

# Informed citizenry, accountable government and effective management of oil resources

Leyla Karimli's presentation

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# Research design

Research question: what are policy options for direct public participation in management of oil resources in Azerbaijan?

Main assumptions:

- ✿ resource curse is not inevitable (e.g. Botswana, Indonesia)
- ✿ transparent and accountable management of oil resources is a significant, if not necessary, component in a struggle against the “resource curse”
- ✿ in countries marked with endemic structural problems regarding representation and legitimacy, direct public participation might be more effective than participation through NGO and other representative structures

# Limitations

- ✿ limitations due to data availability do not allow testing relationship between poverty and oil-dependence in Azerbaijan
- ✿ there is no empirical evidence that transparent and accountable management of oil resources helped avoiding resource curse
- ✿ the study addresses only one of the variables that one might make use of in the struggle against a “resource curse” in Azerbaijan - improved transparency and accountability in use of oil resources

# Problem description

Danger of “resource curse” in Azerbaijan:

- ✿ resource dependence indicators
- ✿ inequality

Transparency and accountability to avoid the “resource curse”:

- ✿ SOFAZ
- ✿ EITI

Direct citizen participation vs. participation through representatives:

- ✿ representative body of public must have legitimate and formalized role
- ✿ limitations of representation through NGO

# Policy alternatives

Directly dispensing oil revenues in form of cash payment:

- ✿ Alaska
- ✿ Alberta

Fiscal decentralization:

- ✿ municipalities directly taxing oil industry
- ✿ municipalities receiving direct transfers of share of the central government's oil revenues
- ✿ municipalities receiving indirect transfers from the state budget

Public hearings:

- ✿ Caspian Revue Watch
- ✿ deliberative democracy

# Projecting outcomes of policy alternatives

| PROJECTED OUTCOMES                                | ALTERNATIVES                 |                                     |                                   |                                  |
|---------------------------------------------------|------------------------------|-------------------------------------|-----------------------------------|----------------------------------|
|                                                   | Status quo/Present situation | Alternative I (direct distribution) | Alternative II (decentralization) | Alternative III (public hearing) |
| <b>Transparency</b>                               | <b>Less</b>                  | <b>Less</b>                         | <b>Depends</b>                    | <b>Greater</b>                   |
| ▪Potential for citizens to request information    | Less                         | Less                                | Greater                           | Greater                          |
| ▪Reporting to citizens                            | Not regular, indirect        | Regular, indirect                   | Regular, direct                   | Not required                     |
| <b>Accountability</b>                             | <b>Less</b>                  | <b>Less</b>                         | <b>Higher</b>                     | <b>Higher</b>                    |
| ▪Potential for citizens to influence decisions    | Less                         | Less                                | Higher                            | Higher                           |
| ▪System via which to channel citizens' complaints | Does not exist               | Does not exist                      | Exists                            | Exists                           |



# Evaluating outcomes of policy alternatives



| INDICATORS                                             | POLICY ALTERNATIVES                                                                                           |                                                                     |                                                                                                                            |                                                                                             |
|--------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
|                                                        | Status-quo                                                                                                    | Alternative I                                                       | Alternative II                                                                                                             | Alternative III                                                                             |
| <b>Does it allow for direct citizen participation?</b> | Disclosing information about management of oil revenues does not require the direct participation of citizens | Allows for direct participation if decisions are made via referenda | Given the electoral problems and institutional challenges, direct participation of citizens will vary among municipalities | Allows for direct participation, yet incentives for participation still need to be examined |



# Evaluating outcomes of policy alternatives



| INDICATORS                                                                              | POLICY ALTERNATIVES                                                                                                                  |                                                                                                                                                       |                                                                                                                                                                                                                                             |                                                                                                                                                                                                                   |
|-----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                         | Status-quo                                                                                                                           | Alternative I                                                                                                                                         | Alternative II                                                                                                                                                                                                                              | Alternative III                                                                                                                                                                                                   |
| <b>Does it promote greater accountability of decision-makers regarding the citizen?</b> | There is little (if any) room for citizens to influence decisions. A system by which to channel citizens' complaints is non-existent | Even though citizens might have more incentives to exercise their rights, greater accountability will need reforms increasing parliamentary oversight | Citizens elect local government. Hence they have the power to hold it accountable. This, however, is subject to further reforms, ones strengthening institutional mechanisms (reporting to citizens, channeling citizen's complaints, etc.) | Provides citizens with a formalized forum via which to express their preferences and communicate complaints. Yet final decision-making does not lie with the people. Neither do they have any electoral leverage. |



# Evaluating outcomes of policy alternatives



| INDICATORS                         | POLICY ALTERNATIVES |                                                                                              |                                                                                                                               |                                                                   |
|------------------------------------|---------------------|----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|
|                                    | Status-quo          | Alternative I                                                                                | Alternative II                                                                                                                | Alternative III                                                   |
| <b>Is it politically feasible?</b> | Yes                 | Major risks of "crony appointments" and mis-management in the absence of a strong Parliament | Yes. Decentralization and the development of local self-governance is one of the priorities had by the current administration | Is feasible if authorization from central authorities is obtained |



# Evaluating outcomes of policy alternatives



| INDICATORS                                           | POLICY ALTERNATIVES            |                                                                                                                                                                                             |                                                                                                                                                                                                   |                                                                                                                                                                                                            |
|------------------------------------------------------|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                      | Status-quo                     | Alternative I                                                                                                                                                                               | Alternative II                                                                                                                                                                                    | Alternative III                                                                                                                                                                                            |
| <b>How easy is it to build up technical capacity</b> | Technical capacity is in place | The Oil Fund is already established. Additional capacity and costs will be needed to set up a nation-wide database and hold a referendum. Parliament's overseeing capacities need improving | Fiscal decentralization will improve the amount of resources available to the country. Continual efforts and substantial aid is vital to help build up the technical capacities of municipalities | Some technical capacity is available (at SPPRED, NGO and municipality levels). Additional capacity is needed to balance various public preferences with technical or scientific assessments/considerations |

# Recommendations

- ✿ Strengthen parliamentary oversight
- ✿ Improve elections
- ✿ Evolve more responsibilities to municipal level
- ✿ Build people's trust towards governance structure



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*"Abundant natural resources can and should be a blessing, not a curse"*  
Jozef Stiglitz  
The Resource Curse Revisited

**Policy Analysis**

**Other Information**

Certain measures have already been taken to ensure transparent and accountable management of oil resources in Azerbaijan.

Azerbaijan joined the EITI (Extract Industries Transparency Initiative) and the EITI National Commission has been established to ensure transparency and accountability in management of oil revenues.

[Learn more](#)

**Direct citizen participation in management of oil resources**

Azerbaijan may fall victim of the "resource curse", i.e. "inverse relationship between high natural resource dependence and economic growth rates". However, transparent and accountable governance, particularly in relation to management of oil resources, can help avoiding the "resource curse".

Attempts towards increasing transparency and accountability in management of oil resources in Azerbaijan have focused predominantly on disclosing information on oil revenues. Concept of transparency, however, shall be distinguished from that of informed public participation. "Transparency is a necessary but not sufficient component of informed public participation in democracy. To have active voice, the public, or at least a representative body of the public, needs to have a legitimate and formalised role overseeing and interacting with industry and government".

[Learn more](#)

**Policy Options**

**Global Initiatives**

The Publish What You Pay campaign aims to help citizen of resource-rich developing countries hold their governments accountable for the management of revenues from the oil, gas and other mining industries.

[Learn more...](#)

Revenue Watch works with civil society, media and policy makers in resource-dependent countries to

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