	
MENA	0.437 (0.334)	0.334 (0.460)	0.352 (0.431)	-0.486 (0.348)	0.437* (0.0500)	0.334 (0.147)	0.352 (0.126)	-0.486 (0.154)
Oil Rents*MENA				0.0439*** (0.00478)				0.0439*** (2.78e-06)
Constant	-0.793 (0.718)	0.158 (0.941)	0.0881 (0.967)	0.568 (0.792)	-0.793 (0.416)	0.158 (0.874)	0.0881 (0.930)	0.568 (0.577)
Nr. of countries	158	158	158	158				
Observations	1,395	1,395	1,395	1,395	1,395	1,395	1,395	1,395
Pseudo R²	0.326	0.351	0.352	0.371	0.326	0.351	0.352	0.371

*** p<0.01, ** p<0.05, * p<0.1