

A Cross-country Index on transparency and governance in the oil, gas and mineral sectors

Presentation of the key elements of the upcoming RWI Index at the NRC workshop, Oxford, UK, December 6th, 2012

What the index measures, what the data is...

- **The RWI index evaluates the transparency and good governance of the oil, gas and mineral sectors in 58 countries.**
- **It also measures governance of:**
 - **State-owned companies in 45 countries**
 - **Natural resource funds in 23 countries**
 - **Subnational transfer mechanisms in 30 countries**
- **Provides a detailed and disaggregated quantitative dataset**

Revenue Watch Index Revamp: New Structure

- **Organizing principle: ‘information’ value change**
 - Framework in place supporting information to be published?
 - Type of information is published and how comprehensive is it?
 - Safeguards in place to ensure information is accurate and independent?
 - Broader institutional environment conducive to transparency?
- **Results in four components:**
 - Institutional and Legal Setting
 - Reporting Practices
 - Safeguards and Quality Controls
 - Enabling Environment

The 4 Components of the Index

1. **Institutional and Legal Setting**: assesses the laws, regulations and institutional practices that define the extractive sector.
2. **Reporting Practices**: evaluates disclosure of information regarding the extractive industries.
3. **Safeguards and Quality Controls**: measures the checks against conflicts of interest, the limits to discretionary powers, and the rules in place for the budgetary process
4. **Enabling Environment**: external governance indicators to capture the broader institutional and political environment in which the extractive sector operates

Index construction

- The data for the index is largely based on detailed Questionnaire with 191 original questions on EI governance & transparency
- Subject to common methodology, questionnaire is filled by country experts, providing quantitative assessment, which is vetted through peer reviewers
- 191 ('internal') EI questions are clustered into 45 EI indicators
- These 45 EI indicators from this questionnaire provide inputs for 3 (internal) components
- Dozens of external, 'enabling environment' governance questions are inputs to 5 (external) governance clusters, in turn used to construct the 4th component

Index structure

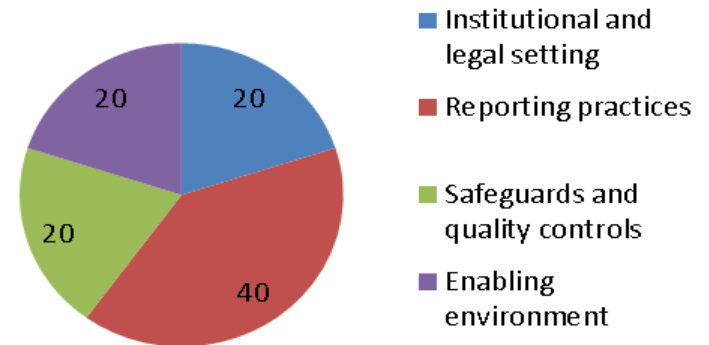
Institutional & Legal Setting		Reporting Practices		Safeguards & Quality Controls		Enabling Environment	
10 Indicators		20 Indicators		15 indicators		5 Indicators	
1	Freedom of information	1	Licensing process	1	Checks on licensing process	1	Voice and democratic accountability
2	Access to mining legislation	2	Contract transparency	2	Checks on budgetary process	2	Open Budget (IBP OBI)
3	EITI participation	3	Environmental and social impact (2)	3	Disclosure of conflict of interest	3	WGI government effectiveness
4	Independent licensing process	4	Exploration data	4	SOC quality of Reports	4	WGI rule of law
5	Environmental and social impact (1)	5	Production volumes	5	SOC audited reports	5	Corruption
6	Revenue collection	6	Production value	6	SOC International Accounting Standards		
7	Public sector balance	7	Primary sources of revenue	7	SOC disclosure of conflict of interest		
8	SOC financial reports requirement	8	Secondary sources of revenue	8	Fund quality of reports		
9	Fund rules defined by legislation	9	Subsidies	9	Fund audited reports		
10	Transfers rules defined by legislation	10	Name of companies operating in country	10	Checks on fund spending		
		11	SOC comprehensive reports	11	Government follows fund rules		
		12	SOC production data	12	Fund disclosure of conflict of interest		
		13	SOC revenue data	13	Transfers quality of reports		
		14	SOC quasi fiscal activities	14	Government follows transfers rules		
		15	SOC board of directors				
		16	Fund's comprehensive reports				
		17	Publication of fund's rules				
		18	Transfers comprehensive reports				
		19	Publication of transfer rules				
		20	Subnational reporting of transfers				

Methodological choices

- **The reporting practices component counts for 40 percent of the final composite score:**

Unequal weight reflects the centrality of disclosure practices: without reporting information rules and safeguards ring hollow.

Percentage weights for the index four components



- **Including an enabling environment component:**
 - A response to the risk of “Zombie transparency”: External governance indicators recognize the importance of critical elements to ensure accountability beyond the extractive sector in one single measure.
 - Reducing the margin of error: As an expert-based index, the accuracy and consistency of its findings internalizes the bias introduced by researchers and by peer and RWI reviewers.

Why the index matters

- The index includes 58 countries, producing more than 85 percent of global petroleum and accounting for more than 60 percent of the world's GDP and more than 70 percent of the world population.
- The 58 countries include:
 - 40 producers of hydrocarbons and 18 of minerals.
 - 40 are considered resource dependent by the IMF and 18 are not resource dependent. Among the 18 that are not resource dependent, the RWI index includes 6 countries that are large producers, 4 that are EITI, and 8 where extractive industries are important, but influence not entirely recognized or below IMF definition.
- Natural resource rents contribute an average of 25% to the GDP of the 40 resource rich countries and 18% of GDP for all 58 countries in the index.
- Extractive activities also contribute up to 95% of Kuwait's fiscal income, while Zambia receives only 4% in terms of fiscal revenue but mining contributes 27% to its GDP. On average, resource revenue contributes 48.7% of total fiscal income for resource rich countries in the index.

Objectives of the RWI index

- **Enable a dialogue across actors in the extractive sector to improve natural resource governance with an evidence-based approach**
- **Raise global attention to the priority concerns of transparency and accountability in the extractive sector**
- **Equip policymakers with a concrete guide for how to improve disclosure and governance practices along the entire value chain of resource management**

How can the index be used

A tool for:

- **Resource governance diagnostic**
- **Policy analysis**
- **Governance reforms**

Examples of uses:

- **Government officials in charge of the extractive sector can use the index as a roadmap for action.**
- **CSOs working on transparency/accountability can use the index to evaluate a country's performance, conduct advocacy campaigns and initiate discussions with government officials about specific evidence-based proposals.**

RWI index products

On the index website:

- **An interactive tool for comparing and visualizing resource governance**
- **58 detailed country questionnaires with sources available**
- **58 printable country pages with:**
 - **Specific country findings**
 - **Country results with indicators and ranks**
 - **Relevant economic and extractive sector statistics**
 - **A full database of new indicators for 58 countries**

Plus a printed report summarizing main findings.

RWI Index & NRC benchmarking

The RWI Index can support the NRC benchmarking as:

- An empirical databank regulations (e.g. contracts, laws) enabling more comprehensive benchmarking of the sector
- A normative assessment framework for transparency and accountability in the extractive sector (notably around precept 2)
- A targeted assessment of special institutions such as SOEs and resource funds
- An evidence-base for technical assistance support to governance reform

The RWI Index is not a holistic manual for broader economic reforms to resource management

RWI Index	NRC Benchmarking
Natural Resource <u>Governance</u>	Natural Resource <u>Management</u>
Multi-dimensional cross-country comparisons	Traffic-light qualitative assessment
Multiple audiences (governments, CSOs, journalists...) & countries from all income levels (e.g. USA, Norway)	Government (primary) & Low income countries

Mapping RWI Index use in NRC Benchmarking

- **In Nigeria pilot: RWI Index referenced in about 25% benchmarking questions related to precept 2.**
- **RWI Index: a reference for over 40% of the questions related to transparency and availability of information (10 out of 24).**
- **The RWI index is not used as a reference to measure accountability**
- **While Index focus is on transparency and disclosure of information, plus enabling legal and governance enabling frameworks, the RWI Index 2012 will provide a more extensive approach to transparency and accountability (for precept 2), also relevant to inform other areas such as the role of SOEs (precept 5) and the broader enabling environment for reform.**

Concluding...

- **Level of concrete data detail underscoring this Index points not only to its value as a comparative monitoring tool but also as a country diagnostic tool, where specific areas of strengths and weaknesses can be identified.**
- **Civil Society/NGOs, gov't reformists & regulators, parliamentarians, industry and the media can make use of this index, and drill down at the country level.**
- **However, for preparing a detailed and in-depth action program in a country, this tool ought to be complemented by further in-country analysis & context.**
- **Index construction is a rigorous yet imperfect science; judgment is needed. Circumspection w/r to unavoidable imprecision (margins of error) needed.**
- **Further, there are judgments regarding what questions are asked; approach and weight of components, and clustering of questions into indicators.**
- **Hence importance not to over-interpret the data results, and need to contextualize and complement with other information.**
- **Mining the rich disaggregated data (drilling down) is however warranted, without undue focus merely on the composite index score for each country.**
- **Hence a detailed web-based interactive index environment for the full data.**