

# **The 2013 Resource Governance Index**

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## Introduction

The Resource Governance Index (RGI) measures the quality of governance in the oil, gas and mining sector of 58 countries. From highly ranked countries like Norway, the United Kingdom and Brazil to low ranking countries like Qatar, Turkmenistan and Myanmar, the Index identifies critical achievements and challenges in natural resource governance.

The 58 countries produce 85 percent of the world's petroleum, 90 percent of diamonds and 80 percent of copper. Profits from their extractive sector totaled more than \$2.6 trillion in 2010. In 41 of these countries, the extractive sector contributed a third of gross domestic product and half of total exports on average. Revenues from natural resources dwarf international aid: In 2011, oil revenues for Nigeria alone were 60 percent higher than total international aid to all of sub-Saharan Africa. The future of these countries depends on how well they manage their oil, gas and minerals.

Mismanagement and corruption have many manifestations and can have dire consequences. Some countries negotiate poor terms with extractive companies, forsaking potential long-term benefits. Many countries do not collect resource revenues effectively. And even when resource revenues do end up in government coffers, they aren't always spent in ways that benefit the public. Too often, governments keep citizens and civil society leaders in the dark regarding government contracts and resource revenues. This opacity deprives the public of a voice or even representation in basic decisions on natural resources.

The RGI is based on the premise that good governance of natural resources is necessary for the successful development of countries with abundant oil, gas and minerals. It provides a diagnostic tool to help identify good practices as well as governance shortcomings.

The RGI evaluates four key components of resource governance in each country: Institutional and Legal Setting; Reporting Practices; Safeguards and Quality Controls; and Enabling Environment. The Index (See [Figure 1](#)) assigns a numerical score to each country and divides them into four performance ranges—satisfactory (71-100, marked in green), partial (51-70, yellow), weak (41-50, orange) and failing (0-40, red).

Figure 1: Composite and Component Scores

Rank	Country	Resource measured	Composite	Institutional and legal setting	Reporting practices	Safeguards and quality controls	Enabling Environment
1	Norway	Hydrocarbons	98	100	97	98	98
2	United States (Gulf of Mexico)	Hydrocarbons	92	88	97	89	90
3	United Kingdom	Hydrocarbons	88	79	91	83	93

4	Australia (Western Australia)	Minerals	85	88	87	65
5	Brazil	Hydrocarbons	80	81	78	96
6	Mexico	Hydrocarbons	77	84	82	53
7	Canada (Alberta)	Hydrocarbons	76	67	72	96
8	Chile	Minerals	75	77	74	65
9	Colombia	Hydrocarbons	74	75	73	91
	Trinidad and Tobago	Hydrocarbons	74	64	83	52
11	Peru	Minerals	73	88	83	56
12	India	Hydrocarbons	70	60	72	83
13	Timor-Leste	Hydrocarbons	68	77	82	70
14	Indonesia	Hydrocarbons	66	76	66	75
15	Ghana	Minerals	63	79	51	73
16	Liberia	Minerals	62	83	62	71
17	Zambia	Minerals	61	71	62	72
18	Ecuador	Hydrocarbons	58	70	64	65
19	Kazakhstan	Hydrocarbons	57	62	58	76
20	Venezuela	Hydrocarbons	56	57	69	67
21	South Africa	Minerals	56	69	31	75
22	Russia	Hydrocarbons	56	57	60	62
23	Philippines	Minerals	54	63	54	51
24	Bolivia	Hydrocarbons	53	80	47	63
25	Morocco	Minerals	53	48	60	56
26	Mongolia	Minerals	51	80	39	49
27	Tanzania	Minerals	50	44	48	68
28	Azerbaijan	Hydrocarbons	48	57	54	51
29	Iraq	Hydrocarbons	47	57	52	63
30	Botswana	Minerals	47	55	28	53
31	Bahrain	Hydrocarbons	47	38	40	59
32	Gabon	Hydrocarbons	46	60	51	39
33	Guinea	Minerals	46	86	45	43
34	Malaysia	Hydrocarbons	46	39	45	39
35	Sierra Leone	Minerals	46	52	47	59
36	China	Hydrocarbons	43	43	46	46
37	Yemen	Hydrocarbons	43	57	46	52
38	Egypt	Hydrocarbons	43	40	44	48
39	Papua New Guinea	Minerals	43	59	34	50
40	Nigeria	Hydrocarbons	42	66	38	53
41	Angola	Hydrocarbons	42	58	43	52
42	Kuwait	Hydrocarbons	41	28	43	36
43	Vietnam	Hydrocarbons	41	63	39	31
44	Congo (DRC)	Minerals	39	56	45	42

45	<i>Algeria</i>	Hydrocarbons	38	57	41	28	26
46	<i>Mozambique</i>	Hydrocarbons	37	58	26	37	37
47	<i>Cameroon</i>	Hydrocarbons	34	63	33	25	17
48	<i>Saudi Arabia</i>	Hydrocarbons	34	30	35	31	38
49	<i>Afghanistan</i>	Minerals	33	63	29	38	8
50	South Sudan	Hydrocarbons	31	80	17	35	8
51	Zimbabwe	Minerals	31	48	23	56	6
52	Cambodia	Hydrocarbons	29	52	13	46	20
53	<i>Iran</i>	Hydrocarbons	28	26	33	26	23
54	<i>Qatar</i>	Hydrocarbons	26	15	14	20	66
55	<i>Libya</i>	Hydrocarbons	19	11	29	15	10
56	<i>Equatorial Guinea</i>	Hydrocarbons	13	27	14	4	4
57	<i>Turkmenistan</i>	Hydrocarbons	5	13	4	0	3
58	Myanmar	Hydrocarbons	4	8	5	2	2

Notes: (1) Resource-rich countries, as defined by the IMF, appear in *italics*.

## Main Findings

### **The RGI shows a striking governance deficit in natural resource management worldwide.**

Only 11 countries earn an overall score of above 70. The vast majority of countries exhibit serious shortcomings in resource governance.

More than half the sample, 32 countries, do not meet even basic standards of resource governance, performing weakly or simply failing. Among the 15 failing countries, seven score below 30: Cambodia, Iran, Qatar, Libya, Equatorial Guinea, Turkmenistan and Myanmar. As of 2012, when the data collection took place, these countries failed to disclose any meaningful information about the extractive sector and lacked basic governance standards.

There is room for improvement even among the 11 top-ranked satisfactory performers. For example, Brazil and Chile fail to publish their extractive industry contracts. Western Australia does not require public officials to disclose information about their financial interest in mining projects.

An examination of the four RGI components clearly shows the endemic nature of the resource governance deficit. Only Norway, the United Kingdom and the United States (Gulf of Mexico) earn a satisfactory score in all four components, leaving 95 percent of the sample without satisfactory standards in one or more areas. In the Reporting Practices component, the vast majority of countries (45 out of 58) have partial, weak or failing standards of transparency. In these countries, citizens lack access to fundamental information about the oil, gas and mining sector. For instance, a country might provide little or no information about which companies (domestic and foreign) operate in the extractive sector, how much the government collects in resource revenues and where those funds are allocated.

### **The governance deficit is largest in the most resource-dependent countries.**

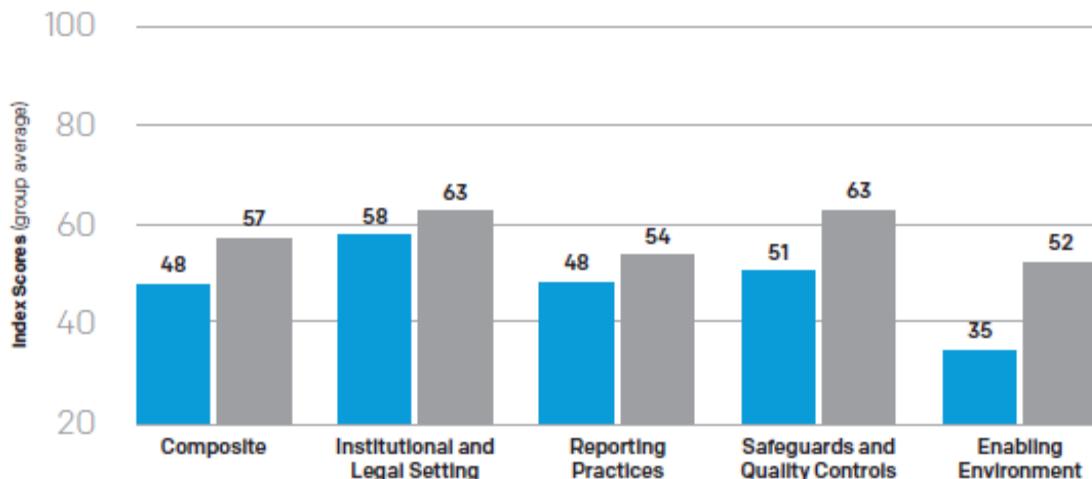
Of the 58 countries in the RGI, 41 are classified as resource-rich by the International Monetary Fund.<sup>5</sup> That is, in each of these countries, oil, gas and/or minerals dominate the economy, making up at least 25 percent of gross domestic product (GDP), exports or government revenues. Only five of the 41 countries (Norway, Mexico, Chile, Peru and Trinidad and Tobago) have satisfactory standards of resource governance (a composite score of 70 or more).

Resource-rich countries receive an average score of 48 in the RGI composite, nine points lower than the average of their 17 less resource-dependent peers (see [Figure 2](#)). Similar disparity is evident in all four components of the Index. Among the resource-rich countries, only Norway rates satisfactory in all components. Thirty-seven of the resource-rich countries rate less than satisfactory in at least two of the four components.

*Figure 2*

## Index Scores by Resource-dependency

█ Resource-dependent countries  
 Non resource-dependent countries



Transparency is missing in the countries where it is needed most. Nine of the 15 failing performers (Algeria, Cameroon, the Democratic Republic of Congo (DRC), Equatorial Guinea, Iran, Libya, Qatar, Saudi Arabia and Turkmenistan) are among the most resource-dependent countries in the world. In 2010, resource profits in these countries totaled more than \$530 billion, or about \$1,500 per capita; oil, gas and mining contributed an average of 34 percent of GDP and a staggering 60 percent of total government revenues. Resource wealth of this scale affects every aspect of economics and politics in these countries. Yet governments provide the public negligible, if any, information about the industry on which their economic future depends.

### **The governance deficit affects nearly 450 million poor people in the most resource-dependent countries.**

The share of the population living on less than two dollars a day is higher at the bottom half of the RGI ranking. In 26 resource-rich countries with weak and failing performance, more than 300 million people (or 50 percent of their combined populations) live on less than two dollars a day.

By comparison, in countries scored as having partial performance, 149 million people (32 percent of the population) live on less than two dollars a day; for the countries with satisfactory performance, the figure is 10 million people (7 percent of the population).

### **Satisfactory performance is possible in diverse contexts.**

Six of the 11 top performers are middle-income countries—Brazil, Chile, Colombia, Mexico, Peru, and Trinidad and Tobago—showing that being wealthy is not a precondition for good governance. And with the exception of Brazil, all are resource-rich, demonstrating that resource dependence does not

preclude transparency and accountability. The Index shows it is possible to adopt high reporting standards, including disclosure of timely, extensive information on operations and primary sources of revenue, when the extractive sector is of the utmost political and economic importance.

Even countries facing significant economic challenges exhibit good practices in selected components. For instance, Timor-Leste has adopted transparent and accountable systems for managing its oil wealth. And though Guinea's overall minerals governance is weak, it recently initiated reforms to improve, as reflected in its high Institutional and Legal Setting score. Afghanistan and the DRC, both rated failing for overall resource governance, recently decided to publish most of their extractive contracts. These improvements could be a springboard for more decisive resource governance reforms.

## **Methodology**

This methodology note explains what the Resource Governance Index (RGI) measures; how countries and sectors were selected; how data was collected and managed; how the Index was constructed; and the differences with the pilot Revenue Watch Index of 2010.

### **1. What the RGI measures**

The 2013 RGI evaluates the governance of the oil, gas and mining sector in 58 countries. Transparency is a key component of good governance and the Index includes indicators that measure the disclosure of information about natural resources through official sources. Publication of information alone, however, is insufficient for good governance. The Index also pays attention to the overall governance enabling environment, including rule of law, corruption and democratic accountability, as well as the sector's legal setting, institutional arrangements, integrity safeguards and quality controls which can help to facilitate disclosure and public accountability, limit arbitrary powers, curb conflicts of interest, and clarify roles and authority.

Working during 2012, RGI researchers used a specially designed questionnaire to collect data about the 58 countries. This questionnaire is based on the standards put forward by the International Monetary Fund (IMF)'s 2007 Guide on Resource Revenue Transparency and the Extractive Industries Transparency Initiative (EITI), among others.<sup>1</sup> Its 173 questions are clustered into 45 indicators, each providing information about an aspect of the natural resource governance. These indicators emerging from the questionnaire are then mapped onto three (of the four) components of the RGI: Institutional and Legal Setting, Reporting Practices and Safeguards and Quality Controls. The fourth component, Enabling Environment, consists of five additional indicators that describe a country's broader governance environment. It uses data compiled from more than 30 external sources by the Economist Intelligence Unit, International Budget Partnership, Transparency International and Worldwide Governance Indicators (see figure 3). The RGI is therefore a hybrid index largely based on primary data collected through the questionnaire that assesses the governance and transparency of the specific sector, but incorporating several external measures of the context in which oil, gas and mining governance take place. It is not a survey of opinions.

The RGI's four components cover the following topics:

*Institutional & Legal Setting:* 10 indicators that assess whether the laws, regulations and institutional practices enable comprehensive disclosures, open and fair competition, and accountability.

*Reporting Practices:* 20 indicators that evaluate the actual disclosure of information and reporting practices by government agencies.

*Safeguards and Quality Controls:* 15 indicators that measure the checks and oversight mechanisms that guard against conflicts of interest and undue discretion, such as audits.

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<sup>1</sup> See: <http://eiti.org/eiti/principles> ; <http://www.publishwhatyoupay.org/> and the IMF's Guide on Resource Revenue Transparency, available for download at: <http://www.imf.org/external/np/pp/2007/eng/051507g.pdf>

*Enabling Environment:* 5 indicators of the broader governance environment generated using over 30 external measures of accountability, government effectiveness, rule of law, corruption and democracy. The data reflect the extent to which the broader environment will help or hinder transparency and accountability efforts in the extractive sector. Box 1 below summarizes the discussion about including the enabling environment component in the Index.

***Box 1: On the inclusion of the Enabling Environment (EE) component in the RGI***

There are arguments for and against the inclusion of enabling environment indicators in the RGI score. Against their inclusion, one could argue that:

- The EE component dilutes the focus of the RGI on the oil, gas and mining sector by incorporating measures of overall governance.
- The EE component can have an undue effect on the scores, driving scores up or down, inflating or depressing performances beyond what countries actually show in their extractive sector.

On the other hand, one could argue in favor, noting that:

- External governance indicators reflect the influence of the broader country environment on the quality of natural resource governance. When considering the quality of transparency and accountability in a certain area, it does matter whether a country also has an authoritarian regime, a high risk of corruption or respect for basic freedoms.
- As an expert-based index, the accuracy and consistency of its findings suffers from the bias introduced by researchers, and by peer and RWI reviewers. Including an external measure reduces this margin of error.

Given these last two arguments, we chose to include the Enabling Environment component in the RGI and allocated a 20 percent weight to this component in the published composite scores (see below). However, the data tool on the RGI website allows users to experiment with assigning various weights to each of the four components, including the Enabling Environment.

**Figure 3: The Resource Governance Index structure by component**

	Institutional & Legal Setting (20 percent)		Reporting Practices (40 percent)		Safeguards & Quality Controls (20 percent)		Enabling Environment (20 percent)	
	10 Indicators; 16 Questions		20 Indicators; 122 Questions		15 Indicators; 35 Questions		5 Indicators	
	Indicators	Questions	Indicators	Questions	Indicators	Questions	Indicators	Sources*
1	Freedom of information law		1	Licensing process	Information before licensing	1	Checks on licensing process	Limits to discretionary powers
2	Comprehensive sector legislation				Information after licensing			Legislative oversight
3	EITI participation		2	Contracts				Appeal process available
4	Independent licensing process	Licensing authority independent from SOC	3	Environmental and social impact assessments	EI assessment	2	Checks on budgetary process	Legislative oversight
		Open and competitive licensing process			SI assessment			Review of revenue by national audit institution
5	Environmental and social impact assessments required	Requirement of EI assessment	4	Exploration data	Reserves			Legislature reviews audit reports
		Requirement of SI assessment			Investment in exploration			Understandable reports
6	Clarity in revenue collection	Clear authority to collect payments	5	Production volumes	Production volumes	3	Quality of government reports	Timely reports
		Clear transfers of payments to treasury			Production data by company and/or block			Government disclosure of conflicts of interest

\*Each of the Enabling Environment indicators consists of dozens of questions from many sources, including: World Governance Indicators <http://info.worldbank.org/governance/wgi/index.asp>;

International Budget Partnership <http://internationalbudget.org/what-we-do/open-budget-survey/>;

Economist Intelligence Unit [https://www.eiu.com/public/topical\\_report.aspx?campaignid=DemocracyIndex2011](https://www.eiu.com/public/topical_report.aspx?campaignid=DemocracyIndex2011); and Transparency International

7	Comprehensive public sector balance	Includes SOC balance	6	Production value	Value of resource exports	5	Quality of SOC reports	Understandable reports		
		Includes fund balance			Production costs			Timely reports		
		Includes non-resource balance			Prices			Reports are audited		
8	SOC financial reports required		7	Primary sources of revenue	Value of production streams	6	SOC reports audited	Audited reports are published		
9	Fund rules defined in law	Rules for deposits			Government's share in PSCs			SOC audits include subsidiaries		
		Rules for disbursements			Royalties			SOC use of international accounting standards		
10	Subnational transfer rules defined in law				Special taxes		7	SOC disclosure of conflicts of interest		
			8	Secondary sources of revenue	Dividends			Understandable reports		
					Bonuses	9		Timely reports		
					License fees	10	Reports are audited			
					Acreage fees		Audited reports are published			
					Other		Checks on fund spending			
9	Subsidies		9	Operating		11	Government follows fund rules	Practice for deposits		
								Practice for		

	company names			disbursement	
11	Comprehensive SOC reports	Cash flow statements	13	Fund disclosure of conflicts of interest	
		Joint ventures		Quality of subnational transfer reports	Understandable reports
12	SOC production data	Reserves	14		Timely reports
		Production volumes		Government follows subnational transfer rules	
		Prices	15		
		Value of resource exports			
		Investment in exploration			
		Production costs			
		Production data by company and/or block			
13	SOC revenue data	Value of production streams			
		Government's share in PSCs			
		Royalties			
		Special taxes			
		Dividends			
		Bonuses			
		License fees			

		Acreage fees	
		Other	
14	SOC quasi fiscal activities	Comprehensive and quantitative data	
		Timely data	
15	SOC board of directors	Composition	
		Decision-making rules	
16	Comprehensive fund reports		
17	Fund rules		
18	Comprehensive subnational transfer reports		
19	Subnational transfer rules		
20	Subnational reporting of transfers		

## **2. Country and sector coverage**

Out of the 58 countries in the RGI, 37 are defined as resource-rich by the IMF, meaning that their extractive sector contributes at least 25 percent of total fiscal income, GDP or export earnings. We also include four prospective resource-rich countries (Afghanistan, Mozambique, Sierra Leone and Tanzania); nine countries where minerals hold great potential for future fiscal revenue (Cambodia, Colombia, Egypt, India, Myanmar, Morocco, Philippines, South Sudan and Zimbabwe); two countries that participate in EITI but are not resource-rich (Ghana and Liberia); and six countries which are among the top 20 producers of hydrocarbons and minerals (Australia, Brazil, Canada, China, the United Kingdom and the United States).

All 58 countries included in the Index produce hydrocarbons and/or minerals. For countries that produce both types of resources, the Index assesses governance in the sector that generates the most revenue. Thus, oil and gas is assessed in 40 countries and minerals in the remaining 18. In the case of Ghana, the Index assesses the gold sector because at the time the research started it was a larger source of fiscal revenue than oil.<sup>2</sup>.

For the three federal countries with decentralized natural resource governance (United States, Canada and Australia), we assess one resource-producing region (the Gulf of Mexico, Alberta and Western Australia, respectively). For India, the Index focuses on the federally managed gas sector. These decisions limit the comparability of these four countries with those where petroleum and mining resources are managed centrally.

## **3. Data collection and research management**

The team of RGI researchers included 20 local civil society experts, 12 independent consultants based in-country and 14 experts based outside the country they assessed. Researcher selection privileged expert knowledge (including relevant local languages) and prior work experience related to the extractive sector. They conducted the research between January and July 2012, and assessed the status of policies, practices and information availability.

Researchers completed a detailed questionnaire with 173 questions for each country and provided supporting evidence for their answers. The research process primarily involved the assessment of publicly available information. In addition, researchers conducted interviews, to the extent possible, with local experts, civil society activists and government officials to corroborate information, expand our sources of information and mitigate bias. Documents or information obtained through means

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<sup>2</sup> Oil production started in Ghana in 2011 and oil revenues might overtake gold as source of fiscal income in the future. For some petroleum producers (Brazil, China, the U.K. and the U.S.), this resource is not their main source of fiscal income. In the case of India, the hydrocarbon sector is the largest in terms of its contribution to the economy, but it is not a significant contributor of revenue to the government. In Afghanistan, the mining sector is seen as a promise for future fiscal revenue, but its contribution is negligible in comparison to international aid at present. In the case of mining countries, the Index follows the IMF Guide on Resource Revenue Transparency to decide the resource assessed: for Botswana, diamonds; Chile, copper; Democratic Republic of Congo, diamonds; Ghana, gold; Liberia, diamonds; Peru, gold, copper, silver; Sierra Leone, copper and gold; South Africa, gold; Tanzania, gold, diamonds; and Zambia, copper.

unavailable to the average citizen (such as from informal exchanges with government officials) were *not* considered publicly available. RWI staff reviewed each submitted questionnaire for clarity and consistent application of the methodology.

Peer reviewers examined and verified each questionnaire between April and August 2012. Twenty peer reviewers were local civil society experts, 23 in-country independent consultants and 13 experts outside the country. Reviewers provided comments, suggested changes, challenged interpretations, provided overlooked evidence and identified mistakes. Upon receiving the reviewed questionnaires, RWI staff confirmed that the peer reviewer followed the methodology and shared the comments with the researchers. The researchers then responded with further evidence or information. If the peer reviewer suggestion led to changes in an answer, researchers made the change and provided appropriate notes about the modification, mistake or correction. RWI staff checked all final questionnaires for consistency of assumptions across countries when selecting scores and made changes where appropriate. This process ended around October 2012.

The entire process of research and peer review used Indaba, a research management platform designed by Global Integrity.<sup>3</sup> Indaba provides users with standard instructions to complete and score the questionnaire, facilitates the collection of supporting evidence and remote collaboration, and creates a database of all the exchanges. To bring transparency to the research process, all 58 questionnaires are available online and contain the researcher and reviewer comments.

#### **4. Scoring and organization of results**

The RGI is made up of four different levels of information: questions, indicators, components and a composite. Each level follows a scoring process described below.

##### *Questions*

The Index questionnaire included 191 questions, of which 16 gather information about the country context.<sup>4</sup> These context questions along with questions scored as “not applicable” are dropped from the calculation of the Index score. The RGI dropped two additional questions from calculation: one on disclosure of beneficial ownership, due to incomplete data, and another on the disclosure of the names of companies operating in the country, due to duplication. The remaining 173 scored questions are clustered in 45 indicators.

##### *Indicators*

Indicators are scored on a 0-100 scale and are composed of either one or multiple questions. Individual question scores are averaged to produce the indicator score. For indicators 4-10 in the Reporting Practices component, concerning reporting on payments and industry operations (a total of 20 individual questions), the RGI assumes that data could be provided by five different government

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<sup>3</sup> See: <http://www.globalintegrity.org/technology/indaba>

<sup>4</sup> Context questions include, for example, questions about the authority that grants mining licenses, the existence of a state-owned company in the extractive sector etc.

agencies – ministries of finance, ministries of the extractive sector, regulatory agencies, central banks and other agencies. For these indicators, the Index assesses the information provided by the agency that produces the most complete reporting, in recognition of the fact that governments assign different roles to different bodies. This differs from the approach taken in scoring indicator 3 in the Safeguards and Quality Controls component which relates to the timeliness and understandability of government revenue reports. Regardless of what information an agency reports, this information should be timely and understandable. Therefore, in this case, we average scores that all agencies receive in order to determine the score.

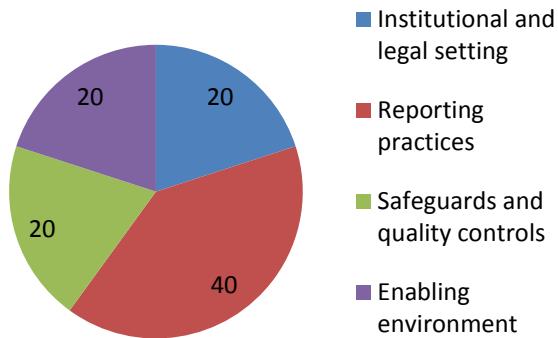
#### *Components*

Each component score in the RGI is the simple average of all the indicators it contains. For the Enabling Environment component, the value of the (external) indicators is first normalized to a 0-100 scale and then a simple average of the indicators provides the component score.

#### *Composite*

The RGI score is a weighted average of the scores of the four components. Because actual disclosure constitutes the core of transparency, the Reporting Practices component receives a greater weight. It also reflects a belief that without reporting information, rules and safeguards ring hollow. Therefore, Reporting Practices account for 40 percent of the final country score, and the other three components (Institutional and Legal Setting, Safeguards and Quality Controls and Enabling Environment) account for 20 percent each (see Figure 4). As part of the Index website, we provide a tool that allows users to change the weights for the different components, creating different composite scores that reflect their own sense of prioritization.

Figure 4: Percentage weights for the index four components



## 5. Margins of error

Margins of error have to be taken seriously in any cross-country data project, whether disaggregated or a composite index, in governance or other areas. The RGI is no exception. We estimate margins of error based on the extent of disagreement across indicators and components, which are all observed proxies for the unobserved ‘true’ level of governance in the extractive sector. To arrive at margins of error, for each country we calculated the simple average of the standard deviation (SD) within and across components. The sample average SD was 8. Thus, the implied margin of error around a country’s point estimate is about +/- 13 (90% confidence interval). It is important to note that there is variance in the SDs across countries. The range is 6.5-9.5, and these bounds translate into rather different confidence intervals. The top and bottom performers tend to have lower SDs than average (4-7 in general), while

those in the middle have higher SDs than average (9+). We also recognize that weighting decisions introduce additional uncertainty because the relative importance of different indicators/components is unknown.

## **6. Differences between the 2010 Revenue Watch Index and the 2013 RGI**

RWI released a pilot index on natural resource transparency in 2010. It included 41 countries, focused on reporting practices only, used a more limited questionnaire, and did not estimate margins of error. Given these changes and other methodological adjustments, the 2010 and 2013 findings are not comparable.

The 2013 RGI measures levels of disclosure in its Reporting Practices component, but it also covers the legal and institutional setting as well as the checks and balances present in the sector, and incorporates external governance indicators as a measure of the enabling environment. In comparison, the 2010 index focused on disclosure of information only.

As described above, the 2013 RGI uses a four tier system of questions, indicators, components and a composite score. The composite score is a weighted average, meaning that indicators were clustered in components that received different weights rather than being treated equally. The 2010 index score was a simple average of all the questions included in the survey.

Finally, the 2013 index provides detailed information about each country's scores, including access to the country questionnaires. This level of detail makes the scores and the research process more transparent, as anyone can review how each score was determined.

## Defining the Governance Deficit: the RGI's four components

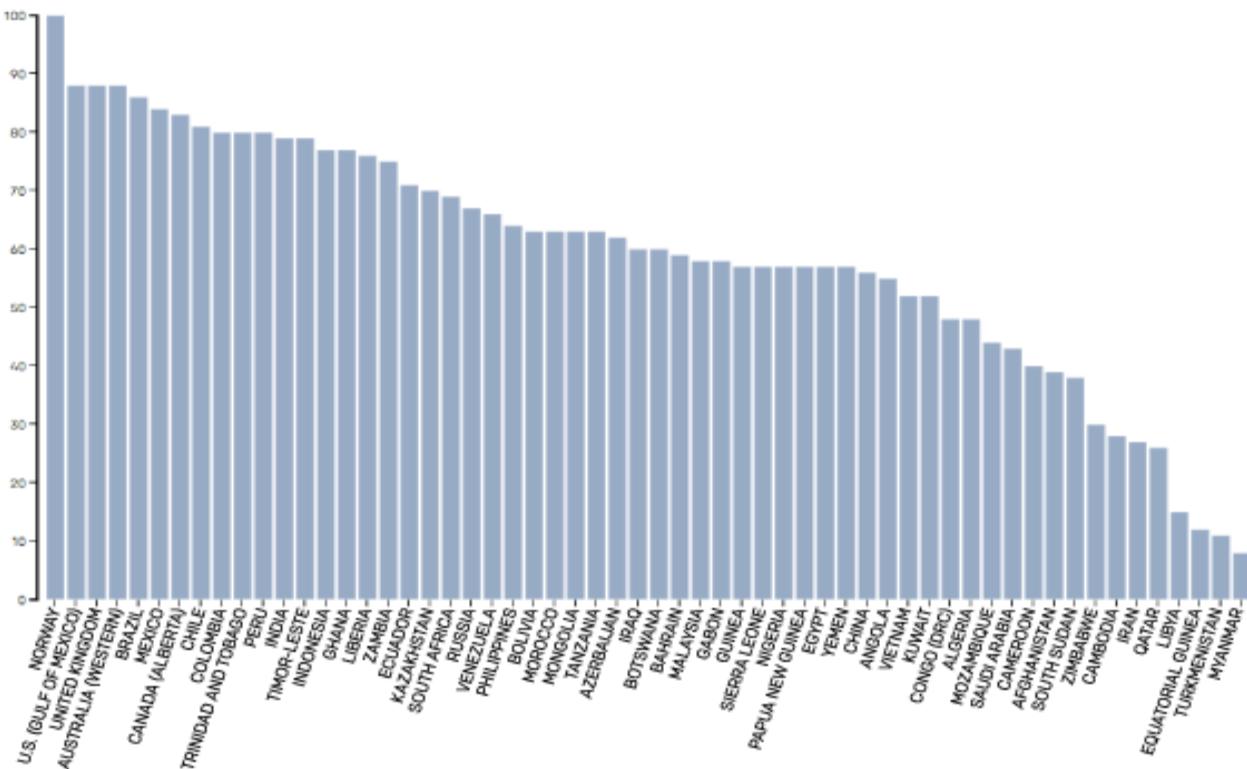
The four components of the Index evaluate different aspects of the oil, gas and mineral sector governance. Does the prevailing legal and institutional framework support transparency and accountability? What information is published about the complex and lucrative resource sector? What safeguards are in place to promote integrity in its governance? Finally, is the broader institutional environment conducive to accountability in the extractive sector? Changes in one component can affect governance as a whole. As areas of analysis and policy reform, they should be considered individually as well as collectively.

For each of the components, the following sections summarize best practices, identify what countries fail to achieve, and illustrate the findings with examples. For a discussion of the overarching findings, analysis of national oil companies and natural resource funds, a summary of the methodology and recommendations, see the full *Resource Governance Index* report.

**Institutional and Legal Setting:** *The degree to which the laws, regulations and institutional arrangements facilitate transparency, accountability and open/fair competition.*

Many countries lack laws and institutional frameworks that encourage integrity and openness, including basic transparency guidelines. Even though only 19 countries score in the satisfactory range (above 70), on average countries score higher on this component than on the other three (see Figure 5). Top performers in this component, such as Norway and Peru, have adopted freedom of information laws and their mining legislation provides comprehensive information on their mining or petroleum sector fiscal terms. Most satisfactory performers also follow an independent licensing process and collect resource revenue in a clear, traceable way.

Figure 5: Institutional and Legal Setting ranking and scores



In most countries, the RGI findings identify specific legal and institutional shortcomings that represent concrete opportunities for reform. For instance, 38 of the 58 surveyed countries lack a freedom of information law. Some of the most resource-dependent countries such as Angola and Saudi Arabia lack any reporting requirements that pertain to the oil, gas or mining sector. The Extractive Industry Transparency Initiative (EITI) can be an important vehicle for the release of revenue data. However, 38 countries have not signed up to the EITI yet.<sup>5</sup>

The licensing process presents a governance challenge for many countries as they decide how to develop their resources and who gets access to petroleum and mineral reserves. The clear division of roles and responsibilities in the award of licenses—as observed in Brazil or Chile, for instance—helps curb political influence over licensing decisions. Yet in 14 countries, including Azerbaijan and Bahrain, the licensing process is not independent from the state-owned company, raising the potential for conflicts of interest.

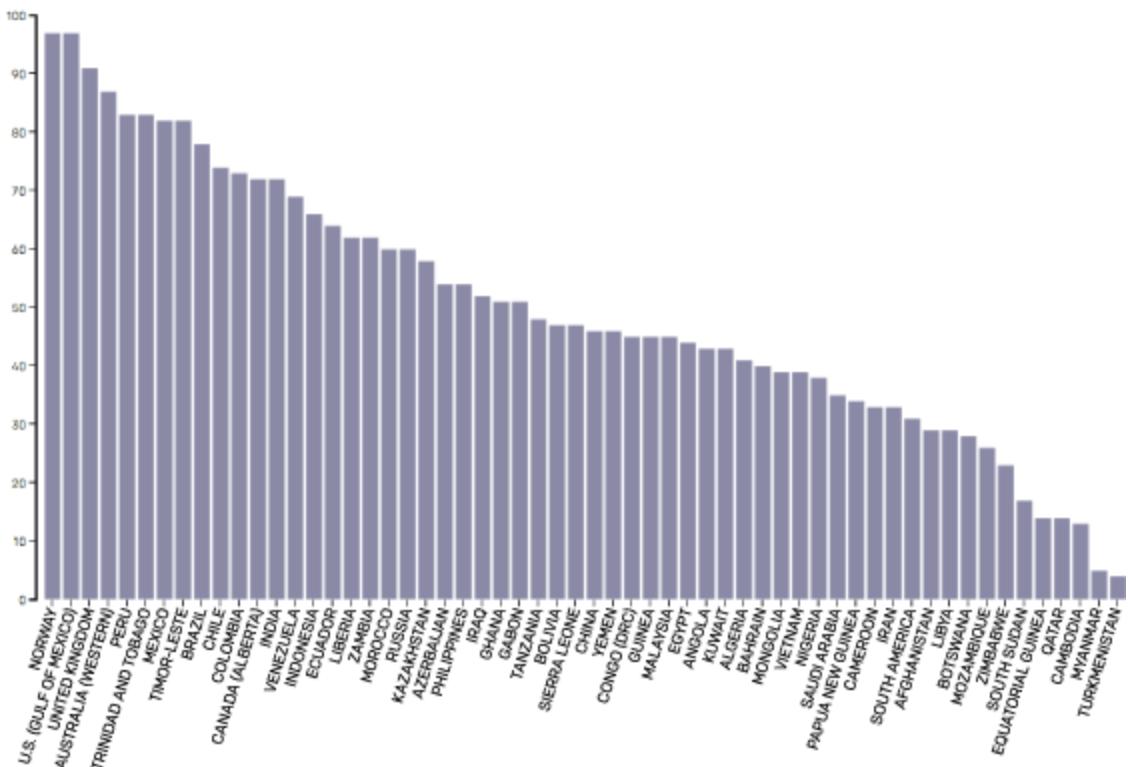
<sup>5</sup> Azerbaijan, Ghana, Iraq, Liberia, Mongolia, Mozambique, Nigeria, Norway, Peru, Tanzania, Timor-Leste and Zambia are EITI compliant. Afghanistan, Cameroon, the DRC, Gabon, Guinea, Kazakhstan and Sierra Leone have published EITI reports but are not yet compliant. Note that at the time of research in early 2012, Iraq and Tanzania had not yet become compliant countries. Sierra Leone and Yemen were candidate countries but were suspended in February 2013.

Equally important for resource governance is the clarity of the revenue collection system. When revenues bypass the normal budgetary process, the accountability around the use of those public funds can suffer. In 20 countries, including Cameroon and Venezuela, substantial resource revenues bypass the treasury and are not reported to the legislature. Often, revenue flows associated with natural resource savings funds or state-owned companies escape adequate scrutiny. The absence of these flows from the public sector balance sheet leaves information gaps, curtails oversight, and creates opportunities for corruption and mismanagement. Of the 45 countries with state-owned companies, 33 (including Iran and Nigeria) exclude the financial flows associated with these companies from their public sector balance sheet, failing to provide a comprehensive view of their public assets and liabilities. Likewise, 13 out of 23 governments which operate natural resource funds treat them apart from their national budget.

**Reporting Practices:** *The actual disclosure of information by government agencies. Because disclosure is the best indicator of transparency, this component receives a greater weight.*

Disclosure of information about operations, revenues, licensing and contracts represents the basic building blocks of a transparent oil, gas and mining sector. The RGI finds that transparency is possible—that a significant number of countries disclose comprehensive information about their oil, gas and mining operations and payments—but that this practice is not yet widespread. While 13 countries score satisfactorily, 45 countries earn scores below 70 on this component (see Figure 6).

Figure 6: Reporting Practices ranking and scores



The 13 satisfactory performing governments, such as Chile and Trinidad and Tobago, publish comprehensive, timely and periodic information about extractive sector operations and payments, including financial reports by the government agencies directly in charge of overseeing and regulating the sector, as well as state-owned companies and natural resource funds when they exist. Satisfactory performers also have several sources of information, reflecting division of roles and authority.

Comprehensive and periodic reports are important not only for the information they disclose. They are evidence of good accounting practices and technical capacity. Despite the value of this information, among countries with partial, weak and failing performance, the majority of available reports are outdated (covering years prior to 2009) or lack comparable data for previous years. When examined in more detail, 23 countries, including Azerbaijan and Liberia, lack timely information about reserves and investments in exploration. Eight countries, such as Kuwait and Turkmenistan, do not report up to date production volumes. 21 countries, including Guinea and Ecuador, do not publish timely information on primary sources of revenue such as royalties, taxes and profit shares; and the majority of surveyed countries does not publish or disclose historical information on smaller, secondary sources of revenues such as bonuses, dividends or license fees.

Countries with unsatisfactory scores also tend to have fewer sources of information on the operations and payments in the extractive sector. In Afghanistan, Cameroon, the DRC and Mozambique, the best or only reports come from the EITI, and even this data is generally outdated. Central banks sometimes

publish relevant reports (e.g. Algeria, Gabon and Saudi Arabia) but reports from the agencies directly in charge of regulating the extractive sector are often missing.

Publishing information about contracts and the licensing process is another area where the RGI reveals good practices as well as shortcomings. In 22 out of 58 countries, including Sierra Leone and Egypt, the licensing process is specified by law and governments provide information as part of the preparations for license allocations, including some contract terms, geographic data and details about the application and allocation process. However, only seven countries follow up with comprehensive disclosure about the results of the licensing rounds including bids received, winning bids and reports from the licensing authority about its activities. 33 countries, e.g. Russia and South Africa, publish scant or no information about their licensing practices. (See Box 2 on contract transparency).

*Box 2: Contract Transparency*

In recent years there has been progress towards contract transparency. Ten countries surveyed in the Index publish all or most of their contracts and licenses, including the DRC, Liberia and Peru. Azerbaijan, Ghana and Mongolia have released individual contracts which govern large extraction projects. In addition, Afghanistan and Guinea announced the disclosure of mining contracts after the close of the RGI research period. Despite this progress, contract transparency remains the exception rather than the rule.

Where contracts or licenses are available, civil society groups, journalists and public officials have used them to improve oversight. For example, in Peru, the publication of all mining licenses enabled Grupo Propuesta Ciudadana (a civil society organization) to launch a website that displays concessions, including location, ownership stakes, investment terms, production and rent generation, as well as their overlap with natural protected areas and indigenous territories.<sup>6</sup> In the DRC, civil society used published oil and mineral contracts in their research to uncover the beneficiaries of mineral extraction, and to monitor the implementation of the agreements.<sup>7</sup>

Contract transparency appears to be easier when petroleum and mining fiscal terms are standardized and established in legislation. In several countries where contracts are published—including Norway and the United States—the legal regime leaves little or no discretion to the license-awarding agency to deviate from terms and principles contained in legislation, regulations or model agreements. Where terms are standardized and discretion is limited, governments have little incentive to keep contracts opaque, since each project is governed by a generally-applicable set of rules. By contrast, in 28 of the

<sup>6</sup> [http://190.223.113.142/maplab\\_projects/gmf\\_apps/desco/desco.phtml](http://190.223.113.142/maplab_projects/gmf_apps/desco/desco.phtml)

<sup>7</sup> <http://www.congomines.org/fr/category/themes/acces-ressources/>

countries where contracts are not publicly available, the authorities do possess discretion to tailor deals to individual companies.<sup>8</sup>

Finally, environmental and social impact assessments have received attention under corporate social responsibility processes, e.g. the International Financial Corporation (IFC) sustainability standards<sup>9</sup> and the Global Reporting Initiative,<sup>10</sup> but country practices remain uneven. Almost all countries have legislation that requires environmental impact reports prior to the award of a license or project implementation.<sup>11</sup> However, only 14 countries, including Cameroon and Mexico, publish environmental impact reports after consultations and before the award of any mineral rights.

**Safeguards and Quality Controls:** *The presence and quality of checks and oversight mechanisms that encourage integrity and guard against conflicts of interest.*

The Index report reveals unsatisfactory safeguards to promote integrity in the natural resource sector. Most countries lack mechanisms for limiting conflicts of interest, curbing discretionary powers and ensuring the quality of information that is disclosed to the public. Forty-two out of the 58 surveyed countries fail to score in the satisfactory range (above 70) on this component and 16 countries fall in the failing category (below 40), pointing to major shortcomings in terms of safeguards and quality controls (see Figure 7).

Figure 7: Safeguards and Quality Controls ranking and scores

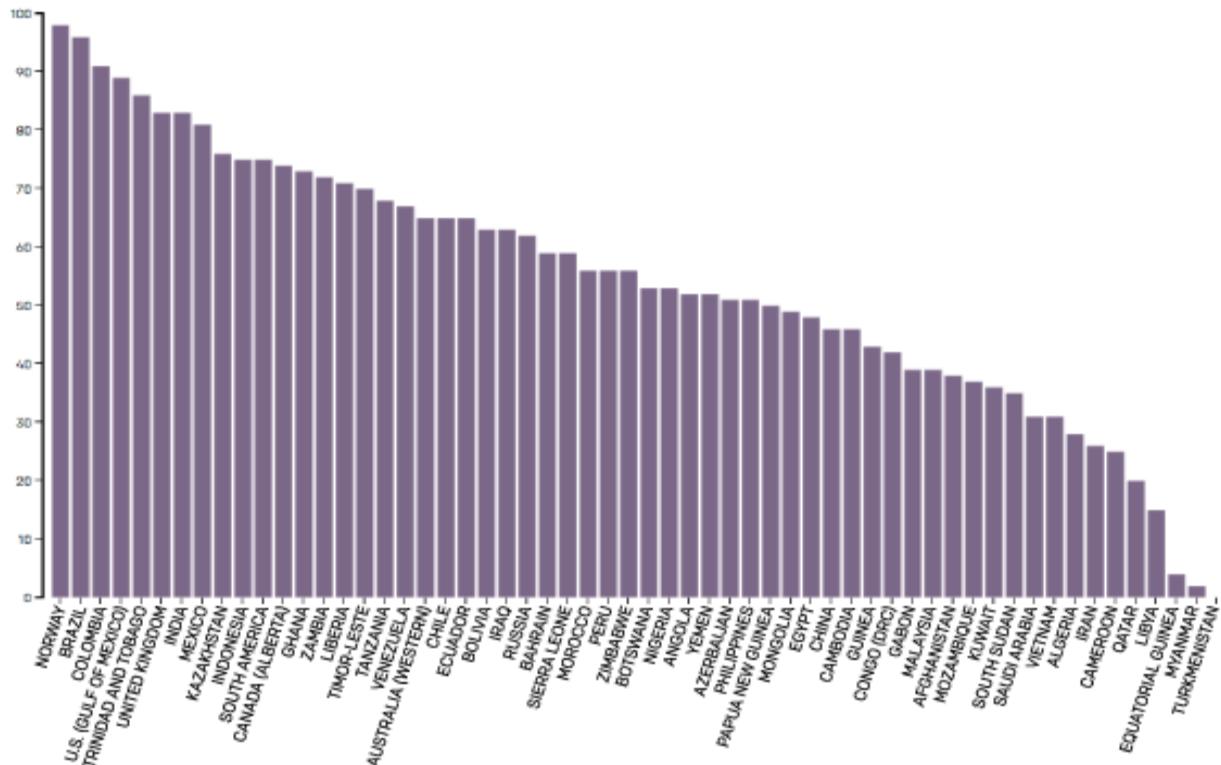
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<sup>8</sup> The countries are: Sudan, Algeria, Trinidad and Tobago, Cameroon, Libya, Nigeria, Iran, Papua New Guinea, Iraq, Gabon, Yemen, Russia, Zimbabwe, Sierra Leone, Guinea, Qatar, Bahrain, Malaysia, Equatorial Guinea, Botswana, Bolivia, Myanmar, Mozambique, Cambodia, Turkmenistan, Azerbaijan, Kuwait and Morocco.

<sup>9</sup> IFC Sustainability and Performance Standards are available here:  
[http://www1.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/IFC%20Sustainability/SiteMap](http://www1.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC%20Sustainability/SiteMap)

<sup>10</sup> The Global Reporting Initiative framework is available here:  
<https://www.globalreporting.org/reporting/reporting-framework-overview/Pages/default.aspx>

<sup>11</sup> With the exception of Timor-Leste, China, Equatorial Guinea, Libya, Turkmenistan, Iran and Myanmar.



Most satisfactory performers such as Norway and Brazil exhibit strong checks over the licensing and revenue processes. They enforce limits on the discretionary powers of the authority in charge of awarding licenses, follow due process when third parties appeal licensing decisions, audit resource revenue and ensure that the legislature oversees both licensing and revenue collection processes. Other good practices include the timely publication of high quality reports produced by relevant government agencies, state-owned companies and special funds.

The 42 countries with unsatisfactory performance share some common characteristics. 38 countries, including Peru and Saudi Arabia, do not publish the audits of government finances or publish them more than a year late. The Index found no evidence of government audits in four countries: Guinea, Myanmar, Qatar and Turkmenistan. In 31 countries, such as in Botswana and Timor-Leste, the legislature has negligible oversight of contracting and licensing processes; in 29 countries, including Chile and Sierra Leone, the legislature has very limited oversight of resource revenues. The research for this report finds that the quality of government reports on extractive revenues is very weak in 23 countries.

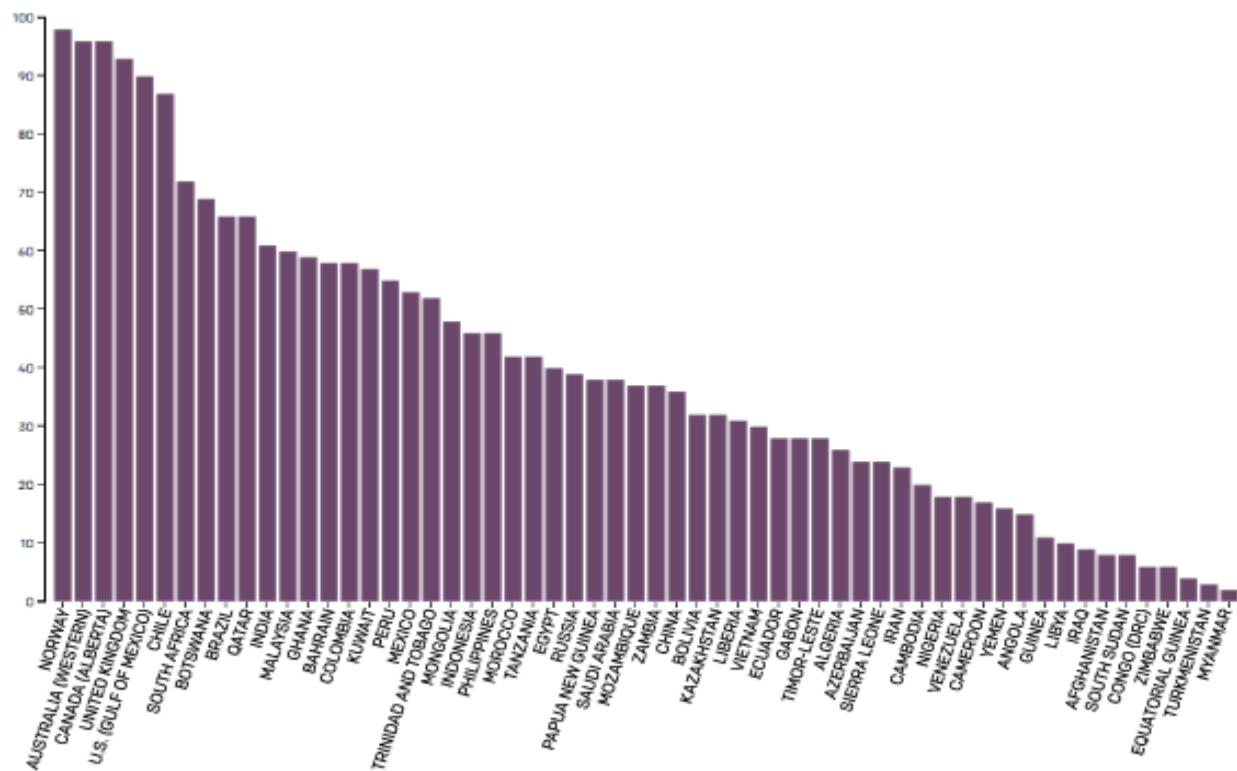
Finally, the Index assesses whether officials who manage the extractive sector, or who work for state-owned companies or natural resource funds, are required to disclose their financial interests in the oil, gas or mining sector. The Index research shows that such government officials do not disclose information about such potential conflicts of interest in 18 countries, including Canada (Alberta). In some countries, such as Malaysia, state-owned company officials are exempt from such disclosures because the company is considered to be a commercial entity. In Azerbaijan, officials are required to

disclose their financial interest – the question asked by the Index – but the government does not prohibit them (or their families) from investing in the sector that they regulate or manage.

**Enabling Environment:** *The broader governance environment, based on more than 30 external measures of accountability, government effectiveness, rule of law, corruption and democracy.*

The Enabling Environment component captures the broad governance environment in which the extractive sector operates. Thirty four out of the 58 countries receive failing scores (below 40) on this component, meaning that a majority of countries exhibits high levels of corruption, limited government effectiveness, opaque budgets, and/or the absence of democratic institutions and rule of law. Only seven countries, such as Chile and Norway, score satisfactorily (above 70) (see Figure 8).

Figure 8: Enabling Environment ranking and scores



Many countries that score poorly in the enabling environment also score poorly in the three components discussed above which specifically address the oil, gas or mining sector. However, the performance in sector specific components does not move in tandem with broader governance indicators. Several countries receive relatively lower scores on the enabling environment component, such as Timor-Leste and Liberia. These two countries exhibit a number of strong policies and practices related to natural resource transparency, an area that the current governments have prioritized. Their

enabling environment scores, however, reflect the vast governance challenges facing these post-conflict countries with weak institutions, especially in the areas of government effectiveness and the rule of law.

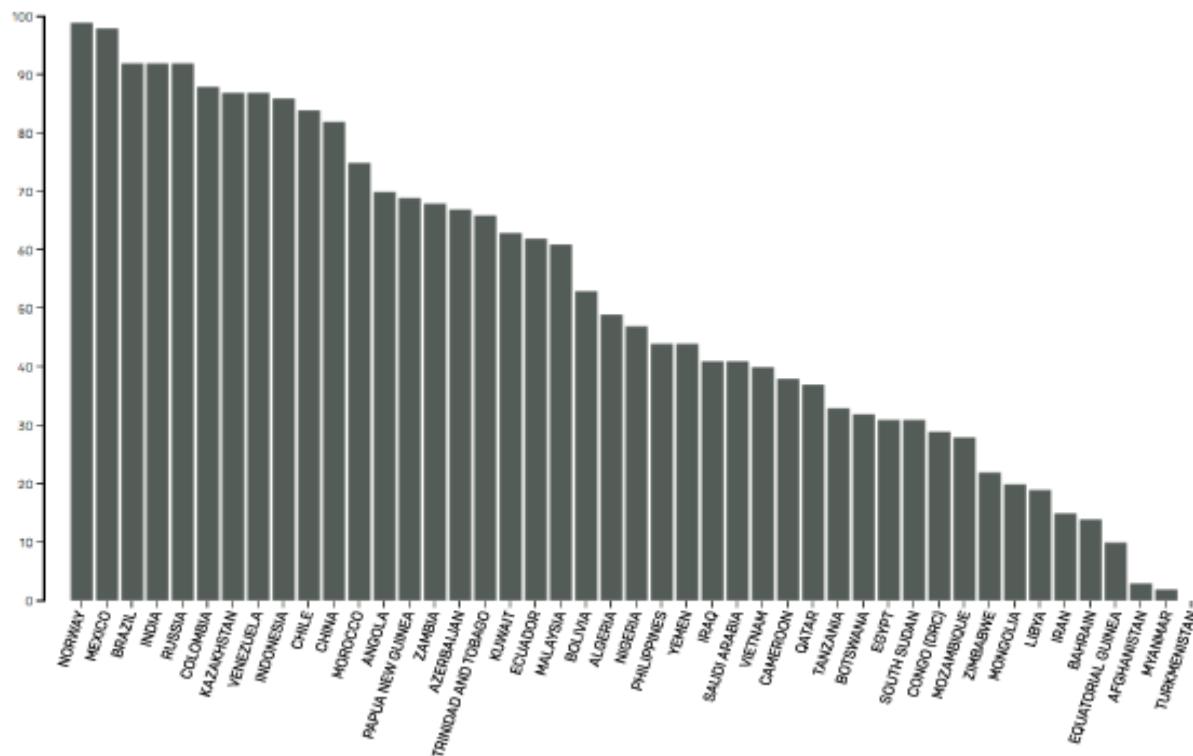
Additional countries, such as Azerbaijan, Russia and Venezuela, also score worse on this component due to their weak records in controlling corruption, protecting civil and political liberties, and fostering democratic accountability. In such environments, natural resource transparency alone is less likely to improve the ability of citizens to hold governments accountable.

South Africa, Botswana and Malaysia exemplify the contrary trend where governance and transparency in the natural resource sector appears to be areas of relative weakness when compared with the broader governance environment. South Africa topped the Open Budget Index in 2010, indicating that the government provides the public with extensive information on the central government's budget and fiscal activities. However, transparency does not extend to the extractive industries where disaggregated mining revenue data is not published. In Botswana, despite a stable political environment and high government effectiveness, very little information is actually published by the state on the mining sector. In these cases, resource governance and transparency are problem areas that lag behind the overall governance performance.

## State-owned companies

State-owned petroleum or mining companies (SOCs) are present in 45 of the 58 RGI countries and often play an influential role in sector governance. SOCs bring in more than two thirds of total government revenue in countries including Azerbaijan, Iraq and Yemen. In the mining sector, Chile's Codelco is the largest producer of copper in the world, Botswana's partially state-owned Debswana is the leading producer of diamonds and Morocco's OCP is the largest company in the country and the main producer of phosphates in the world. In countries like Angola and Nigeria, SOC functions and influence stretch across the sector—from licensing and production, to revenue collection and even direct expenditures. Given their unique institutional status and frequently high levels of authority, SOCs often operate with limited oversight and accountability.

*Figure 9: State-owned companies ranking and scores*



Note: The table below (Figure 10) provides the name of each SOC assessed by the Index.

The variation in SOC scores shows that transparency can be commercially feasible but that it has not been fully embraced by many companies (see Figure 9). Top performers such as Statoil (Norway), Pemex (Mexico) and Petrobras (Brazil) share several practices that enhance SOC accountability: legal requirements to publish reports; disclosure of audits and data on production and revenues; transparency in the risk-laden area of extra-budgetary spending; compliance with international

accounting standards; and the inclusion of SOC financial information in the national budget. Many others fall short: 18 out of 45 SOCs are under no legal obligation to report information about their operations and 28 fail to provide comprehensive reports on their activities and finances.

Two additional shortcomings revealed by the Index represent further reform priorities for some countries. First, more than half of the companies assessed (25 out of 45), e.g. in Cameroon, do not publish audited reports or publish them more than two years late. Public disclosure of financial audits is a necessary complement to strong corporate governance and SOC accountability. Twenty of the companies do publish audits in a timely fashion, demonstrating that it is a feasible practice.

Second, in 36 out of 45 countries, governments rely on SOCs to provide a range of services – from infrastructure construction to social services to fuel subsidies – that fall outside their core business and would ordinarily be associated with government agencies. More than half of these companies (19 in total) report no or limited information on these “quasi-fiscal activities.” SOCs in Bolivia, Iran, Nigeria and Venezuela, for instance, provide subsidized oil or natural gas, but publish no information on these activities.

The RGI reveals the governance deficit exhibited by many SOCs, due in part to the weak performance on the indicators highlighted above. One observation about the top performers is worth noting as it may help to explain why they do not exhibit the otherwise very common shortcomings in SOC transparency and governance. Seven of the companies assessed are only partially owned by the government, i.e. they have a mix of private and state ownership. These companies boast an average score of 80. On the other hand, the 38 SOCs which are fully owned by the state receive an average score of just 46. Six of the seven mixed-ownership companies are listed on international stock exchanges, and therefore subject to regulations that require publication of financial statements. Debswana (Botswana) is the only partially state-owned company *not* listed on an international exchange, and it ranks poorly – 32<sup>nd</sup> out of 45. Pemex (Mexico) is the only high performing SOC that is entirely state-owned. While fully owned by the government, Pemex seeks financing through bonds in financial markets in New York and Mexico, which comes with the legal requirement to report about its operations and finances. It appears that the path to good reporting practices, in selected cases, involved international listing and financing requirements.

*Figure 10: State-owned companies by country, ownership structure and commodity*

Country	State-owned company assessed by the Index <sup>12</sup>	Ownership	Commodity
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<sup>12</sup> Some countries have more than one state-owned company in the extractive sector. In these cases, the RGI focuses on the biggest producer of hydrocarbons or minerals. Countries with more than one SOC include: China (Petrochina which is partially state-owned (86%) and CNOOC which is wholly state-owned), Ecuador (Petroamazonas EP), Egypt (EGAS and GANOUE), Iraq (North Oil, South Oil, Midland Oil, Missan Oil, SOMO which is Iraq's oil exporting arm), Russia (Gazprom which is partially state-owned (75%)), Trinidad and Tobago (NGC, NPC), Turkmenistan (Turkmenneft, Turkmenneftegaz) and Zimbabwe (ZMCC).

<b>Afghanistan</b>	Northern Coal Enterprise	State-owned	Minerals
<b>Algeria</b>	Sonatrach	State-owned	Hydrocarbons
<b>Angola</b>	Sonangol	State-owned	Hydrocarbons
<b>Azerbaijan</b>	SOCAR	State-owned	Hydrocarbons
<b>Bahrain</b>	BAPCO	State-owned	Hydrocarbons
<b>Bolivia</b>	YPFB	State-owned	Hydrocarbons
<b>Botswana</b>	Debswana	Partially state-owned (50%)	Minerals
<b>Brazil</b>	Petrobras	Partially state-owned (48% of voting shares and 64% of common shares)	Hydrocarbons
<b>Cameroon</b>	SNH	State-owned	Hydrocarbons
<b>Chile</b>	CODELCO	State-owned	Minerals
<b>China</b>	CNPC	State-owned	Hydrocarbons
<b>Colombia</b>	Ecopetrol	Partially-owned (90%)	Hydrocarbons
<b>Congo (DRC)</b>	Gecamines	State-owned	Minerals
<b>Ecuador</b>	Petroecuador	State-owned	Hydrocarbons
<b>Egypt</b>	EGPC	State-owned	Hydrocarbons
<b>Equatorial Guinea</b>	GEPetrol	State-owned	Hydrocarbons
<b>India</b>	ONGC	Partially state-owned (74%)	Hydrocarbons
<b>Indonesia</b>	Pertamina	State-owned	Hydrocarbons
<b>Iran</b>	NIIOC	State-owned	Hydrocarbons
<b>Iraq</b>	Ministry of Oil	State-owned	Hydrocarbons
<b>Kazakhstan</b>	KazMunaiGaz	State-owned	Hydrocarbons
<b>Kuwait</b>	KPC	State-owned	Hydrocarbons
<b>Libya</b>	Libyan National Oil Corporation	State-owned	Hydrocarbons
<b>Malaysia</b>	Petronas	State-owned	Hydrocarbons
<b>Mexico</b>	Pemex	State-owned	Hydrocarbons
<b>Mongolia</b>	Erdenes MGL	State-owned	Minerals
<b>Morocco</b>	OCP	State-owned	Minerals
<b>Mozambique</b>	ENH	State-owned	Hydrocarbons
<b>Myanmar</b>	MOGE	State-owned	Hydrocarbons
<b>Nigeria</b>	NNPC	State-owned	Hydrocarbons
<b>Norway</b>	Statoil	Partially state-owned (67%)	Hydrocarbons
<b>Philippines</b>	PMDC	State-owned	Minerals
<b>Papua New Guinea</b>	Petromin	State-owned	Minerals
<b>Qatar</b>	Qatar Petroleum	State-owned	Hydrocarbons

<b>Russia</b>	Rosneft	Partially state-owned (50%)	Hydrocarbons
<b>Saudi Arabia</b>	ARAMCO	State-owned	Hydrocarbons
<b>South Sudan</b>	Nile Petroleum	State-owned	Hydrocarbons
<b>Tanzania</b>	STAMICO	State-owned	Minerals
<b>Trinidad and Tobago</b>	Petrotrin	State-owned	Hydrocarbons
<b>Turkmenistan</b>	Turkmengas	State-owned	Hydrocarbons
<b>Venezuela</b>	PDVSA	State-owned	Hydrocarbons
<b>Vietnam</b>	Petrovietnam	State-owned	Hydrocarbons
<b>Yemen</b>	YOGC	State-owned	Hydrocarbons
<b>Zambia</b>	ZCCM-IH	Partially state-owned (88%)	Minerals
<b>Zimbabwe</b>	ZMDC	State-owned	Minerals

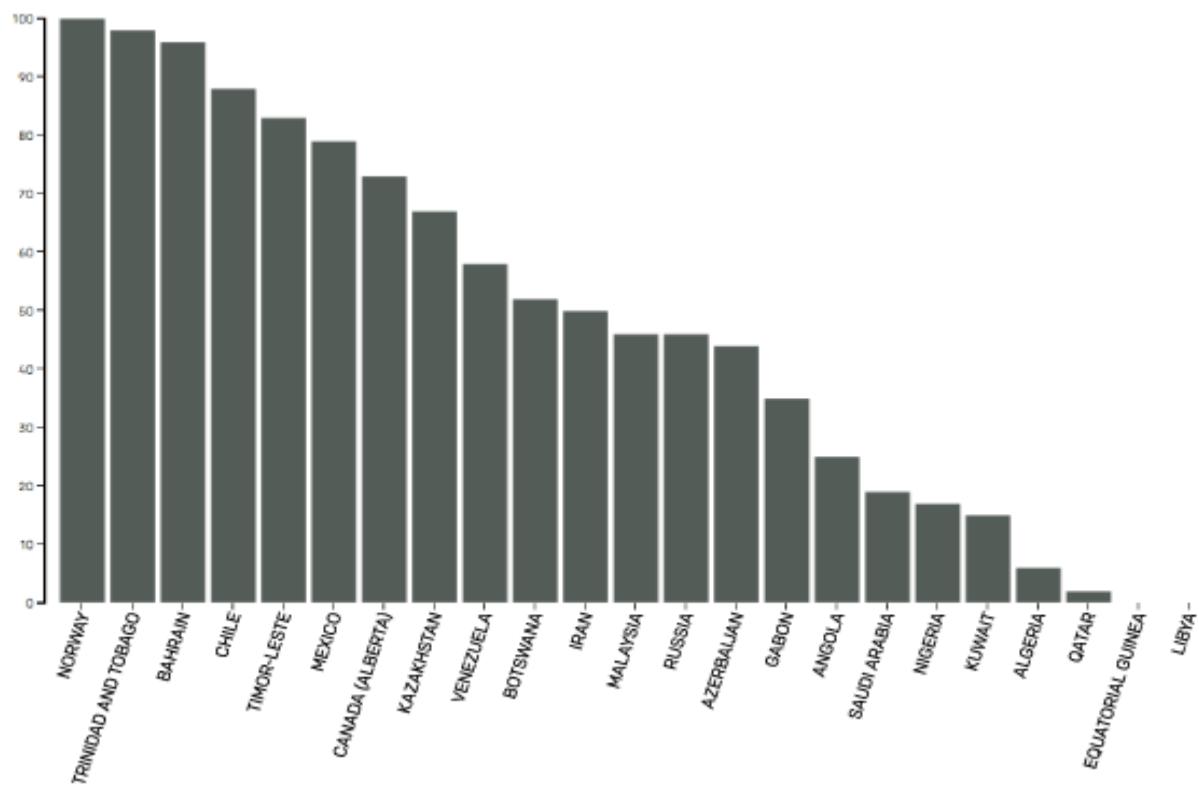
### Natural Resource Funds

The collective assets of the 23 Natural Resource Funds (NRFs) covered by the Index totaled over \$2 trillion in 2012.<sup>13</sup> These funds can serve as important tools to manage revenue volatility, balance near-term expenditures with long-term savings, and utilize resource revenues to generate sustainable economic development. However, governance risks are high since NRF financial flows can bypass the regular budget process or become vehicles for patronage and discretionary allocations.

*Figure 11: Natural resource funds ranking and scores*

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<sup>13</sup> Given the diversity of natural resource funds, the RGI evaluates funds or entities only when they share four characteristics: they are owned by the government; accumulate revenue from mineral commodities (from transfers of fiscal surpluses, export earnings and/or directly from resource payments); invest in foreign assets; and are intended to save for future generations, stabilize mineral revenue, mitigate the negative effects of capital inflows or safeguard public funds. Our definition closely follows that of a sovereign wealth fund agreed by the International Working Group on Sovereign Wealth Funds. Compare to the definition provided by the International Working Group at: <http://www.iwg-swf.org/pubs/eng/santiagoprinciples.pdf>. In addition to the 23 natural resource funds, we identify five funds, located in Australia (Western Australia-Future Fund), Colombia (Fondo de Ahorro y Estabilización Petrolera), Ghana (Stabilization and Heritage Funds), Papua New Guinea (PNG Sovereign Wealth Fund) and Sudan (Oil fund), which were created recently (in 2011 and 2012) and could not be assessed. We also noted changes to the structure or rules of existing funds in Gabon and Nigeria over the last year. Finally, in the country questionnaires, we provide information (without scores) about six special funds used to transfer revenue from mineral payments to local development programs in Guinea (Fonds d'Investissement Minier and Fonds de Développement Economique Local), Liberia (Mineral Development Fund), Mongolia (Human Development Fund), Peru (Social Funds), Sierra Leone (Mineral Development Fund), and the US (American Indian Tribes & Allottees, the Historic Preservation Fund, the Land & Water Conservation Fund, and the Reclamation Fund). Our indicators follow the Generally Accepted Principles and Practices for Sovereign Wealth Funds or Santiago Principles. See Santiago Principles here: <http://www.iwg-swf.org/pubs/gapplist.htm>



Note: The table below (Figure 12) provides the name of each NRF assessed by the Index.

NRF performance varies significantly (see Figure 11). The top five performing funds, which hail from a highly diverse group of countries, provide comprehensive and timely reports on their transactions and assets, follow legally mandated deposit and expenditure rules, perform audits, and are subject to legislative oversight. Norway's Government Pension Fund receives the highest score. The Norwegian legislature has played a central role throughout this fund's history, from the establishment of the Petroleum Fund in 1990, approving rules for the accumulation and investment of assets, to the legislation that updated its mandate and management in 2006, turning the Petroleum Fund into the Government Pension Fund Global. As the fund went through these changes, it published regular, comprehensive reports and observed high standards for oversight and control.

In contrast, many other countries lack good Fund governance standards, including in the following three key areas. The first is a basic failure to publish comprehensive reports on their natural resource funds: eight of the 23 funds reviewed publish no information whatsoever on their assets (assets which external sources estimate to total \$410 billion), transactions and investments.<sup>14</sup> In Kuwait, for instance, it is against the law to disclose information about the Investment Authority to the public.

<sup>14</sup> In Algeria, Angola, Equatorial Guinea, Gabon, Kuwait, Libya, Nigeria and Qatar, fund assets are estimated by external sources since this information is not available from the funds themselves.

The second is the absence of rules approved by the legislature for the management of natural resource funds. This gap is often compounded by a failure to publish the Fund's operating rules, as observed in 10 out of 23 countries. In 2011 Angola approved legislation to establish for its reserve fund clear goals and structure, under management by the central bank; however, the government continues to deny requests for information about the legislation. Equatorial Guinea and Libya publish no information at all about their funds' accounts, and Index researchers were unable to find any information on the rules which cover their deposits or disbursements.<sup>15</sup>

The third is the lack of legislative oversight of expenditures: in 15 countries, spending from the funds bypasses legislative approval. In Azerbaijan, the State Oil Fund (SOFAZ), which directly collects oil and gas revenue, finances "strategic projects" and circumvents the normal parliamentary budget process. In Kazakhstan, the rules for deposits into the fund are ad hoc and change every year, and the oil fund is not audited by independent auditors nor are audited reports published. Moreover, key decisions are made by presidential decree.

*Figure 12: Natural resource funds assessed in the index*

Country	Fund	Date of creation	Resource	Assets (\$ billion) 2009	Assets (\$ billion) 2012
Algeria	Fonds de Régulation des Recettes	2000	Oil	55	56.7
Angola	Fundo de Reserva do Tesouro Nacional	2004	Oil	0.2	5.0
Azerbaijan	SOFAZ	1999	Oil	13	32.7
Bahrain	Future Generations Reserve Fund	2006	Oil	14	n.a.
Botswana	Pula Fund	1994	Diamonds & Minerals	6	6.9
Canada	Alberta Heritage Savings Trust Fund	1976	Oil	14	15.9
Chile	Social and Economic Stabilization Fund /Pension Reserve Fund	2006	Copper	18	20.4
Equatorial	Fund for Future Generations	2008	Oil	0.03	0.08

<sup>15</sup> The absence of rules and reporting is particularly troubling in these countries which have evidence of past oil revenue misappropriation. In the case of Libya, the World Bank's Stolen Asset Recovery Initiative reports at least US\$416 million that may belong to the former leader of Libya or to the government. See:

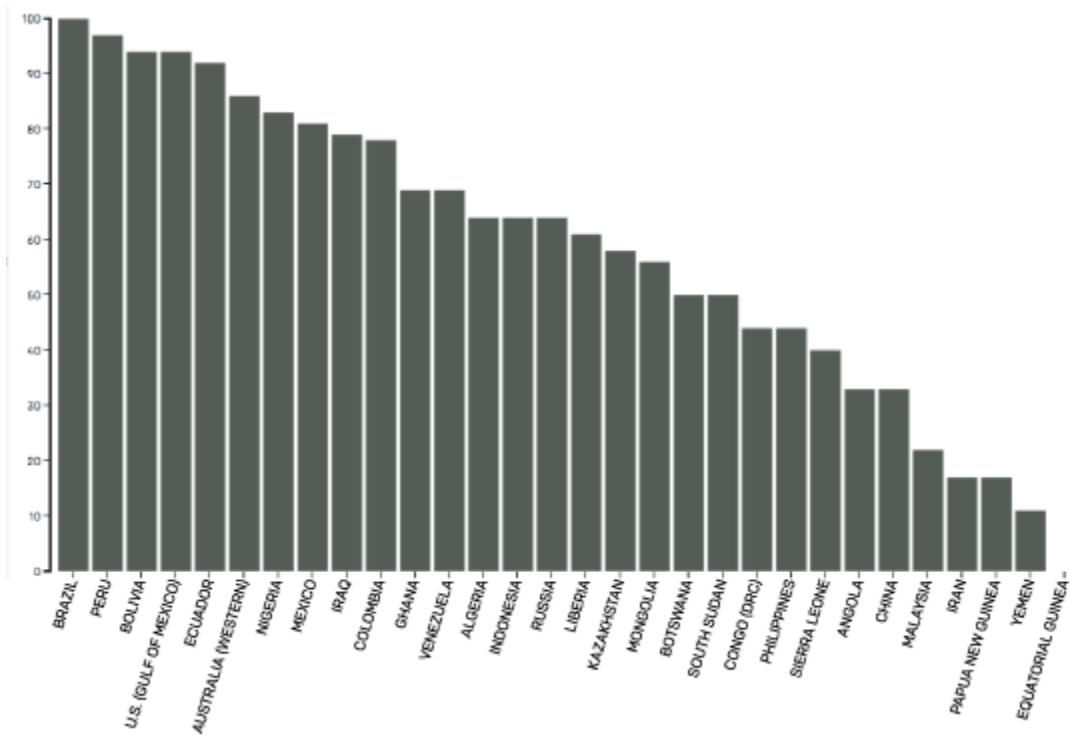
<http://star.worldbank.org/corruption-cases/node/18434>. In the case of Equatorial Guinea, there are currently three investigations into high-level corruption tied to Equatorial Guinea's natural resource wealth. The US Department of Justice opened a case seeking to seize assets tied to the son of the President, "Teodoro Nguema Obiang Mangue, known as Teodorín, alleging that he had obtained hundreds of millions of dollars through corruption. Other corruption and money-laundering investigations implicating Teodorín or other officials are ongoing in France and Spain." See Human Rights Watch News: <http://www.hrw.org/news/2012/06/15/equatorial-guinea-dc-meeting-set-corruption-details-emerge>

Guinea					
Gabon	Fond pour les Générations Futures	1998/2012	Oil	0.4	0.4
Iran	National Development Fund of Iran (Oil Stabilization Fund)	1999/2011	Oil & Gas	13	40.0
Kazakhstan	National Fund	2000	Oil	33	61.8
Kuwait	Kuwait Investment Authority	1953	Oil	203	296.0
Libya	Libyan Investment Authority	1981/2006	Oil	70	65.0
Malaysia	National Trust Fund	1988	Oil	1.8	1.8
Mexico	Oil Income Stabilization Fund	2002	Oil	6	6.0
Nigeria	Sovereign Investment Authority/Excess Crude Oil Account	2011 2004	Oil	11	1.0
Norway	Government Pension fund	1990	Oil	432	656.2
Qatar	Qatar Investment Authority	2005	Oil	70	115.0
Russia	Oil Stabilization Fund (Reserve Fund)/National Welfare Fund	2004 2004	Oil	185	149.7
Saudi Arabia	SAMA Foreign Holdings	1971	Oil	n.a.	532.8
Timor-Leste	Petroleum Fund	2005	Oil & Gas	4.8	10.2
Trinidad and Tobago	Heritage and Stabilisation Fund	2007	Oil	2.9	2.9
Venezuela	National Development Fund (FONDEN)	2005	Oil	16	30.2
All estimate of assets provided by E. Truman for 2009 and SWFI for 2012, except for Malaysia, and Venezuela that are RWI estimates for 2012. Nominal terms.					

### Subnational transfers

In 30 of the 58 countries assessed by the Index, a portion of resource revenues is transferred to regional or local governments. These transfers are often large, subject to competing claims and managed by subnational governments that may lack adequate levels of capacity and accountability.

*Figure 13: Subnational transfers ranking and scores*



Led by a cohort of Latin American countries, 10 countries publish a detailed breakdown of transfers and follow the transfer rules established in legislation (see Figure 13). Peru's regularly updated online reporting system of transfers to local governments is an example of good practice. Some countries among the top ten, however, have a mixed record. In Nigeria, the central government is obliged to report monthly allocations to state and local governments, but the same rules do not apply to subnational entities which receive the funds, nor do these rules prevent against frequent ad hoc transfers. In Iraq, the central government publishes data in its annual budgets about the share received by the regions, but the actual hydrocarbon law which would govern these allocations has not passed yet.

Twenty countries exhibit poor reporting practices on subnational transfers. Liberia, the Philippines and Mongolia publish no transfer data while reports from the other countries are unclear, incomplete or outdated. The majority of countries on this list have approved laws defining transfer mechanisms, and the transfer rules are published, but the government can change the amounts transferred without justification or approval by any oversight body.<sup>16</sup> In the DRC, the rules for transfers in the Mining Code and in the Constitution contradict each other, blurring the division of roles and responsibilities.

<sup>16</sup> Ghana, Venezuela, Indonesia, Russia, the Philippines, Liberia, Mongolia, Botswana, South Sudan and the DRC have approved laws defining transfer mechanisms and rules are published. The exceptions are Algeria, which does not publish the transfer rules; Sierra Leone, which has several un-codified but public funds; and Kazakhstan, which has not approved a law on this issue (although it approves transfers in the annual budget). In Botswana, Indonesia and Kazakhstan, the amounts transferred are approved by an oversight body.

Seven countries perform poorly in this area, scoring below 40. In Equatorial Guinea, at the bottom of the ranking, the government pledged 10 percent of oil taxes to a Solidarity Fund for municipalities; however, there is no evidence of this practice, no reports are published, and most municipalities exist only on paper. Angola, Malaysia and Yemen do not publish any information on transfers or publish only aggregated figures of overall revenues allocated to subnational authorities. All of these countries, along with China, Iran and Papua New Guinea, lack legislation that set the rules for transfers.

## **Recommendations**

Drawing on RGI findings, the following five reforms represent concrete policy responses to the widespread deficit in oil, gas and mining governance:

### **1. Disclose contracts signed with extractive companies.**

Publishing contracts helps citizens evaluate which benefits and protections their country receives in exchange for access to publicly owned natural resources, and lets them monitor whether companies and government live up to their obligations. For companies, the disclosure of contracts can strengthen their social license to operate and build public confidence in the fairness of the deal, both factors which facilitate greater stability. Governments also benefit as contract transparency can boost investor confidence, help reduce conflict between stakeholders over the terms of production, and eliminate opportunities for any single official or agency to negotiate deals in the shadows.

Ten countries surveyed in the Index publish all or most of their oil, gas and mining contracts and licenses, including the DRC, Liberia and Peru. Further indicating the spread and feasibility of this practice, the contracts associated with large extractive projects in Azerbaijan, Ghana and Mongolia have been publicly released. Following the close of the RGI research period, Afghanistan and Guinea disclosed dozens of mining contracts on centralized government websites. International bodies such as the International Financial Corporation and the International Bar Association have endorsed the practice as desirable.

Despite this progress, contract transparency remains the exception rather than the rule. Countries should adopt clear rules for the publication of all licenses and contracts and assign responsibility for maintaining the data repository to specific government agencies.

### **2. Require regulatory agencies to publish timely, comprehensive reports on oil, gas and mining operations, including detailed revenue and project information.**

Out of 58 countries surveyed in the Index, only 13 countries disclose timely, comprehensive information on natural resource operations and revenues. RGI findings reveal that sector ministries and regulators in particular fall short on transparency. In 14 countries, these institutions – the core entities charged with managing valuable resources—publish no information about the sector they oversee, and many others publish delayed or substandard reports. Publishing timely and comprehensive information to the public should constitute a core function for these agencies.

Reporting priorities include the following topics: the allocation of licenses; social and environmental assessments, and revenues. Specifically, the process for allocating licenses should be transparent, given the high value of these assets and widespread examples of how corruption can influence their award. Thirty-three countries publish scant or no information about their licensing practices, illustrating the

urgent need for progress in this area. Likewise, citizens require timely access to environmental and social impact assessments. These documents are designed to protect the public interest, so their delayed disclosure or absence in 44 countries undermines their intended purpose. In addition, revenue data should be disclosed. The Extractive Industry Transparency Initiative (EITI) has proven a useful vehicle for disclosing revenue data which non-member countries should embrace.

### **3. Extend transparency and accountability standards to state-owned companies and to natural resource funds.**

State-owned companies and natural resource funds often play a decisive role in the generation, management and allocation of natural resource revenues, yet can operate without accountability. Establishing robust reporting, oversight and audit processes is an urgent priority for country action. Only 12 of the 45 state-owned companies, and seven of the 23 natural resources funds assessed by the Index have satisfactory standards of governance and transparency.

Both kinds of entities should adopt good governance standards which include robust annual reporting on operations and finances, asset disclosures by key officials, legislative oversight and the conduct and publication of independent audits. While often semi-autonomous from the state, and therefore often treated differently than other government agencies, these entities must still operate in a transparent and accountable manner that advances the public interest.

The Index identifies strong performers which provide instructive guidance and demonstrate the commercial feasibility of transparency. Top-scoring SOCs such as those in Brazil and Norway have evolved into global industry leaders thanks in part to high degrees of openness and healthy relationships with their governments. Natural resource funds in Norway, Trinidad and Tobago, Chile and Timor-Leste receive high scores, illustrating the spread of good reporting practices to diverse quarters of the world.

### **4. Make a concerted effort to control corruption, strengthen the rule of law and guarantee respect for civil and political rights, including a free press.**

Over two-thirds of the 58 countries studied receive low scores (below the median worldwide) on national measures of corruption, rule of law and press freedom. Without a broad-based enabling governance environment in the country, natural resource transparency will not generate lasting accountability gains on its own. Civil society oversight and media freedoms should be encouraged, effective corruption control should be in place, and the rule of law should be upheld. Transparency without sanction has limited impact. Concrete strategies to significantly reduce bribery in procurement and contracts need to be put in place in many countries, and likewise reforms in judiciary and legal systems.

Freedom of expression deserves particular mention given its importance. In countries such as Angola, Azerbaijan and China, which score very low in voice and accountability, civil society activists and journalists can face strict legal constraints along with harassment and arrest. Petroleum and mining sector transparency will have little impact in such a subpar national governance environment – what use is some information if citizens cannot use it to ask questions and demand better results from their government?

## **5. Accelerate the adoption of international reporting standards for governments and companies.**

Companies that extract natural resources and the countries where these companies are based share the responsibility to advance transparency.

As a first priority, home countries should adopt legislation requiring their companies to report the payments they make to governments on a project-by-project basis, for every country of operation. Section 1504 of the 2010 U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act requires all oil, gas and mining companies listed on US stock exchanges to report in this manner. It is anticipated that the European parliament will this year require oil, gas, mining and logging companies listed on European exchanges, as well as large European-based private companies, to do the same. Key extractive industry markets including Australia, Brazil, Canada, China, South Africa and Switzerland should follow suit. In Switzerland such regulations should cover payments made to governments by commodity traders, which dominate Swiss extractive sector.

Home country governments and international organizations should also seek to reduce illicit financial outflows from resource rich countries, through the active investigation and prosecution of bribery, money laundering and other forms of corruption, and improved responses to the challenges of tax evasion. These institutions should also promote the spread of global reporting standards for contracts, licensing processes, SOCs and natural resource funds. International financial institutions in particular should take steps to mandate such reporting before providing large-scale lending to resource rich countries.

Through proactive adoption of strong reporting practices and full compliance with disclosure laws and regulations, companies can demonstrate their commitments to good governance and open, competitive markets. Along with detailed reporting of payments made to governments, companies should regularly disclose the licenses they hold and how much each produces, an account of related costs and profits, the text of contract agreements, and social and environmental impact assessments.

### **Regional and country recommendations**

Available here, the RGI regional summaries include recommendations which are tailored to the diverse findings which arose from countries in East Asia and the Pacific, Eurasia and South Asia, Latin America, the Middle East and North Africa, and sub-Saharan Africa.

The 58 country pages, found here, identify the specific weaknesses that require attention in each country, from the top ranked performers through to the bottom. Policymakers, civil society and other actors can use the country findings to formulate their own recommendations for how to improve oil, gas and mining sector governance.