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Donor-supported approaches to improving extractives governance

Lessons from Nigeria and Ghana

Joanna Buckley,¹ Neil McCulloch,² and Nick Travis³

February 2017

Abstract: Donor interest in the extractives sector is based upon the premise that it represents an opportunity to improve a country's development prospects. However, in many cases the presence of extractive resources is associated with poor economic performance. As a result, some donors are trying a radically different approach. This paper explores two such programmes funded by the UK Department for International Development: the Facility for Oil Sector Transparency and Reform in Nigeria, and the Ghana Oil and Gas for Inclusive Growth programme in Ghana. The paper outlines five lessons learned from these examples. First, continual analysis is essential to understand the underlying incentives of key actors. Second, interventions need to be locally led in order to provide legitimacy for reform. Third, interventions need to be flexible and adaptive. Fourth, acceptance of an element of risk is necessary. Fifth, donors need to develop a new way of measuring impact.

Keywords: Oil and gas, natural resources, governance, politics, aid

JEL classification: Q32, O13, O19, O55

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1 Introduction: the rationale for donor engagement

Donor agencies are typically focused on poverty reduction.¹ Many poor countries have significant natural resource endowments. A growing number of newly resource-rich countries are low-income and lower-middle-income countries; of the top 40 countries with the highest contribution of minerals to exports, 14 (35 per cent) are classified as low-income and lower-middle-income countries. These include Chad, Democratic Republic of Congo, Guinea, Sudan, and Nigeria (Dietsche et al. 2013; see also Roe and Dodd 2017, forthcoming). The resulting logic is that if these resources can be harnessed effectively, they represent an opportunity to reduce poverty faster (Africa Progress Panel 2013). In addition, Africa's natural resource wealth is largely unexplored, so its reserves are likely to be heavily underestimated—the importance of natural resources to Africa's economy is set to increase (Africa Progress Panel 2013). This presents donors with an opportunity both to reduce poverty through encouraging the effective use of the natural resources, and also ultimately to reduce aid.

However, the 'resource curse' literature has shown that, in many cases, the presence of extractive resources is associated with poor economic performance and poverty (see the review of this evidence in Lahn and Stevens 2017). Resource-rich countries account for nine of the 12 countries at the bottom of the UN Human Development Index.² Extractives can also have a wider, pervasive impact—for example, by distorting economic and political structures, and thereby reducing growth (or making it less pro-poor). Corruption in the sector can lead to increased poverty and conflict (DFID 2008: 29). Stevens et al. (2013) find that following an extractive industry-led development path has often been a factor inhibiting the emergence of independent, strong institutions. This exacerbates public policy failure, with the corruption associated with extractives revenue corroding governance and encouraging high-level state-looting (Global Witness 2010).

The Africa Progress Panel (2013: 71) finds compelling evidence that the higher the share of gross domestic product accounted for by resource wealth, the less information is made available to citizens. As a result, several donors have responded to the governance challenges posed by natural resources by implementing a range of projects with business, civil society, and non-governmental organizations (NGOs) focused on greater transparency. Dietsche et al. (2013) suggest that there have been four phases of donor involvement in the extractive industries over the last three decades: (1) attraction of foreign direct investment (FDI) in the late 1980s/early 1990s; (2) rising concerns about the resource curse in the mid-1990s; (3) 'good governance' as the cure in the late 1990s/early 2000s; and (4) cross-sector linkages in the late 2000s. Buur et al. (2013: 56) put forward a similar typology of involvement: (1) linking FDI to the liberalization and structural adjustment agendas of the 1980s and 1990s (reforms which Bourgoignie (2011) largely attributes to the World Bank and International Monetary Fund (IMF)); (2) an emphasis on strengthening the regulatory and revenue-generating framework for the industry, and improvements in public-sector financial management in the 1990s and 2000s; and (3) a focus on the development effects of natural resources in recent years.

¹ See DFAT (2014), Global Affairs (no date), HM Treasury (2015), and NORAD (2011) for statements of official objectives. In some cases, these objectives also explicitly include contributing towards domestic national interests.

² The Human Development Index is a summary measure of average achievement in key dimensions of human development: living a long and healthy life, being knowledgeable, and having a decent standard of living. For details, see hdr.undp.org/en/content/human-development-index-hdi (accessed 9 January 2017).

This paper describes how some donors, such as the UK Department for International Development (DFID), are now experimenting with a new type of engagement. This approach merges the good governance agenda of the late 1990s/early 2000s, and the ongoing focus on how to avoid the resource curse, capture developmental benefits, and build robust regulatory frameworks, with an economic development agenda that seeks to mobilize reform through an explicitly political focus.

As Dietsche (2017) argues, there is a need to reframe the political economy of extractive resources away from the negative question ‘how can poor outcomes be prevented?’ and towards the positive question ‘how can positive institutional change for better outcomes be brought about?’ This paper provides a concrete example of how some donors are attempting to do this. Politics has typically been seen as an inhibitor, or a constraint that one has to work around in the implementation of projects. However, the new approach to ‘thinking and working politically’ represents an attempt to understand, and where possible address, the political challenges associated with reform in a more explicit way.³

2 The political economy of reform: thinking and working politically

There is an increasing acceptance by some donors—including the World Bank, DFID, and the United States Agency for International Development—that in order to bring about large-scale change it may be necessary to take a radically different approach to reform.⁴ Instead of focusing first on the provision of technical assistance and then negotiating the complex politics of trying to provide support in an environment that is often not conducive to reform, the new approach starts with the politics. Two simple propositions inform ‘thinking and working politically’ programming: first, the need to work through domestic political processes to achieve sustainable reform; second, the need for development intervention models that understand these political processes and intervene in iterative, adaptive, and politically informed ways. It draws on the ideas of Andrews (2013) about the difficulties of institutional reform without real political commitment to change, as well as on the methodological insights of Andrews et al. (2012) on solving complex reform problems through problem-driven iterative adaptation.⁵

However, although agencies increasingly *think* politically, many are still trying to understand how to get better at *working* politically. As DFID’s chief economist has stated, ‘politics is too important for development in general to be left to political scientists and governance advisors only—we all need to think about it when we act.’⁶ This means continuing to think politically, using political economy analysis (PEA) in order to develop a deep understanding of local context—mapping out the key actors and institutions, and honestly assessing their incentives and appetite for reform. It then means moving beyond the traditional ‘transparency agenda’ towards a more integrated approach to the politics of reform—creating widespread understanding of the problems, building the capacity of reformers in government, and negating entrenched interests, as well as

³ For a summary of this approach, see Thinking and Working Politically Community of Practice (no date).

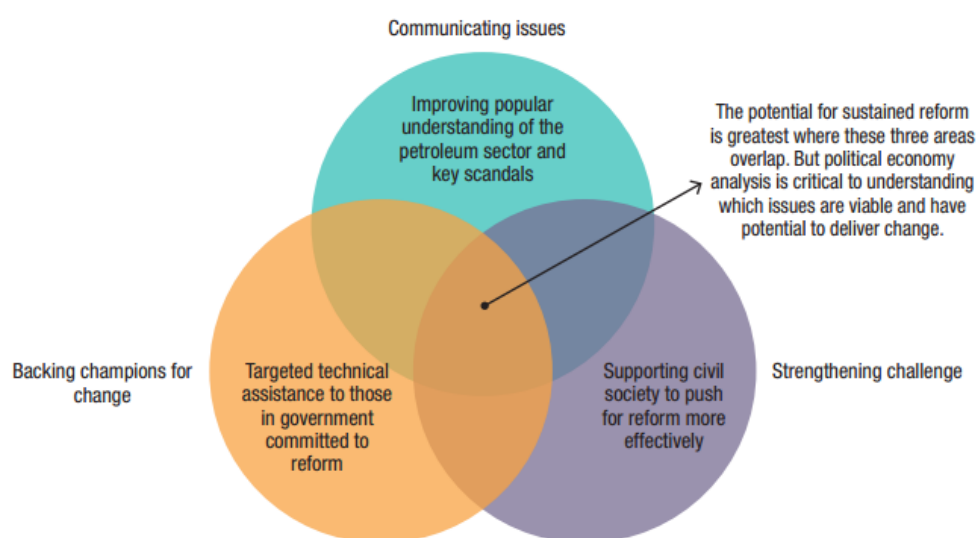
⁴ Although the approach is, to some degree, contested in all of these agencies, where there are advocates who have more influence in some sectors and countries than others.

⁵ In the United States, this approach to engaging with politics in development work typically comes under the heading of ‘doing development differently’—see bsc.cid.harvard.edu/doing-development-differently (accessed 13 January 2017).

⁶ twpcommunity.org/what-is-twp/ (accessed 9 January 2017).

strengthening the capability of civil society actors to hold institutions and individuals in government to account (Figure 1). This approach recognizes that, as popular expectations about the benefits of natural resources grow, so do the stakes for governments, who are under increasing pressure to deliver to their populations. Yet improved transparency is only one pathway to impact, and does not always lead to significant reform.⁷ Transparency is necessary but insufficient in itself to drive good governance and more equitable revenue-sharing in the sector—a point repeatedly made by most observers, notably civil society groups (Stevens et al. 2013).

Figure 1: An integrated approach to supporting reform



Source: authors' illustration

This intimate understanding of context and commitment to reforming the entrenched interests of elites is a potentially uncomfortable area for donors. It requires engagement with local politics, experimentation in order to seek out different strands of commitment for reform within government and outside, and sometimes significant risk. But it can have large and measurable results.⁸

The next sections of this paper describe case studies of two programmes funded by DFID—the Facility for Oil Sector Transparency and Reform in Nigeria, and the Ghana Oil and Gas for Inclusive Growth project in Ghana. They demonstrate that DFID sees politics as central to the delivery of effective extractives governance programming.

⁷ See Joshi (2013) for a series of articles on the impact of transparency and accountability initiatives on reform in a variety of sectors.

⁸ For a more detailed discussion of the political economy and governance of the extractive sector and the application of a more formal institutional economics model to the sector, see Dietsche (2017, forthcoming).

3 Facility for Oil Sector Transparency and Reform (FOSTER)

3.1 Context

Nigeria's oil sector is one of the most challenging contexts for governance reform in the extractive sector anywhere in the world. Bhalla et al. (2016: 17) recently described the challenge as follows:

Oil is the backbone of the Nigerian economy with oil revenues providing over 90% of foreign exchange earnings and at least 70% of government revenues. But Nigeria's prized asset has delivered few tangible economic benefits, with the country succumbing to both the notorious 'Dutch Disease' and systematic corruption. Predatory elite behaviour aimed at capturing oil rents has defined the character of the Nigerian state in three principal ways: a weak social contract as the government relies on lucrative rents rather than taxes for survival; systematic rigging, intimidation and violence used to win elections and maintain a grip on the oil sector; and hollow institutions that have little power or capacity to set policy, formulate laws or effectively regulate the sector. The capture of oil rents takes place across the entire value chain of the petroleum industry, including upstream (allocating oil blocks, awarding oil lifting contracts, oil bunkering), midstream (natural gas) and downstream (importation of refined crude oil products such as petrol and kerosene).

Repeated attempts to improve governance in the oil sector have met with relatively little success. For example, the Petroleum Industry Bill has still not been passed by parliament, despite being introduced in 2007; repeated high-level government reports have been ignored or remain unimplemented; and the Excess Crude Account⁹ has been steadily eroded, from \$20bn in 2008 to a mere \$2bn in 2014.

It is hard to identify a single area of the oil sector in Nigeria which has not been distorted by corruption. Corruption exists in the allocation of licences, which is non-transparent, with licences frequently awarded to politically connected individuals with no capability to operate fields; it exists in extensive crude oil theft (known in Nigeria as 'bunkering'), which amounts to around 10 per cent of daily oil production (Katsouris and Sayne 2013); it is pervasive in the mechanisms used to sell crude oil, for example through the 'domestic market allocation' of 445,000 barrels per day to the refineries, which in fact rarely operate at more than 20 per cent capacity; it exists in the downstream sector, for example through repeated turnaround maintenance contracts, which never turn around performance; and it exists along the entire import value chain for fuel products, from the shady swap agreements used to purchase product, to the non-transparent allocation of import quotas to marketers, the numerous government institutions involved in approving entry of product, and the corrupt and inefficient subsidy payment mechanism.

Reform in the sector has been difficult because of the strong incentives of a range of powerful actors to oppose reform. For example, until recently, the minister of petroleum was the same

⁹ The Excess Crude Account is a Nigerian government account used to save oil revenues above a base amount derived from a defined benchmark price. The Excess Crude Account was established in 2004, and its objective is primarily to protect planned budgets against shortfalls due to volatile crude oil prices.

individual as the head of the Nigerian National Petroleum Corporation (NNPC).¹⁰ The NNPC therefore was operating as a producer and trader of petroleum products—and also as the de facto regulator of the industry, since the Department of Petroleum Resources reports to and is subordinate to the minister. Successive ruling political parties and elites have benefited enormously from the rents associated with the capture of Nigeria’s oil resources through control over the NNPC and associated institutions. Parliamentarians, it is alleged, have tended to follow the locus of power in order to share some of the rent, and are therefore inclined to block any attempts at reforms that might threaten the flow of resources.

3.2 Programme design

This complex and highly unconducive environment for reform requires going beyond the provision of technical assistance to specified ministries or government agencies to tackle technical challenges or help build their capacity for effective management. It also requires going beyond supporting reformers to build capacity to demand reform. The challenges to reform in this context are fundamentally political, and many of the actors opposed to reform reside within government institutions. Hence a technocratic approach of merely supplying technical expertise to such organizations would be highly unlikely to be effective. Likewise, a transparency and accountability programme, such as that provided by the Extractive Industries Transparency Initiative (EITI) in several countries including Nigeria, would be unlikely by itself to achieve traction, due to the lack of incentives for reform and the intentional complexity of the rules and regulations governing the industry. To be successful, reform has to bolster both ‘demand’ for reform through support for civil society (NGOs, think tanks, community-based organizations, and the media) and the capacity for reform on the ‘supply’ side (government ministries and agencies, including the tripartite Nigerian EITI).¹¹

In 2011, DFID selected a bid put forward by Oxford Policy Management for the implementation of FOSTER. Phase 1 of the project ran from 2011 to 2016 with a total value of £14m. The purpose was to reduce the many incentives for misuse of power and capture of oil revenues in Nigeria. The overall intended outcome was the enhanced management of Nigeria’s natural resources. This translated into three output areas: (1) an increase in extractive industries revenues identified (and returned to the Federation Account); (2) improved management and accountability of extractive industry resources; and (3) improved policy outcomes for local communities affected by natural resource extraction.

Of the £14m, over £8.5m was used as part of a managed fund set up with the intention of funding activities on an iterative basis throughout the project lifecycle. The rationale was that the specific pathways through which change might occur were not known in advance. With a flexible managed fund, initiatives could be identified as the project went along, and resources allocated to them. Moreover, the project deliberately took a ‘portfolio’ approach—trying a range of approaches that seemed promising, with the knowledge that not all would necessarily be successful.

¹⁰ On 4 July 2016, President Buhari created a separation between the two roles for the first time in decades. However, the minister remains the chair of the board of the NNPC. www.premiumtimesng.com/news/headlines/206412-buhari-removes-kachikwu-as-nnpc-boss-appoints-new-board-for-corporation.html (accessed 9 January 2017).

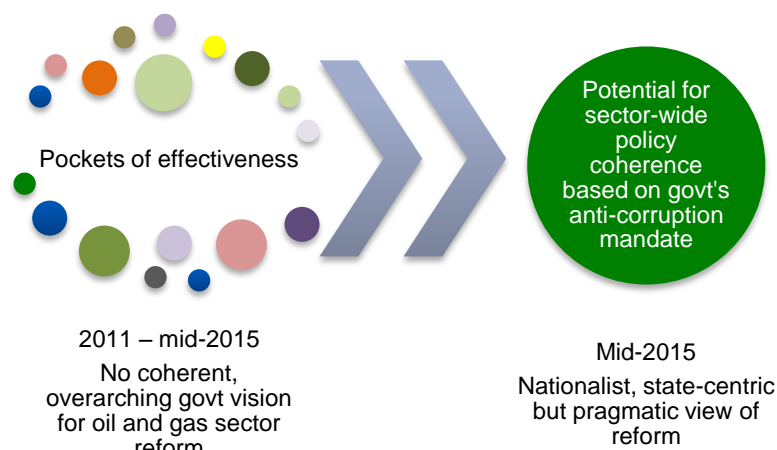
¹¹ In addition, FOSTER attempted to work with the private sector, including the oil majors. However, relatively little was done in this area, in part because the behaviour of the oil companies was determined by the policy environment, making the latter the priority; and also because the incentives of some private-sector actors were not necessarily aligned with good governance, e.g., efforts by companies to minimize fiscal obligations.

The original vision for the project was broad and intentionally open: to support policy reforms, strengthen accountability actors and mechanisms, and increase transparency. The hope was that this would reduce the incentives for the abuse of power and the capture of revenues, which both distort policy and politics in Nigeria and undermine the potential for oil revenues to be used to accelerate economic and social development.

The context in which FOSTER operated changed almost immediately after its launch. President Jonathan Goodluck was inaugurated in May 2011. His incoming policy priorities made no mention of reforming the oil and gas sector (despite referring to the need for public-sector and power reform). Policy paralysis and uncertainty—and in some cases wilful resistance to fundamental sector reform—characterized the Jonathan administration from February 2011 to May 2015. However, because the managed fund could be allocated flexibly, the change in circumstances could be accommodated by switching activities to focus predominantly on the demand side as a transparency and accountability programme. This enabled the programme to play an important role in building widespread understanding of the failures within the sector. On the supply side, the programme focused on identifying and working with ‘pockets of effectiveness’ (see below). This approach, located as it was in the largely unsympathetic prevailing political context during the Jonathan administration, mainly secured localized, transactional changes, with little scope for game-changing, sector-wide, transformational reforms. But it also helped to build a reputation for the programme as one that could provide relevant, predominantly local expertise for oil sector institutions that are genuinely interested in reform (whilst avoiding wasting resources on technical assistance for government ministries or agencies where doing so would not have yielded any results: this would have been the result of a more rigid programme design).

In February 2015, President Buhari was elected. He assumed office in May 2015 on an explicitly anti-corruption platform, leading to the gradual emergence of a more pro-reform environment that has been evident since July 2015. This resulted in FOSTER being reinterpreted to support sector reforms from both the supply and demand sides. In mid-2015, as FOSTER entered the final year of its first project cycle, its patient approach to building relationships with key reformers was quietly vindicated. A project that had begun in the margins was invited to provide assistance to the central institution of management of the oil sector—the NNPC. Over the years FOSTER has evolved subtly and strategically to where it is today, a niche project advancing practical institutional reforms of Nigeria’s oil and gas sector (see Figure 2).

Figure 2: From pockets of effectiveness to strategic partner



Source: OPM (2016), published with permission.

3.3 How FOSTER worked

From the onset, the test for the project lay in the very conditions that gave rise to its formulation: making significant progress towards the achievement of ambitious objectives within the challenging political and institutional context that characterized the country's oil sector. FOSTER's response to this was to pioneer and gradually systemize an approach that was built on three principles: (1) undertake deep, regular PEA; (2) use this intelligence to nurture relationships with sympathetic stakeholders, both in government and outside, and craft contextually relevant interventions clearly aligned with the project logframe; (3) work discreetly to minimize risk to DFID, and indeed to the project itself, given the sensitivities around the sector.

Underlying this picture, four forms of deficit were evident in the public sector: (1) a transparency deficit in the centralized, government-controlled oil and gas industry; (2) a monitoring deficit owing to the concentration of power and fiscal control within the executive, and a corresponding lack of institutional checks and balances; (3) a participation deficit because of fundamentally weak state-civil society relations and a deeply embedded culture of corruption; and (4) a data deficit whereby data pertaining to oil were often unreliable, ambiguous or contradictory.

FOSTER's response to these conditions was to work opportunistically and strategically with pro-reform supply- and demand-side forces within the Nigerian context, seeking out collaboration with 'pockets of effectiveness' (Hickey et al. 2015; Leonard 2008)—testing and confirming the hypotheses and findings from the broader research arena, which suggested that such locales exist, even in weak-governance environments. In particular, FOSTER's theory of change is based on identifying and supporting these pro-reform pockets of effectiveness among two types of organizations:

- Supply-side institutions such as the Petroleum Unit in the Ministry of Finance, the Nigerian EITI, the National Oil Spills Detection and Regulatory Agency, and the National Assembly's committees looking at the Petroleum Industry Bill.
- Demand-side civil society actors from professional bodies, media outlets, think tanks, and research and advocacy organizations.

There were several aspects of FOSTER's approach which were very different from many other donor programmes, and which have been key to FOSTER's success:

Being driven by the prevailing political environment

PEA is not a magic bullet. However, FOSTER's use of frequent (quarterly and annual) PEAs enabled the work plan for each quarter to be grounded in a nuanced understanding of the political dynamics and opportunities for reform.¹² Using PEA operationally in a highly politically charged extractive sector demands an implementation team that can undertake sensitive political, technical, and institutional analysis, and can programme accordingly. Thus, as important as the formal PEA was the fact that the local team were embedded in a set of networks, so that they understood the changing circumstances on a daily basis (see below). The daily 'informal' political thinking and the regular formal PEA were complementary—the former shaping the tactics on a day-by-day basis, while the latter provided a mechanism to stand back from the day-to-day changes and look at the likelihood of success of interventions from the broader perspective of the interests and power of the different stakeholders involved.

Employing locally embedded 'development entrepreneurs'

Success in policy reform programmes depends not just on working with local actors, but also on working with the right local actors, i.e. people who support reform and have the capability and inclination to act. Knowing who the right counterparts were required local knowledge, and necessitated appointing staff on the basis of their political networks whilst aiming to ensure that they themselves were politically neutral and sat outside the vested interests/political elites resisting change. It also required a certain type of personality and skill set: individuals who were keen to catalyse, facilitate, and support actions by other individuals and organizations rather than seizing the limelight for themselves, but who also had the ability to repeatedly critically appraise what had worked and what had not, and to adjust accordingly. This type of individual has been called a 'development entrepreneur' (Faustino and Fabella 2011).

The FOSTER team consisted entirely of Nigerian policy entrepreneurs. Collectively, they had a detailed knowledge of the key actors in the sector. However, even with this knowledge, identifying the right partners required a great deal of experimentation. With new partners FOSTER would typically start with a pilot activity to assess the capacity of the partner. If it went well, the activity might be scaled up. In this way, over the five-year life of the first phase of the project, the FOSTER team built up an excellent appreciation of which partners were most effective in pursuing which kinds of activities. This repository of 'network knowledge' was intangible, but essential to the success of the project.

Using flexible and adaptive programming

FOSTER has been successful in large part because it has been able to adapt its programming to the evolving context it has faced. As noted above, it used regular PEA to identify opportunities for reform in the 'pockets of effectiveness' on the supply side. But if there were few or no

¹² The quarterly formal PEA was undertaken by a programme advisor who, because they sat outside the core team, could provide a fresh perspective on (and a challenge to) the well-connected and politically savvy team members. Their findings were then checked and discussed with the core team and local partners.

opportunities for effective programming within government, the design of FOSTER provided it with the flexibility to move programming from the supply to the demand side, to advance public understanding and maintain public pressure for reform. Had its outputs and activities been determined too rigidly at the outset, it would have been much less able to respond to the changing context, and would likely have been much less effective.¹³ Many donor projects specify exactly what they want to do up front, and then lay out a set of steps necessary to achieve their goal; they then attempt to work their way through these steps systematically in order to achieve the goal. However, experience in several countries suggests that such ‘linear’ projects often run into trouble because the circumstances and assumptions that gave rise to the original plan often change (Andrews 2013).

By contrast, the local FOSTER team proactively sought out opportunities for reform—small projects that might push forward reform in one area (see Andrews et al. 2012 for a detailed discussion of such problem-driven, iterative approaches to reform). They were guided in choosing which opportunities to select by an overarching ‘logframe’: activities had to have some plausible connection with the overall objectives of the programme. But other than this overarching guidance, the project team were at liberty to be ‘development entrepreneurs’, in the sense of identifying individuals and organizations that were interested in pursuing reform initiatives, and boosting their capacity and knowledge to do so. This flexibility was made possible by ensuring that the project’s funds were not pre-allocated to particular activities but held in a flexible £8.5m fund, so that FOSTER staff could act quickly and respond to reform opportunities as they occurred. Programming through the fund relied on an explicitly interactive and dynamic approach to conducting analysis, searching for feasible solutions along the way.

An important element of this way of working was reflecting on failure, failing fast and learning quickly, and using results processes that encouraged adaptation. The interplay of political dynamics is complex, and no matter what local expertise and PEA is conducted, some issues cannot be understood *ex ante*. Having systems (e.g., feedback loops, risk management processes) to ‘test the water’ and ‘learn from doing’ is therefore important. Interventions that made sense in Month 1 may no longer make sense in Month 6, and may need to be closed down to avoid waste of resources. Linked to this was the need for results frameworks to be broad and non-prescriptive, whilst keeping long-term outcomes in sight. To ensure accountability (and for the funder to be able to distinguish between an ‘adaptive’ programme and an underperforming programme), a results framework can instead focus on how well the programme is analysing, learning, and adapting from successes and failures. To that end, forms of ongoing action research may replace traditional mid-/end-programme evaluation.

Embracing risk... but also managing it

FOSTER took a very different approach to risk from many other aid projects. Traditional aid projects manage risk by trying to think of all the ways in which an activity might fail, and then putting in place measures to minimize the likelihood of failure and mitigate its impact. Whilst FOSTER did this too for individual activities, it deliberately adopted a ‘portfolio approach’ to risk management. The attitude was that, as with financial investments, it did not know in advance which activities were going to be successful and which were not. Consequently, FOSTER deliberately selected a wide range of different types of activities, anticipating that the overall

¹³ The programme was able to do this due to the early adoption in DFID Nigeria of flexible and adaptive programming. The principles of flexible and adaptive programming have now become embedded in DFID’s smart rules for better programme delivery (DFID 2016).

portfolio of activities would be successful in pursuing reforms, while accepting in advance that some individual activities would not. However, this approach poses a challenge to traditional forms of aid management. Normally, all individual activities are expected to succeed, and the implementer is criticized if they do not. Hence, although a portfolio approach to risk may be much more sensible in highly uncertain environments, it requires a much higher appetite for risk by funders, and better tools for assessing whether failure is caused by external or internal factors.¹⁴

Operating ‘under the radar’

External aid was used to facilitate the process of reform through partnerships, not to ‘buy’ short-term reform. Sometimes donor projects push a particular reform agenda. However, in Nigeria, externally promoted reforms are often not appreciated—all the more so when they threaten powerful interests. Rather, the reform actors that have the credibility and access to influence policy are almost entirely local. As a result, the project explicitly chose to identify and support the agendas of local actors—whether in civil society, parliament, or the media—rather than promote its own agenda. In this sense it operated ‘under the radar’: there was no FOSTER logo, and no external promotion of the project. Rather, it worked with local actors to strengthen their capability to press for change. Sometimes this was done by providing a small grant for a programme of work, at other times it might consist of providing technical assistance or training—but always in support of a work programme with complete ownership by the local partner (Booth and Unsworth 2014).

Taking an ‘arms-length’ approach to aid

Working in the way described above necessitates developing deep relationships and networks in a country, as well as the flexibility to exit relationships when reform is not achieved or more effective avenues are identified. This requires trust on the part of the donor. There needs to be sufficient distance from the donor to allow the implementer the flexibility and independence to invest and adapt accordingly, and to create relationships with those who might not be willing to engage directly with a donor (characterized by Booth (2013) as an ‘arms-length approach to aid’). On the other hand, the donor needs to be comfortable with the relationships being formed and activities being undertaken, and to be able to articulate this internally. To that end, ongoing dialogue between implementer and funder to develop trust is important, alongside the ability to communicate the results of working in this fashion in a clear manner.

3.4 What has been achieved?

The FOSTER programme has had a significant impact in promoting transparency and accountability in the management of Nigeria’s natural resources, especially in the oil sector. In particular, it has made an important contribution in four main areas: the nature of the public debate; the legal framework; revenue savings; and the institutionalization of transparency and accountability in the sector. We discuss each in turn.

Raising the state of knowledge and calibre of public debate on oil and gas policy

¹⁴ It is also important to note that risk can become very personal in sensitive sectors such as the extractive sector. Making fraudulent or inefficient behaviour public poses personal risks for the partners that expose such malfeasance, and potentially also for project staff that support them. Implementers must therefore take their duty of care seriously.

FOSTER's work with a wide range of civil-society and media actors has significantly raised the level of understanding about how the oil sector works, and the policies and practices that give rise to corruption and inefficiency. This work has included the creation of online platforms that provide a mechanism for holding government accountable (e.g., an online tool for tracking illegal gas flaring), as well as a deepening of the understanding and capability of the media to report on oil sector issues by training investigative journalists.

Achieving significant agreement about what the legal framework for the sector should be

FOSTER invested significant effort in working with legislators and journalists in order to broaden understanding of the strengths and weaknesses of the various drafts of the Petroleum Industry Bill. This has led to a good understanding among all the key stakeholders of the key principles that should underpin legislation in the sector. However, notwithstanding FOSTER's support, the Petroleum Industry Bill did not pass in both the House and the Senate.¹⁵ At face value, therefore, this is an example of a failure. But it also illustrates how measuring success is difficult, because the ideas and associated legal texts discussed during the first phase of FOSTER are forming the basis of renewed attempts to craft framing legislation for the sector under the current administration. Hence it may be too early to determine whether this support has been successful or not.

Making large revenue savings for the government of Nigeria

FOSTER has been responsible for the identification and remediation of well over £400m for the government of Nigeria (and possibly much more). This has come from multiple sources including: large savings from support to the Ministry of Finance to ensure the proper audit of fuel subsidy payments; exposure of evidence of the inefficient and corrupt system of oil swaps, leading to the scrapping of the system and its replacement with a more open and transparent mechanism for oil sales; and improvement of the template used to track revenue from oil proceeds, preventing diversion of funds to other uses.

Institutionalizing transparency and accountability

Through FOSTER's long-term support, the Nigerian EITI has developed to become an effective institution for the promotion of transparency and accountability in the sector (and is widely regarded as one of the best EITI institutions globally). FOSTER has helped to build the capacity of the National Oil Spill Detection and Response Agency to tackle oil spills and improve the joint investigative visit process. Moreover, FOSTER's recent support for the NNPC has facilitated a sea change in the latter's approach to transparency and accountability, supporting the NNPC to publish its annual report for the first time in over a decade, and strengthening its capability to reform refineries and tackle fuel subsidies.

However, perhaps of most interest is the fact that FOSTER is providing valuable insights about how the international community can engage in efforts to promote reform in the extractive industries sector in challenging contexts (Booth 2016). This is reflected in the design of the second phase of FOSTER, which started in June 2016, and which has explicitly adopted many lessons from the first phase of the project—but also in the adoption of many of the elements of flexible,

¹⁵ It passed in the House, but not the Senate, prior to the end of the Jonathan administration.

adaptive, politically savvy programming into the guidance provided by several donors active in the sector (Whaites et al. 2015).

4 Ghana Oil and Gas for Inclusive Growth (GOGIG)

4.1 Context

Unlike in Nigeria, the management of the oil and gas sector is a relatively new challenge for the authorities in Ghana. The discovery of offshore oil and gas in 2007 resulted in a surge of investment into the sector, with commercial production starting just three years later. The country has therefore moved from the discovery of oil and gas to production in a very short space of time. As a result, it is hardly surprising that the institutional framework underpinning the governance of the sector is still incomplete. For example, a robust legislative framework with clear provisions for negotiating with and regulating the private-sector operators is still lacking. Furthermore, limited oversight of the fiscal terms within petroleum contracts and capacity gaps in revenue administration have resulted in persistent concerns around revenue leakage. The institutions facing up to these challenges need good technical capability as well as strong accountability for their decisions and actions if they are to be sufficiently robust for Ghana to make the most of the new revenues.

Although oil and gas promised to be a valuable facilitator of Ghana's economic development, the impact so far has been disappointing (see also Bawumia 2017, forthcoming). Oil delivers revenue, and gas supplies deliver energy; but despite five years of oil revenue, Ghana now has a programme with the IMF with a tough fiscal adjustment, and power shortages are still the norm in Accra. The challenges of oil and gas appear to be mainly those of governance. The government agencies that manage the sector need improved technical capabilities if they are to develop into the robust institutions that Ghana needs to make the most of new revenues to enhance benefits to its citizens. The DFID-funded GOGIG programme has been designed with the intention of directly supporting the development of technical capability within government, while at the same time engaging with a variety of different accountability actors to improve public scrutiny of the sector.

4.2 Programme design

In 2015, DFID selected a bid put forward by Oxford Policy Management for the implementation of GOGIG. GOGIG will run until 2019 at a total value of £14m. The purpose is effective use of Ghana's natural resources for inclusive growth,¹⁶ while the overall intended outcome is enhanced management of Ghana's natural resources. This translated into four output areas: (1) improved regulatory oversight of the sector; (2) increase in extractive revenues identified; (3) improved management of resource revenues; and (4) strengthened capacity of accountability actors.

The premise of GOGIG is that without careful oversight, newfound natural resources can trigger the so-called resource curse, where an abundance of mineral wealth actually leads to worse development outcomes. This is especially the case in countries such as Ghana, where the necessary policy and regulatory frameworks are not sufficiently developed at the commencement of

¹⁶ Although the programme only covers oil and gas.

production.¹⁷ GOGIG aims to help fill these gaps by improving the capacity of government agencies involved in the management of Ghana's nascent oil and gas sector, as well as engaging with a variety of accountability actors involved in improving public scrutiny of the sector.

The challenge for GOGIG lies in being able to navigate a complex environment and to build the capability and will of institutions with a mandate for managing the sector. Relative to some other countries, the government of Ghana is significantly more open to receiving technical assistance. This is partly due to the fact that the sector is still relatively nascent, with political interests and corruption somewhat less entrenched.

4.3 How GOGIG works

The GOGIG theory of change, as with FOSTER, is based on identifying and supporting pro-reform 'pockets of effectiveness' among both supply- and demand-side organizations, including:

- Government stakeholders: the Ministry of Petroleum and the Petroleum Commission on the development of laws, policies and implementation strategies; the Ghana Revenue Authority to build capacity in oil and gas sector monitoring and auditing; and the Ministry of Finance and Bank of Ghana to strengthen petroleum sector revenue management, forecasting, and investment.
- Demand-side actors: civil society, the media, and parliamentarians, strengthening accountability and increasing public awareness and engagement in policy areas where a traditional approach of supplying technical expertise alone is unlikely to work.

GOGIG therefore represents another example of 'thinking and working politically' in practice. Achieving the ambition that Ghana's oil and gas should contribute to inclusive growth requires GOGIG to deliver effective projects, be flexible, and adapt to realities on the ground, while sustaining effective working relationships, particularly with government. GOGIG's approach is to pilot and gradually systemize efforts in five areas: (1) supporting 'champions' (like-minded individuals or units in government); (2) pushing for small-scale governance reforms that are non-confrontational, e.g., building capacity on reporting; (3) exploiting change opportunities that facilitate collective action; (4) providing support for large-scale governance reforms—or rule-based systems for development; (5) encouraging demand-side actors to put pressure on government for reform.

The programme design reflects these requirements and has a number of unusual characteristics that differentiate it from traditional donor-funded programmes:

¹⁷ This is despite the fact that Ghana invested considerable time learning about what had gone wrong in other countries such as Nigeria, and designing its regulatory framework accordingly. However, putting in place the necessary regulations and institutions is a lengthy process.

PEA shapes all of its work

A PEA is done every six months with the support of external consultants, with updates for the intervening quarters. It provides ideas for work based on an understanding of unfolding events, analysing what has changed, and identifying who can do what. This approach means that the work plan evolves in a responsive fashion, rather than being rigidly programmed in advance, and the money follows the priorities that are set through a range of modes of engagement, and which *ex ante* have a higher chance of impact.

GOGIG has a mandate to try difficult things

The terms of reference for the programme state that the programme has an appetite to take on delivery risk in cases where the potential payoff is high. This is an acknowledgment that achieving meaningful results often entails a degree of delivery risk and can rarely be guaranteed in advance. Securing value in this approach requires learning from failure—in other words, ‘failing fast’ and adapting (Harford 2011). By adopting a portfolio approach to project implementation and risk, the team can focus on a range of areas, building up and establishing a strong basis for more systemic reforms as the opportunities arise, and scaling down support in less successful areas.

GOGIG has the ability to be flexible and responsive

In many instances events on the ground unfold unpredictably. As a result, the traditional approach to programme design, which seeks to lay down a specific work plan with a specific budget for years ahead, does not provide the ability for a programme to be flexible or responsive as reality changes. This is especially true when engaged with policy, which is of course inherently political. Experience elsewhere suggests that projects often run into trouble because the circumstances and assumptions that gave rise to the original plan often change (Andrews 2013). Like FOSTER, GOGIG utilizes a flexible fund, which is the source of financing for each project the programme carries out. The funds are largely un-earmarked, providing the programme with maximum flexibility in designing and implementing a wide variety of different projects with different modalities. Un-earmarked funding enables the programme to operate in a nimble fashion, allocating funds quickly to new initiatives as opportunities arise.

GOGIG takes an innovative approach to building and sustaining government ownership of the objectives

This has primarily been achieved through a programme steering committee, with two distinct innovations. The first is that DFID is not a member, enabling the team to sustain the shift of focus away from the donor funding; second, the chair and vice-chair are not from government, but at the same time are deeply respected for their public service and highly influential at the highest levels of government. The other members are senior representatives of the five main government counterpart agencies for GOGIG, listed above. As a result of these two innovations, the tone and substance of the discussions has shifted away from questions of money towards prioritizing activities, and away from the stance of representing one agency in pursuit of a share of the budget towards a collective responsibility for making the most of GOGIG’s capacity to get things done. A result of this approach to convening the steering committee is that it provides GOGIG with legitimacy, derived from tangible and growing government ownership of the priorities reflected in the work plan.

4.4 What has been achieved?

The GOGIG implementation phase only commenced in September 2015. It is therefore important to recognize that concrete ‘results’ at this point are understandably modest. One early highlight was the package of support provided to the Energy and Mines Committee of parliament to scrutinize new legislation related to the management of upstream operations (the Exploration and Production Bill). GOGIG’s support to this committee has contributed to improved provisions within the legislation relating to the transparency of fiscal terms and contracts. This was followed by a joint initiative with the Africa Centre for Energy Policy—a notable Ghanaian think tank—to finance and deliver the inaugural Africa Oil and Gas Summit, which brought together a number of key stakeholders involved in the governance of the sector in Ghana to discuss key challenges related to the governance of the oil sector.

A wide variety of projects are currently being implemented in collaboration with government partners. For example, GOGIG is currently supporting the Ghana Revenue Authority and the Ministry of Finance to revise and update regulations for operationalizing recent legislation on taxation and revenue management within the sector. The Petroleum Commission is receiving dedicated technical assistance to improve the implementation of local content policies across the sector, in order to improve compliance with the provisions. The programme is also supporting the Central Bank to implement an asset management application that will enable a more robust management approach to the investment of oil and gas revenues held in Ghana’s two sovereign wealth funds.

The recent economic challenges associated with the IMF programme, as well as the inevitably volatile atmosphere in the run-up to the elections that took place at the end of 2016 and the resulting change in government, have provided significant challenges for the programme. However, as FOSTER has shown in Nigeria, these factors may also provide a vindication of the importance of embedding flexibility into the programme so that the nature of activities can shift depending on the new constraints and opportunities that arise after the election.

5 Challenges in applying the approach, and lessons for donors

5.1 Challenges in applying the approach

Models such as FOSTER and GOGIG will not be applicable in every instance of extractive governance programming. Nor are they a quick approach to enabling change. There are also inherent tensions in the approach for development practitioners, donors, and stakeholders engaging in reform. We conclude by outlining some of these tensions and the lessons for future donor engagement.

Disrupting the status quo can create conflict

FOSTER and GOGIG both overtly aim to disrupt the status quo. This means changing power dynamics, subverting corrupt interests, and aiming to identify reformers who can work against entrenched interests. Working effectively in fragile and conflict-affected situations, such as Nigeria in particular, requires an awareness that interventions shape—and in turn are shaped by—the context within which they take place. Although actors have long been aware of the constraints imposed by conflict on the ability to achieve results, there has been a more limited focus on the

wider ‘obstacles’ of fragility and conflict, and on the need to mainstream such concerns throughout projects. There is increasing institutional recognition within DFID that conflict sensitivity and ‘do no harm’ approaches are critical in situations where open violence is present, or is a very real threat, and that they can be useful in situations where there are high levels of political tension and/or an unpredictable and constantly changing political context. An awareness that their own interventions impact on conflict dynamics has led donors and NGOs to develop a range of conflict sensitivity tools that facilitate an understanding of these issues. These tools provide a series of structured questions to prompt reflection on the two-way interaction between intervention and conflict. As DFID notes: ‘Where international actors fail to invest in good political and conflict analysis, actions can result in more harm than good’ (DFID 2010: 8).

Spending time and money building relationships vs showing how such an approach is effective

In order to be successful, it is essential to be politically informed and skilled in order to negotiate, and to identify reformers and opportunities. However, this entails a large sunk cost in the form of the time that is needed to build alliances, identify or establish possible pockets of effectiveness, and build relationships with key reformers who are willing to trust you with industry information that can be used to press for reform from both within and outside of government. While this is being done, evidence of effectiveness will be minimal. The work is unproven up to the point at which the build-up of small-scale nudges for information and entry points for reform turns into a flash flood of change. This presents a major challenge for showing effectiveness, particularly in the early stages of the project.

Working on supply and demand at the same time

Part of the success of FOSTER (and hopefully GOGIG) arises because it is able to support reformers in government, while at the same time supporting pressure for reform from outside of government. However, there is an inevitable tension associated with working on supply and demand sides at the same time, since if government counterparts discover that the programme is also supporting advocacy initiatives by elements outside of government, this can erode their trust in the programme (and even spill over into problems for the relationship between the funder and the government). The more the programme is successful in working at the heart of government, the more this becomes an issue, particularly if demand-side partners are saying highly critical things about the government. This tension can be managed by creating a ‘Chinese wall’ within the programme between the supply- and demand-side work, and by ensuring good communication between the management of the programme and the partner organizations. Both FOSTER and GOGIG have gained from combining work on the supply and demand sides because this allows information-sharing and coordination between components that is not possible if they are separate. However, in some circumstances it may be necessary to separate such programmes to ensure that those working with government are not ‘compromised’ by advocacy initiatives funded by the same programme.

Acting politically vs maintaining donor political relations

Programmes such as FOSTER and GOGIG explicitly attempt to engage in areas that are politically sensitive. They do not do so in a party political sense, but by choosing particular champions and partners, they are implicitly supporting the reform agendas of those actors. While aid is and always

has been political,¹⁸ if those opposed to reform become aware that a foreign donor is supporting their opponents, this can create problems for the diplomatic relationship between the two countries. Aid is only one part, and sometimes only a small part, of the diplomatic relationship between two countries, and so in such situations the Foreign Office of the donor country may put pressure on the donor agency to withdraw or modify activities to ensure no damage is done to broader diplomatic relationships. Conversely, there may be certain initiatives which are seen by the donor country as an important part of the relationship with the recipient country and which they wish to see continue, even if PEA or other analysis indicates that they are of little value for reform. Such tensions can be managed by good communication between the donor—who will be aware of the wider interests of its government—and the programme implementer, as well as substantial trust between the donor and the implementer that activities are not going to create significant problems for the donor.

Adherence to donor programming incentives vs using PEA and flexible programming

PEA is valuable when linked to forward programming, but there will be times when the PEA indicates that there is no space for reform at the present time. However, donors and implementers alike have an incentive to spend programming funds: donors face pressure to spend committed funds or risk having them cut; implementing organizations may have a milestone-based contract tied to the disbursement of funds. Similarly, implementing organizations are frequently required by donors to meet their forecasted spend with limited or no variance. Not meeting this results in a perception by the donor of poor management on the part of the implementer, even if the mismatch results from a strategic choice not to implement activities which are no longer thought to be valuable. Implementing flexible and adaptive programming therefore requires a change in donor thinking and procedures about what constitutes good planning and financial management.

5.2 Lessons for donors

To conclude, we draw out some lessons from the FOSTER and GOGIG projects about the ways in which external donors can support improvements in the governance of the extractive sector.

Perhaps the most important lesson is that it is possible. There is an understandable degree of scepticism, both within the development community and outside it, about whether donors can have any significant influence on politically sensitive governance reforms such as those relating to the extractive sector. The experience of FOSTER and GOGIG suggest that it is possible to have an impact, but that doing so requires a rather different approach from that taken in traditional aid programmes. In particular, it requires a programme that ‘thinks and acts politically’, drawing on local knowledge to navigate the complexities of reform, with the flexibility to adapt its approach accordingly.

However, adopting this approach has risks. Most obviously, not every activity will be successful. The portfolio approach adopted by FOSTER and GOGIG deliberately experiments, trying a wide range of activities with different partners with the intention that they will collectively promote change. But it is almost certain that some of these activities will not be successful. Moreover, it is not even guaranteed that clusters of activities will collectively be successful, as the example of the

¹⁸ See the excellent history of the politics of aid by Carothers and de Gramont (2013).

Petroleum Industry Bill in Nigeria showed. Moreover, this approach requires care to ensure that such activities do not pose reputational risks for the donor.

Making such programmes effective therefore appears to require four things:

- *Local knowledge and leadership.* This entails not only a robust set of analytical frameworks, including PEA, to continuously understand the latest developments, but also a politically savvy local team with the autonomy to propose the key areas and approaches for intervention.
- *Acceptance of risk by the donor.* A key challenge here is to find the right mechanism to ensure accountability for taxpayer funds, whilst providing the necessary flexibility and autonomy for implementation teams on the ground. ‘Arms-length’ arrangements, in which the implementing organization is accountable to the donor while the local team is held accountable to the implementer, appear to be an effective way of managing these risks.
- *More flexible management processes.* The existence of an un-earmarked managed fund has been important for both programmes, allowing relevant initiatives to be defined as the programme goes along. But better systems are needed to manage the conflict between the donors’ desire for complete, timely, and accurate fund disbursement and the variable needs and opportunities for reform.
- *Better evidence about what works, what doesn’t, and why.* One of the challenges of an approach that consists of multiple, non-predetermined initiatives implemented by a variety of partners is that it is hard to evaluate impact. New monitoring, evaluation, and learning frameworks are needed for such programmes that focus not only on which types of initiatives are more effective in which contexts, but also on embedding continuous critical reflection into programme management so that lessons can be fed back immediately into practice.

Fundamentally, what is needed is a shift in mindset, from being an implementer of a project to being an enabler of reform. Long-term reform in politically sensitive sectors comes from the collective action of local coalitions, both within and outside of government. External programmes that attempt to provide a technical ‘fix’ for a sector are likely to fail. Donors therefore need to be more modest and more realistic about what can be influenced, and to become enablers of change—facilitating local actors to take advantage of windows of opportunity. The experience of FOSTER and GOGIG is that, where this approach is taken, donors can play a useful role in supporting significant improvements in the governance of the extractive sector.

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