

## Iran



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](http://www.revenuewatch.org/rgi).

### Background

Iran is the second-largest oil producer in OPEC after Saudi Arabia, producing 4.2 million barrels a day in 2011. Oil and gas production accounted for 50 percent of government revenues and 74 percent of exports in 2010. Iran's petroleum industry is generally regarded as complex and non-transparent. International sanctions impose significant external restrictions on

Iran	2000	2005	2011
Population (million)	65.34	69.73	74.80
GDP (constant 2011 international \$ billion)	129.3	217.4	340.8
GDP per capita, PPP (constant 2005 international \$)	7,503	9,228	10,462
Oil and gas revenue (% total government revenue)	...	26%	50%
Extractive exports (% total exports)	90%	84%	74%

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. GDP 2011 value from 2009; Oil and gas revenues 2011 data from 2010.

the industry, which nonetheless generated 32 percent of gross domestic product in 2009.

### Iran's Performance on the RGI

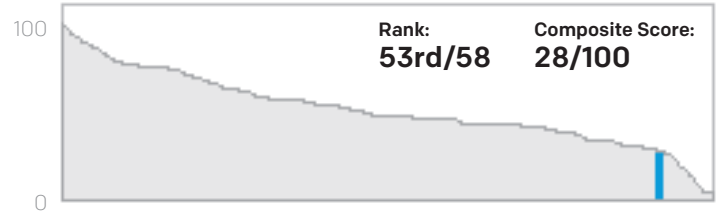
Iran received a "failing" score on all four components, leading to a composite score of 28 and a ranking of 53rd out of 58 countries.

#### Institutional and Legal Setting

(Rank: 54th/58 Score: 26/100)

The legal framework governing the petroleum sector does not foster competition or encourage public accountability, earning a "failing" score of 26.

The Petroleum Ministry grants licenses; however, it is essentially the same entity as the National Iranian Oil Company (NIOC), creating a situation in which the licensing and regulatory authority is also the rights holder. The NIOC, rather than the ministry, collects payments from subsidiaries and transfers them to the national treasury. Environmental and social impact assessments are not required, and there is no freedom of information act.



The use of "buyback" contracts, which most closely resemble service agreements, characterizes Iran's oil sector, in a system structured to keep foreign companies from owning reserves or production rights. Instead, Iran pays fees to foreign companies based on a negotiated return on their investment. As a result of opaque bidding processes, buyback contracts are often won by state-owned or quasi-private Iranian companies linked to the NIOC pension fund or the Revolutionary Guards.

#### Reporting Practices

(Rank: 56th/58 Score: 33/100)

Iran received a "failing" score of 33, reflecting insufficient disclosure on almost all aspects of the petroleum industry.

Detailed rules on the bidding process are not available. Contracts are awarded following closed negotiations and are not published. The Finance Ministry, Petroleum Ministry, and NIOC provide very little information on oil revenues; none has published an annual or quarterly report since 2004. Only Iran's central bank publishes information on resource revenues. Through its annual reports, the latest of which covers 2010, the bank provides aggregated data on production volumes, reserve levels, prices, dividends, and the value of resource exports.

#### Safeguards and Quality Controls

(Rank: 52nd/58 Score: 26/100)

Iran's "failing" score of 26 is the result of poor auditing standards and a lack of reporting requirements for state-owned companies.

However, the legislature plays an active oversight role in the oil sector. Lawmakers must approve NIOC's management policies, and annual audits of resource revenues are conducted and presented to a parliamentary committee—though the independence of state auditors is questionable. There is no way for outside entities to appeal licensing decisions, but lawmakers occasionally use their powers to void contracts with foreign companies. Government officials involved in the sector are not required to disclose potential conflicts of interest.

#### Enabling Environment

(Rank: 42nd/58 Score: 23/100)

Iran's "failing" score of 23 reflects particularly poor performance on measurements of government accountability and democracy.

## State-Owned Companies

(Rank: 40th/45 Score: 15/100)

Iran's extractive sector is dominated by NIOC and its sister companies, the National Iranian Gas Company, the National Iranian Petrochemical Company, and the National Iranian Drilling and Exploration Company. NIOC is government-owned and provides subsidized fuel as well as a range of social services. It has not produced an annual report since 2004. National authorities audit the company, but it is unclear how effective these reviews are.

## Natural Resource Funds

(Rank: 11th/23 Score: 50/100)

In 1999 Iran established an Oil Stabilization Fund, which was subsequently replaced by a National Development Fund. The

fund receives a portion of oil revenues and is nominally overseen by the Central Bank. The bank documents withdrawals and deposits, but detailed rules on these transactions and the fund's current assets are not publicly available. The government occasionally fails to make required deposits and withdraws funds with proper approval. The national audit authority reviews the fund's financial reports but does not publish the results.

## Subnational Transfers

(Rank: 27th/30 Score: 17/100)

Iran is a centralized state and lacks clear legal provisions for subnational revenue transfers. Central bank reports indicate that, in practice, two percent of subnational resource revenue is reallocated back to the province, but detailed information on these transfers is not published.

## Iran's Composite, Component and Indicator Scores

Rank (out of 58)		Score (out of 100)
<b>53</b>	<b>COMPOSITE SCORE</b>	<b>28</b>
<b>54</b>	<b>Institutional and Legal Setting</b>	<b>26</b>
	Freedom of information law	0
	Comprehensive sector legislation	67
	EITI participation	0
	Independent licensing process	0
	Environmental and social impact assessments required	0
	Clarity in revenue collection	50
	Comprehensive public sector balance	44
	SOC financial reports required	0
	Fund rules defined in law	100
	Subnational transfer rules defined in law	0
<b>56</b>	<b>Reporting Practices</b>	<b>33</b>
	Licensing process	33
	Contracts	0
	Environmental and social impact assessments	0
	Exploration data	50
	Production volumes	50
	Production value	67
	Primary sources of revenue	33
	Secondary sources of revenue	100
	Subsidies	0
	Operating company names	0
	Comprehensive SOC reports	33
	SOC production data	19
	SOC revenue data	0
	SOC quasi fiscal activities	17
	SOC board of directors	50
	Fund rules	100

Rank (out of 58)		Score (out of 100)
	Comprehensive fund reports	33
	Subnational transfer rules	0
	Comprehensive subnational transfer reports	67
	Subnational reporting of transfers	0
<b>52</b>	<b>Safeguards and Quality Controls</b>	<b>26</b>
	Checks on licensing process	44
	Checks on budgetary process	67
	Quality of government reports	33
	Government disclosure of conflicts of interest	0
	Quality of SOC reports	0
	SOC reports audited	17
	SOC use of international accounting standards	..
	SOC disclosure of conflicts of interest	0
	Quality of fund reports	83
	Fund reports audited	33
	Government follows fund rules	50
	Checks on fund spending	0
	Fund disclosure of conflicts of interest	0
	Quality of subnational transfer reports	33
	Government follows subnational transfer rules	0
<b>42</b>	<b>Enabling Environment</b>	<b>23</b>
	Corruption (TI Corruption Perceptions Index & WGI control of corruption)	27
	Open Budget (IBP Index)	..
	Accountability & democracy (EIU Democracy Index & WGI voice and accountability)	6
	Government effectiveness (WGI)	37
	Rule of law (WGI)	20

<span style="color: green;">■</span>	Satisfactory	<span style="color: orange;">■</span>	Weak
<span style="color: yellow;">■</span>	Partial	<span style="color: red;">■</span>	Failing