

Revenue Watch Index

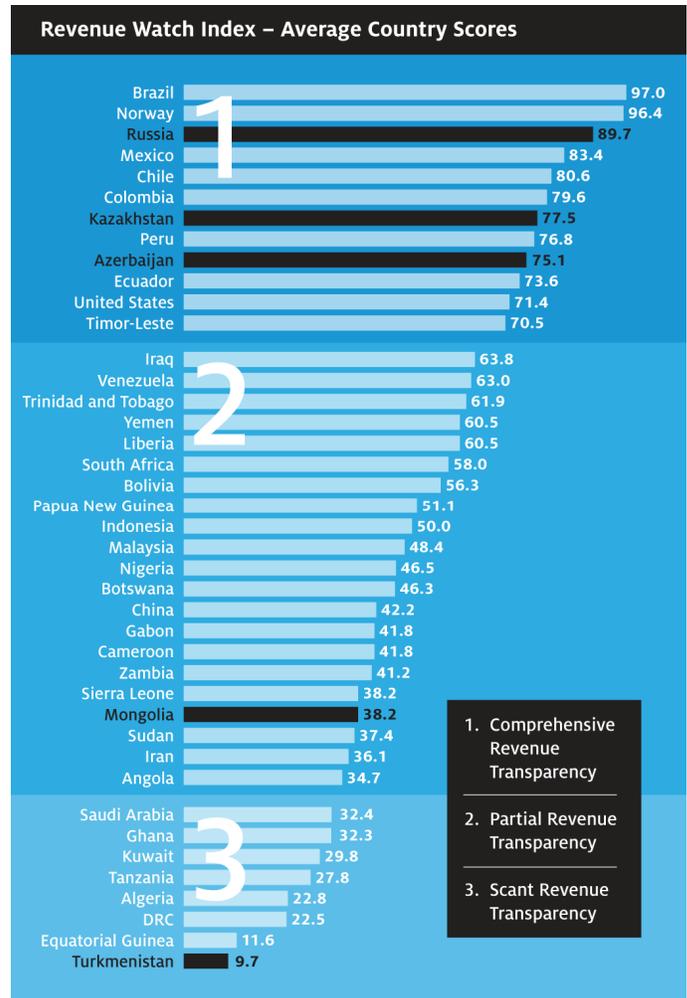
Central Asia/Russia and the oil, gas and mining industries

The Revenue Watch Index is the first attempt to measure and compare the information governments disclose about the oil, gas and mining industries, an especially important economic sector in Central Asia and Russia. During 2000 to 2008, hydrocarbon production contributed more than 50 percent of Azerbaijan’s government revenues, 38 percent of Kazakhstan’s, about 30 percent of Russia’s and more than 40 percent of Turkmenistan’s. Copper and gold mining accounted for nearly 10 percent of Mongolia’s budget. Transparency in this sector is essential to ensure that government revenues are used for the benefit of the public.

MAIN FINDINGS

Azerbaijan, Kazakhstan and Russia disclose a wide range of information about the revenues government agencies and state-owned companies receive. The index found relatively strong disclosure and reporting practices in at least one agency dealing with petroleum revenue in each of these countries. Though government retains a controlling interest, state-owned companies in Kazakhstan and Russia issue public reports for investors. Implementation of the Extractive Industries Transparency Initiative (EITI) has generated public reports in Azerbaijan and Kazakhstan. However, our results do not mean that all the government agencies operate with the same transparency standards.

Mongolia ranks in the index’s second tier despite recent efforts at reform. The government has taken steps to establish an independent mineral licensing agency, limit discretionary powers of officials in the extractive sector, give parliament authority to approve contracts in the mining sector and



Country scores are constructed as an average of the Revenue Watch Index’s transparency indicators. Countries are ranked according to their average score. To learn more and download report data, go to: www.revenuwatch.org/rwindex.

implement EITI. As these reforms take hold and EITI reports are published regularly, we expect that transparency and management of the extractive sector in Mongolia to improve.

Turkmenistan, which scored lowest of the 41 countries, discloses little information on the topics covered by the index. Our research found no information about payments received by the government. Key decisions for the extractive sector are

left to the discretion of the chief executive's office.

Three countries in this group are implementing the EITI. All of them —Azerbaijan, Kazakhstan and Mongolia—have published EITI reports. Publishing timely, regular and comprehensive reports should be a departure point to improve governance and accountability in the extractive sector.

Contract transparency in this region lacks consistent implementation. In Azerbaijan, operating companies have disclosed full contracts for two projects; Mongolia published several contracts in early 2010 (after the deadline for inclusion in the index's research).

THE ROAD AHEAD

Although the level of transparency in this region is encouraging, with the exception of Turkmenistan, the index results do not mean that everything is perfect. Our index does not measure the perceived extent of corruption in the sector or the quality of governance in these countries.

Even the countries with high scores in the index have considerable room for improvement in the transparency of revenues and management. In particular, governments could strengthen the rights to access public information. In this region, only Azerbaijan has adopted a freedom of information law, while participation in the EITI gives the public some access to information in Kazakhstan and Mongolia. The government of Russia considers data about reserves of oil and gas and several other minerals to be classified information.

All the countries in this group except Turkmenistan have special funds that collect revenue from the extraction of oil and gas for investment purposes. The revenues channeled through these financial vehicles are quite large – in the case of Azerbaijan's fund, its resources compete with those of the ministry of finance. Governments need to make public reliable, comprehensive and timely information on these revenues on a regular basis.

The governments of all these countries own or control national resource companies. However, only those in Kazakhstan and Russia publish comprehensive reports on their operations. The quality of these reports provides a sharp contrast with Azerbaijan's oil company's poor reporting practices. Governments should require public disclosure of the operations and finances of all state-own companies, including all their assets and subsidiaries.

OUR RECOMMENDATIONS

1. Contracts, details about investment agreements and government income from the oil, gas and mining industries should be open to public scrutiny.
2. Countries should require companies operating within their borders to disclose detailed financial information on oil, gas and mining projects.
3. All resource-rich countries in the region should implement EITI. Countries that have made a notable progress to implement EITI within the minimum requirements should use EITI multi-stakeholder engagement to improve the quality of reports (e.g. including comprehensive and disaggregated information, and disclosing transfers to sub-national governments).
4. Resource ministries should meet the same standard of public reporting as central banks, finance ministries and other public institutions controlling important public resources.
5. Governments should make periodic, comprehensive and timely reporting a requirement for their state-owned natural resource companies.
6. Countries with natural resource funds should develop measurable benchmarks to monitor transparency and accountability of these accounts.
7. Governments should make public information about transfers of revenues to regional and local governments. Regional and local governments should be held to the same disclosure standards as national governments.
8. Parliaments need to make better use of their oversight powers to provide more effective checks on executive powers.
9. Governments in the region should improve their levels of transparency regarding reports about the environmental and social impact of the activities of extractive industries.

The Revenue Watch Index evaluates the availability of information in seven key areas of natural resource management: access to resources, generation of revenue, institutional setting, state-owned companies, natural resource funds, sub-national transfers and implementation of the Extractive Industry Transparency Initiative.

The index, which ranks countries according to their score out of a possible total of 100, can be an important tool for citizens, elected officials, civil society and media seeking greater access to resource information.