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.

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.

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 Ministry 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.

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.
**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.