Latin America

The Resource Governance Index measures the quality of governance in the oil, gas and mining industries in 58 countries worldwide. In Latin America, these industries have long been key pillars of the economy.[1]

For the nine Latin American countries in the Index (see figure 1), resource revenues accounted for one third of total government income during 2006-2011 while fuels and minerals made up 60 percent of their total exports. Good governance is essential to ensure that natural resources benefit these countries.

To determine how each country performs, the Index looks at four key areas of transparency and accountability:

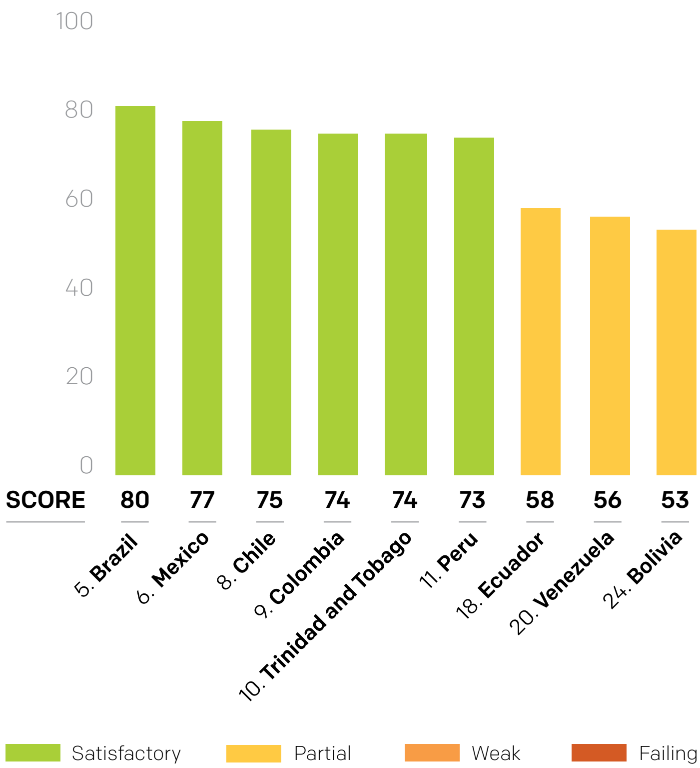
1. **Institutional and Legal Setting:** the degree to which laws, regulations and institutional arrangements facilitate transparency, accountability and open, fair competition.
2. **Reporting Practices:** government disclosure of information.
3. **Safeguards and Quality Controls:** the presence and quality of checks and oversight mechanisms that encourage integrity and guard against conflicts of interest.
4. **Enabling Environment:** the broader governance environment, based on more than 30 external measures of accountability, government effectiveness, rule of law, corruption and democracy.

MAIN FINDINGS

Brazil, Chile, Colombia, Mexico Trinidad and Tobago, and Peru earned satisfactory composite scores. The remaining three countries, Ecuador, Venezuela and Bolivia, received only partially satisfactory scores.

Peru scores the highest in **Institutional and Legal Setting** with 88 and Venezuela the lowest with 57. These scores suggest that legal frameworks across the region tend to promote transparency and accountability. For instance, every country but Venezuela has a freedom of information law. However,

Figure 1: Latin America Index scores and ranking



Note: Ranks are out of 58 countries and appear in front of country names; composite scores appear below each column.

these laws fail to apply to state-owned companies in Brazil, Chile, Colombia and Trinidad and Tobago. No country has adopted a law requiring oil, gas and mining companies to disclose payments similar to the 2010 Dodd-Frank Act passed in the U.S. and rules being drafted in the European Union.

Trinidad and Tobago earns the highest score on **Reporting Practices** with 83, while Bolivia scores a mere 47. The majority of countries publish timely, regular reports on production, prices, exports and the largest revenue streams. However, information on the costs of production and secondary sources of revenue (e.g. bonuses, dividends, fees) is often missing in reports from Bolivia, Colombia, Chile, Ecuador and Venezuela. In most countries the agencies in charge of collecting taxes and regulating the sector publish their own reports, suggest-

1 The RGI assess mining sector governance in Chile and Peru, and the oil and gas sector in Bolivia, Brazil, Colombia, Ecuador, Mexico, Trinidad & Tobago and Venezuela.

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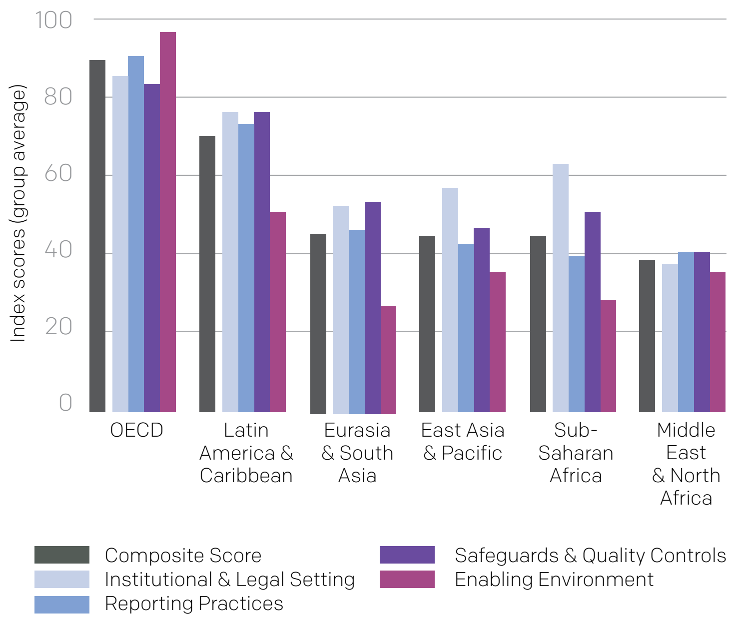
ing a healthy division of roles. In Venezuela, however, the state-owned oil company and the ministry of petroleum publish identical reports, raising concerns about institutional autonomy and limited oversight. Ecuador and Peru publish oil, gas and mineral contracts. Bolivia, Colombia, Mexico and Venezuela, however, publish contracts or license terms in a more ad hoc, uneven way; Brazil, Chile and Trinidad do not publish contracts at all.

Brazil scores an impressive 96 on **Safeguards and Quality Controls**. Four countries, including Brazil, have strong checks on their budgetary process, but the legislatures in Bolivia, Ecuador and Venezuela exert very limited oversight of resource revenues. Chile and Peru fail to require officials to disclose their financial interests in the oil, gas and mining industries. All state-owned companies are reportedly audited, but those in Bolivia and Ecuador do not publish their audit reports. Four countries have natural resource funds. In Chile, Mexico and Trinidad, the legislature oversees the use of these funds, but Venezuela lacks comprehensive reports and legislative checks on such expenditures.

The **Enabling Environment** is the weakest component in Latin America. Only Chile receives a satisfactory score while Bolivia, Ecuador and Venezuela fail in this category. Budget transparency is limited in Bolivia, Ecuador, Venezuela and Trinidad and Tobago. Rule of law and control of corruption are the weakest indicators in the entire region, with Chile as the exception.

Figure 2: Average country score by region and component



Note: The OECD region includes five countries; the Latin America & Caribbean nine countries; Eurasia & South Asia six countries; East Asia & Pacific 10 countries; Sub-Saharan Africa 17 countries; and the Middle East and North Africa 11 countries.

REGIONAL COMPARISON

The nine Latin American countries received an average score of 69 out of 100, placing the region just below "satisfactory" (see figure 2). While the region's scores varied greatly, with Brazil earning a 'satisfactory' score of 80 and Bolivia only 53, all countries scored above the overall Index average of 51. This outcome indicates the region has some elements of transparency and accountability in place, but the Index identifies specific opportunities to improve governance and further transparency.

RECOMMENDATIONS

1. **Disclose contracts.** Peru's publication of mining contracts illustrates how commercially and politically feasible this practice is. Bolivia, Brazil, Chile, Colombia, Mexico, Venezuela and Trinidad and Tobago should adopt clear disclosure rules and assign responsibility for maintaining contract repositories to specific government agencies.
2. **Require greater corporate disclosures.** Latin American governments should join the global transparency movement and require energy and mining companies to regularly disclose production and payment information on a project-by-project basis.
3. **Make resource transparency part of Open Government Partnership action plans.** The global partnership offers a valuable opportunity for participating countries like Brazil, Chile, Colombia, Mexico, Peru and Trinidad and Tobago to advance transparency through a collaboration of government and civil society.
4. **Publish timely, comprehensive information on state-owned company operations and revenues.** Companies in Bolivia, Ecuador and Venezuela fail to provide comprehensive reports and sufficient data on subsidies and social investments. These companies play major roles in the sector and the country's economy, and should be accountable for their use of public resources.
5. **Invest in institutional reforms to control corruption and strengthen the law.** Eight of the nine countries scored below satisfactory in these areas. Transparency and broader governance reforms will ensure citizens fully benefit from their natural resources.

The complete Index, along with the full methodology and 58 country profiles, can be found at www.revenuewatch.org/rgi.

The Revenue Watch Institute promotes the effective, transparent and accountable management of oil, gas and mineral resources for the public good. Through capacity building, technical assistance, research, funding and advocacy, we help countries to realize the development benefits of their natural resource wealth.

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