

Azerbaijan

The Resource Governance Index (RGI) measures the quality of governance in the oil, gas and mining sector of 58 countries. Learn more and explore findings at www.revenuewatch.org/rgi.

Background

Azerbaijan's proven crude oil reserves are estimated at 7 billion barrels, mainly located offshore in the Caspian Sea. It produces 1 million barrels of oil a day and exported 240 billion cubic feet of natural gas in 2010. The state is heavily dependent on the extractive industries; in 2011 oil and gas income made up 74 percent of government revenue, 95 percent of exports, and 47 percent of gross domestic product.

Azerbaijan	2000	2005	2011
Population (million)	8.05	8.39	9.17
GDP (constant 2011 international \$ billion)	6.7	15.0	63.4
GDP per capita, PPP (constant 2005 international \$)	2,490	4,496	8,890
Oil and gas revenue (% total government revenue)	...	54%	65%
Extractive exports (% total exports)	87%	78%	95%

SOURCES: Oil and gas revenue as share of total government revenue from the Economist Intelligence Unit and the International Monetary Fund. All other data from the World Bank. Oil and gas revenues 2005 data from 2007.

Azerbaijan's Performance on the RGI

Azerbaijan received a "weak" score of 48, ranking 28th out of 58 countries. A "failing" Enabling Environment score undermined the country's "partial" performance on other components.

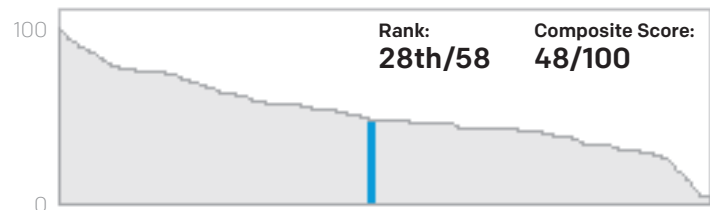
Institutional and Legal Setting

(Rank: 36th/58 Score: 57/100)

Azerbaijan earned a "partial" score of 57, its highest on any component, the product of an uneven legal framework and the government's efforts to improve transparency.

Azerbaijan has no laws specifically governing the management of hydrocarbons or the licensing process; the president approves rules for negotiations and contracts with foreign companies. The state oil company, SOCAR, grants hydrocarbon rights and participates in all production sharing contracts with foreign companies. The contracts require environmental impact assessments, which are subject to a process of public consultation.

Oil and gas revenues flow to the State Oil Fund of Azerbaijan (SOFAZ) and the federal budget. Tax revenues from SOCAR and foreign oil companies are collected by the Taxes Minis-



try and go directly into the budget, while the revenues from production sharing contracts, bonus payments, and royalties go to SOFAZ.

In 2009, Azerbaijan became the first country to achieve compliant status with the Extractive Industries Transparency Initiative. Azerbaijan adopted a freedom of information law in 2005, but state agencies have been slow to comply with its provisions.

Reporting Practices

(Rank: 22nd/58 Score: 54/100)

While the Azeri government provides detailed data on most revenues and subsidies, its "partial" score of 54 reflects a lack of comprehensive information on the licensing process, contracts, exploration, and the rules governing transfers to SOFAZ.

Environmental impact assessments are made public, but the government does not publish contracts. Provisions regarding taxes can be found on the Taxes Ministry website, and two BP contracts have been published by the company itself.

SOFAZ publishes annual reports on its website describing revenue sources, production volumes, the names of companies operating in the country, the cost of social investments, production stream values, the government's portion of production sharing contracts, royalties, special taxes, dividends, bonuses, and acreage fees, but this information is not disaggregated by company. No other agency publishes information on hydrocarbon revenues.

Safeguards and Quality Controls

(Rank: 34th/58 Score: 51/100)

Incomplete government oversight of the extractive sector countered a positive performance on audit requirements and conflict-of-interest disclosure policies, leading to a "partial" score of 51.

National law requires the parliament to ratify contracts, but in practice this oversight role is just a formality. SOFAZ reports are audited by an external auditor but not scrutinized by legislators. The parliament adopted legislation in June 2012 that will bar government officials from distributing information about companies, and the Azeri government has pursued lawsuits against reporters and editors critical of official policies, making it increasingly difficult for civil society groups to hold public officials accountable.

Enabling Environment

(Rank: 40th/58 Score: 24/100)

Poor performance on corruption control, accountability, and democracy rankings led to a “failing” score of 24.

State-Owned companies

(Rank: 16th/45 Score: 67/100)

SOCAR is wholly owned by the government of Azerbaijan and takes part in all oil and gas activities. It publishes regular reports on production volumes, the value of exports, estimates of investments in exploration and development, production costs, the names of companies operating in the country, production data by company, quasi-fiscal activities, and the

government’s portion of production-sharing contracts. SOCAR’s annual financial reports are audited by an independent external auditor and include the consolidated accounts of all SOCAR’s subsidiaries, but revenue data is incomplete.

Natural Resource Fund

(Rank: 14th/23 Score: 44/100)

A 1999 decree established SOFAZ as an “extra-budgetary institution,” giving the president unrestricted power to determine its expenditures. The parliament has no oversight role, but the fund’s financial reports are audited annually and include information on its assets, transactions, and investments.

Azerbaijan’s Composite, Component and Indicator Scores

Rank (out of 58)		Score (out of 100)
28	COMPOSITE SCORE	48
36	Institutional and Legal Setting	57
	Freedom of information law	67
	Comprehensive sector legislation	67
	EITI participation	100
	Independent licensing process	0
	Environmental and social impact assessments required	50
	Clarity in revenue collection	67
	Comprehensive public sector balance	11
	SOC financial reports required	100
	Fund rules defined in law	50
	Subnational transfer rules defined in law	..
22	Reporting Practices	54
	Licensing process	17
	Contracts	33
	Environmental and social impact assessments	67
	Exploration data	0
	Production volumes	50
	Production value	0
	Primary sources of revenue	100
	Secondary sources of revenue	100
	Subsidies	100
	Operating company names	67
	Comprehensive SOC reports	83
	SOC production data	71
	SOC revenue data	14
	SOC quasi fiscal activities	100
	SOC board of directors	50
	Fund rules	0

Rank (out of 58)		Score (out of 100)
	Comprehensive fund reports	67
	Subnational transfer rules	..
	Comprehensive subnational transfer reports	..
	Subnational reporting of transfers	..
34	Safeguards and Quality Controls	51
	Checks on licensing process	33
	Checks on budgetary process	22
	Quality of government reports	28
	Government disclosure of conflicts of interest	100
	Quality of SOC reports	50
	SOC reports audited	100
	SOC use of international accounting standards	100
	SOC disclosure of conflicts of interest	0
	Quality of fund reports	50
	Fund reports audited	100
	Government follows fund rules	83
	Checks on fund spending	0
	Fund disclosure of conflicts of interest	0
	Quality of subnational transfer reports	..
	Government follows subnational transfer rules	..
40	Enabling Environment	24
	Corruption (TI Corruption Perceptions Index & WGI control of corruption)	16
	Open Budget (IBP Index)	46
	Accountability & democracy (EIU Democracy Index & WGI voice and accountability)	16
	Government effectiveness (WGI)	22
	Rule of law (WGI)	22

■	Satisfactory	■	Weak
■	Partial	■	Failing