

FOLLOW THE MONEY

**A Guide to
Monitoring Budgets
and Oil and Gas
Revenues**

**Revenue Watch
Open Society Institute**

**Center for Policy Studies
at Central European University**

International Budget Project

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A Guide to Monitoring Budgets and Oil and Gas Revenues

by Jim Shultz

Based on the shared experiences of international budget activists and groups monitoring extractive industry revenues at a workshop organized by the Revenue Watch program of the Open Society Institute, the Center for Policy Studies at Central European University, and the International Budget Project, in Budapest, April 2004.



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Contents

Foreword	7
Acknowledgments	9
Executive Summary	13
I. Introduction	17
II. Civil Society Budget Work—An Overview	21
What Is Budget Work?	21
Getting Started—Important Choices	25
Ingredients that Make Budget Work Successful	28
III. Civil Society Work on Extractive Industry Revenues—An Overview	31
The Resource Curse	31
The Economic Reasons Behind the Resource Curse	34
Strategies for Change	38

IV.	Four Key Factors in Successful Budget and Revenue Work	45
	Analysis	45
	Building and Maintaining Advocacy Coalitions	56
	Effective Media Work	61
	Dealing with Public Officials	67
V.	Conclusion	73
	Appendix	77
	Meeting Participants	77
	Internet Resources	78
	Glossary	81
	Snapshots from the Field	
	Texas—Equalizing the Tax Burden	24
	Mongolia—Budget Work: Taking the First Steps	26
	Indonesia—Cracking Open the Process	30
	Chad—Seeking to Escape the Resource Curse	33
	Azerbaijan—In Search of Sustainability and Participation	35
	Kazakhstan—The Mechanics of Oil Revenue Transparency	39
	Peru—Building a Culture of Citizen Vigilance	47
	Uganda—Bringing Budget Analysis to the Grassroots	49
	South Africa—Beyond “The Poor”	53
	Mexico—Building a Coalition on Maternal Health	57
	Croatia—Filling the Information Vacuum	63
	Brazil—Forging Budget Democracy	71

Foreword

Many countries rich in natural resources squander their wealth, enriching a minority, while corruption and mismanagement leave the majority impoverished. Breaking that pattern is difficult.

Because of their resource wealth, such countries do not have to borrow money from multilateral lending agencies that might insist on fiscal transparency and good budget practices. The world's leading democracies, dependent on importing oil, gas, and minerals, often have little appetite to use diplomatic pressure to demand better fiscal practices from resource-rich countries. And multinational energy companies, which depend on good relationships with host governments to allow them to continue extracting natural resources, are also unlikely to press for good economic management.

Thus, a special responsibility falls on civil society in resource-rich countries. In this context, it becomes imperative for the people—the true owners of their country's natural wealth—to push their governments toward transparency and spending that responds to public needs.

Yet such monitoring is not easy. Lack of information, the complexity of available data, and government repression all combine to leave most citizens of resource-rich countries in the dark about how much their government is earning and how it is spending that money.

Follow the Money: A Guide to Monitoring Budgets and Oil and Gas Revenues aims to help citizens overcome these obstacles by providing practical information on how to be an effective monitor of government earnings and expenditures. It summarizes the experiences of some of the most successful budget groups in the world. Representatives of these groups came together at Central European University in April 2004 to discuss what it takes to succeed in monitoring how governments manage public money. The workshop in Budapest was organized by the Open Society Institute in partnership with the Center for Policy Studies at Central European University and the International Budget Project.

Follow the Money is the first in a series of guides to be published by the Open Society Institute's Revenue Watch program targeting different audiences—nongovernmental organizations, journalists, investors, and policymakers—in an effort to help these stakeholders promote government transparency and accountability. Ultimately, by detailing and disseminating monitoring information and strategies, *Follow the Money* aims to help lift the “resource curse” that impedes the development of many impoverished countries.

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Acknowledgments

Follow the Money is based on discussions from an April 2004 meeting in Budapest for international budget activists and groups monitoring extractive industry revenues. The meeting was convened by the Open Society Institute's Revenue Watch, the Center for Policy Studies at Central European University, and the International Budget Project.

Jim Shultz, who participated in the meeting and wrote this report, is the executive director of The Democracy Center and author of *The Democracy Owners' Manual—A Practical Guide to Changing the World* (Rutgers University Press).

Five people developed the idea for having a dialogue on monitoring budgets and extractive industry revenues: Svetlana Tsalik of the Open Society Institute's Revenue Watch program; Warren Krafchik and Jim St. George of the International Budget Project; and Violetta Zentai and Martin Tisné of the Center for Policy Studies at Central European University (CEU). They organized the meeting and contributed to the editing of *Follow the Money*. Sara Svensson, also of the Center for Policy Studies at CEU, worked on logistics for the meeting and provided support for this report.

Substantial acknowledgment goes as well to the participants in the meeting, who are listed at the end of the report, for sharing their experiences and insights, which are reflected throughout these pages.

The **Open Society Institute**, a private operating and grantmaking foundation, aims to shape public policy to promote democratic governance, human rights, and economic, legal, and social reform. On a local level, OSI implements a range of initiatives to support the rule of law, education, public health, and independent media. At the same time, OSI works to build alliances across borders and continents on issues such as combating corruption and rights abuses.

OSI's **Revenue Watch** sees the transparent use of revenues generated by the sale and transport of natural resources as an issue of great importance for regional development and the promotion of civil society. The program aims to generate and publicize research, information, and advocacy on how revenues are being invested and disbursed and how governments and extraction companies respond to civic demands for accountability. It also seeks to build the capacity of local groups to monitor government management of oil revenues and to ensure that existing and future natural resource revenues be invested and expended for the benefit of the public.

The **Center for Policy Studies** is an academic unit within Central European University, dedicated to improving the quality of governance in the region by the provision of independent public policy analysis and advice. The center believes that the experiences of post-socialist transition can be usefully shared with countries enduring great social transformation, but that the translation of these local experiences requires a sound appreciation of policy contexts. It is committed to strengthening local capacity for critical policy analysis and pursuing research and publications that are interdisciplinary and carried out with partners in the global policy community, particularly in Central and Eastern Europe and the former Soviet Union. The center works closely with institutes and researchers from Europe on a wide range of projects, offers a Master of Arts in Public Policy degree, provides an online library of policy research papers and documents, and, in partnership with the Open Society Institute, supports an annual fellowship program.

The **International Budget Project** of the Center on Budget and Policy Priorities assists nongovernmental organizations (NGOs) and researchers in their efforts both to analyze budget policies and to improve budget processes and institutions. The project is especially interested in assisting with applied research that is of use in ongoing policy debates and with research on the effects of budget policies on the poor. The overarching goal of the project is to make budget systems more responsive to the needs of society and, accordingly, to make these systems more transparent and accountable to the public. The project works primarily with researchers and NGOs in developing countries or new democracies.

Guide to Acronyms

CCSRP	Collège de Contrôle et de Surveillance des Ressources Pétrolières, Chad
CEU	Central European University
CPPP	Center for Public Policy Priorities, Texas
EITI	Extractive Industries Transparency Initiative
GDP	gross domestic product
IBP	International Budget Project
IDASA	Institute for Democracy in South Africa
IFI	international financial institution
IMF	International Monetary Fund
IPF	Institute of Public Finance, Croatia
KRW	Kazakhstan Revenue Watch
NGO	nongovernmental organization
OSI	Open Society Institute
PRSP	Poverty Reduction Strategy Process
PWYP	Publish What You Pay
UDN	Uganda Debt Network

Executive Summary

Public budgets are the instruments that governments use to set their priorities. Over the past decade an important global movement has emerged to give citizens and civil society a voice in budget issues. A key part of budget work is monitoring revenues from the extraction and sale of gas, oil, and minerals. In April 2004, the Open Society Institute, the International Budget Project, and the Center for Policy Studies at Central European University brought together civil society leaders working on these issues to determine how the best practices from budget work can be applied to the challenge of monitoring extractive industry revenues. This report summarizes their views and recommendations. The appendix provides a list of Internet resources for further reading and a glossary of terms related to budget monitoring and the extractive industry.

Civil Society Budget Work—An Overview

The heart of civil society budget work is to engage and mobilize the public by showing how budget numbers relate to issues that affect people's daily lives—from public health to education to wealth distribution. A special priority is assuring that public funds are used to meet the basic needs of society, especially the needs of the poor. There are six main forms that civil society budget work can take, often in various com-

binations: 1) simplifying and disseminating budget information; 2) identifying and setting priorities; 3) influencing revenue policies; 4) identifying trends and providing projections; 5) highlighting best practices; and 6) tracking revenues and expenditures.

Civil society budget work starts from many different places—anticorruption campaigns, human rights demands, monitoring debt relief, and from specific issues such as women’s health and children’s services. As groups choose the focus of their budget work, they will face important strategic questions: How will they balance analytic and advocacy work? Should they be a government ally or critic? Will they focus on long reports or shorter articles? Do they build analytic capacity in-house or do they contract out for it? This report provides some approaches and answers to these questions.

Civil Society Work on Extractive Industry Revenues— An Overview

Significant research reveals the paradox that, instead of benefiting countries’ economies and political systems, extractive wealth is far more likely to have the opposite effect—a phenomenon known as the “resource curse.” The negative effects of resource wealth include greater poverty, lower growth, and slower development, with resource-rich countries ranking near the bottom of most measures of human development. Another effect is corruption and weak democracy, with natural resource wealth becoming a powerful incentive for authoritarian rule. Resource wealth is also a clear contributor to violence and civil wars as the desire to control resources takes its most extreme form.

What links resource wealth to such deep economic and political problems? Oil and gas development are capital-intensive industries that do not create significant employment. Countries that are resource-rich often become reliant on the revenues from those resources, which are subject to sudden downward price shocks. A large influx of foreign funds also puts upward pressure on a country’s local currency, hurting markets for other local goods. Extracted resources like oil and gas are nonrenewable and eventually run out; when they do, revenues dry up as well. Lastly, resource revenue can cover up poor governance as short-term but plentiful revenues shield government from hard choices and efficient operation.

Civil society groups working on extractive revenues are pursuing a number of important strategies for change. At the national level, groups are demanding transparency from their governments and from corporations involved in resource extraction. They are demanding that extractive industry revenues be directed toward long-term national investments. And they are demanding a direct role in the oversight

of how these funds are received and spent. Civil society groups are also working to develop the public's ability to understand and influence these issues.

At the international level, several important initiatives are promoting transparency and public participation on budget and extractive industry issues. The Publish What You Pay campaign calls for the mandatory disclosure of payments made by oil, gas, and mining companies to host governments. Global Witness takes aim at the link between natural resources and violent conflict and human rights abuses by releasing hard-hitting reports that spotlight the officials and interests that shape budgets and control natural resources. The Open Society Institute's Revenue Watch program produces research on the management of revenues in resource-rich countries and provides support to local budget watchdogs. Central and Eastern Europe Bankwatch, a network of NGOs from 12 countries, builds citizen awareness and participation around specific development projects, including oil and gas extraction. The Extractive Industries Transparency Initiative, launched by the British government, seeks extractive revenue transparency by encouraging voluntary agreements between corporations and governments.

Four Key Factors in Successful Budget and Revenue Work

There is a growing consensus that successful civil society involvement in budget and resource extraction issues depends on four important factors:

Analysis

Solid analytic work is the foundation of almost all civil society action on budgets and revenues. Groups must first obtain needed information by demanding access to government reports and data and by developing other sources ranging from leaks by officials to research at the community level. Groups have to develop the capacity to analyze the information and determine what questions are the most important to answer in order to advance their policy goals. It is then critical to translate that analytic work into an understandable form for the public, the media, and policymakers—and to disseminate it widely.

Building and Maintaining Advocacy Coalitions

Effective coalitions can add a good deal to advocacy work. They can strengthen an effort's political clout and link the technical side of budget work with grassroots understanding and participation. Generally, strong coalitions begin with a common goal and

leadership that can motivate groups to join and participate. Coalitions, as they take on longer-term issues, may also need to establish a structure that allows them to function without unnecessary debates over power and control.

Effective Media Work

Dealing strategically and competently with the media is a fundamental element of effective advocacy. Through the media, groups can build public awareness, break the government's monopoly on information, and influence the actions of public officials. Groups need to choose the forms of media—print, radio, television, or the Internet—that best meet their goals. They need to make their stories compelling and newsworthy and have a solid strategy for getting information to journalists. Also important is building ongoing relationships with journalists and increasing the media's own capacity for covering these issues. Groups should also consider disseminating their messages through their own newsletters, newspaper inserts, and other formats.

Dealing with Public Officials

The ultimate objective of civil society work is to engage public officials and push them in the direction of civil society's agenda. Civil society advocates have to pay attention to many parts of government all at once: leaders in the executive branch, mid-level technocrats, the legislative branch, auditors, local officials, and others. Groups have to consider how cooperative or adversarial to be with officials. They also need to determine what strategies they will use to engage officials, from informal information sharing to the creation of formal processes and structures for citizen participation.

In the end, while there are some important distinctions between the two, budget work and extractive sector revenue work are not that different. Work on extractive sector revenue issues is an important part of budget work and will become even more so in the years ahead. By promoting public understanding and involvement in budgets and the revenues received from extractive industry, civil society is making public budgeting more effective while strengthening democracy.

How much are governments in resource-rich countries earning from oil and gas operations and is it a fair share?
How are these funds being spent and to what effect?

I. Introduction

Public budgets are the instruments that governments use to set their priorities—to determine, for example, how much they will invest in maintaining public health, providing for public education, and alleviating poverty.

Over the course of the past decade an important, global citizen movement has emerged to give citizens and civil society a voice in public budget issues—through monitoring, analysis, and a host of advocacy activities. From these various efforts in rich and poor countries throughout the world, civil society groups have learned some important and invaluable lessons.

What governments have to spend in their budgets depends on what governments take in through their tax and revenue systems. In many nations, especially poor ones, a key source for these public funds is the revenue generated from the extraction and sale of gas, oil, and minerals. Yet in many of those nations, government budgets receive only a small fraction of the revenue thus generated—and the people receive little or no benefit from the country's natural wealth, which rightfully belongs to them.

A key emerging area of budget work, therefore, is monitoring and advocacy regarding extractive industry revenue. Civil society groups are pursuing monitoring and advocacy by asking the following basic questions:

- ▶ How much are their governments earning from oil and gas operations and is it a fair share?

- ▶ How are those funds being spent and to what effect?
- ▶ How can the public be more vigilant and participate more effectively in decisions on the collection and expenditure of these funds?

New projects are underway on these issues, and monitoring extractive industry revenues will be an area of growing attention for budget groups in many nations.

The April 2004 meeting in Budapest brought together key civil society leaders working on budget and extractive industry revenue issues. Participants from Asia, the Middle East, Africa, Latin America, Eastern and Western Europe, and the United States represented a range of experience in specific countries and internationally. Their objective was to identify the best practices from budget work that could be applied by civil society organizations to monitor how their governments are managing oil, gas, or mining revenues.

Follow the Money, which is based on that April meeting, begins with an overview of civil society budget work—what it is, why it is important, its main elements and strategies, and the factors that contribute to its success. The report then shifts to an overview of the economics and politics of extractive industries—what is happening around the world, the main battles around mineral and petroleum extraction, and how organizations are responding to what is commonly called the “resource curse,” in which extractive wealth translates into both weaker economies and weaker democracies.

The report then focuses on four key factors for success in budget and extractive industry revenue work:

- ▶ *Analysis*: What should civil society groups be studying and how?
- ▶ *Organizing and Coalition Building*: What are the potential alliances and joint efforts that can give work on these issues more political clout?
- ▶ *Media and Public Education*: How can groups working on budget and revenue issues move their information beyond the world of a handful of experts and more fully into the public eye?
- ▶ *Dealing with Public Officials*: How can civil society organizations working on these issues engage public officials to change and influence public policy?

The report identifies key lessons to help guide others to be more effective in their advocacy work and concludes with summary reflections.

The report also contains brief snapshots of budget and extractive industry work in action, drawn from larger case studies written by the Budapest meeting participants. These snapshots offer a glimpse into how groups around the world are tackling the challenge of inserting civil society and citizens into policy debates about how governments manage their money—debates that are essential yet too often treated as private matters from which the public is excluded.

The insights and lessons offered here synthesize ideas expressed by more than two dozen participants from across the globe. Together, our goal is to create a tool that citizens can use to help make their voices heard and their influence felt for greater justice and equity in the spending of public monies.

Does the budgeted money actually arrive at the local school or clinic?

What is it buying?

“At times people at the highest levels of government are as frustrated as local communities by the fact that they do not know what happens to funds after they are budgeted.”

—JIM ST. GEORGE

II. Civil Society Budget Work— An Overview

“The opening challenge of civil society budget work,” explained Jim St. George of the International Budget Project (IBP), “is to take a fundamentally boring topic and make it interesting.” For most people a budget is just a stack of pages crammed with numbers, unintelligible, uninteresting, and unimportant—except to a handful of analysts and economists. However, behind the numbers are some of the most crucial issues that a community or a nation must address—the quality of its schools, the availability of health care, income support, services for children and women, investment in infrastructure, assistance with housing, and many other public concerns.

What Is Budget Work?

The heart of civil society budget work is to translate numbers into issues and concerns that people care about, and to organize public action that can have an influence on policy. Most civil society budget work is also dedicated to the principle that the first priority of public spending is to match resources with needs. Many civil society budget

groups believe that the interests of low-income people are underrepresented in the budget process and make these concerns a top priority.

According to St. George, budget work can be divided into six main categories, with most groups undertaking some combination of these activities:

1. Simplifying and Disseminating Information

Budgets appear to be complicated collections of numbers. But if read carefully, they reveal basic policy choices. A key task of budget work is to translate this complexity into simplicity, to lay out the policy choices in a way that the public, the media, civil society groups, and policymakers can understand.

Once the information is simplified, the aim of budget groups is to get it into people's hands. Groups in countries such as Peru, Croatia, Mexico, and Uganda actively provide budget trainings to civil society advocates, the media, and policymakers. They seek to open up opportunities for citizens and groups to participate more actively in the budget-making process.

2. Identifying and Setting Priorities

Public budgets are primarily about allocating scarce resources. Even in the wealthiest nations, there is never enough money to meet all the demands on the budget. The main role of budget policymakers is to balance those demands, to decide what to support and what to reject. Civil society budget work illuminates the choices and helps citizens express their own views on which programs and needs ought to take priority. "How important, for example, is public safety compared to making medicine available to poor children?" St. George asked.

3. Influencing Revenue Policies

The flip side of the choices that governments make about spending funds are the choices they make about raising revenue. This is an important new area for civil society budget work. Many groups and interests care about getting the government to spend money appropriately: better education, more health care, improved transportation, and so on. Far fewer concern themselves about how much money is raised and where that money comes from. At stake in debates over revenue policy are questions such as the following:

- ▶ How much should the government spend overall on implementing its macroeconomic policy?
- ▶ Is the tax system fair in terms of how the burden of taxes falls on the poor vs. the affluent? Are commercial interests such as the extractive industries paying their fair share?

- ▶ Should governments enter into debt to finance certain programs and, if so, how deeply?

Budget groups are weighing in on these issues more substantively each year.

4. Identifying Trends and Providing Projections

Budget groups often identify trends in spending over time—for example, finding increases or decreases in education spending or the amount of government spending as a percentage of gross domestic product (GDP). Similarly, budget groups provide useful projections that government either has not produced or does not want people to know about. They can project the long-term costs of spending programs or tax proposals. They can match demographic trends to government finances. In the mineral extraction field, budget groups can counter government plans based on assumptions that mineral resources will last forever by providing projections about how long revenue streams are really likely to last.

5. Highlighting Best Practices

“One of the things budget groups do in various countries is showcase what other countries do well as a way to prod their own governments,” St. George said. “This is particularly true around issues of transparency—the types of information available and the ease of access—but is also relevant for issues like AIDS funding or health care issues and eventually, we hope, tax policy.”

6. Tracking Revenues and Expenditures

Civil society budget work does not end with the numbers printed on a budget page, which say where government funds are supposed to go and in what amount. The ultimate questions are: Does that money actually arrive at the local school or the local clinic in the budgeted amounts? What is it buying? What effect is it actually having on people’s lives? The answers to these questions interest not only communities and civil society groups but also government officials. “At times people at the highest levels of government are as frustrated as local communities by the fact that they do not know what actually happens to funds after they are budgeted,” St. George said.

In Uganda, the Uganda Debt Network (UDN) has pioneered community-level monitoring of budget funds and expenditures. Other budget groups, such as IDASA in South Africa, are starting to develop methodologies for evaluating the effectiveness of programs to answer the question: What are we actually getting for the money we spend?

SNAPSHOTS FROM THE FIELD

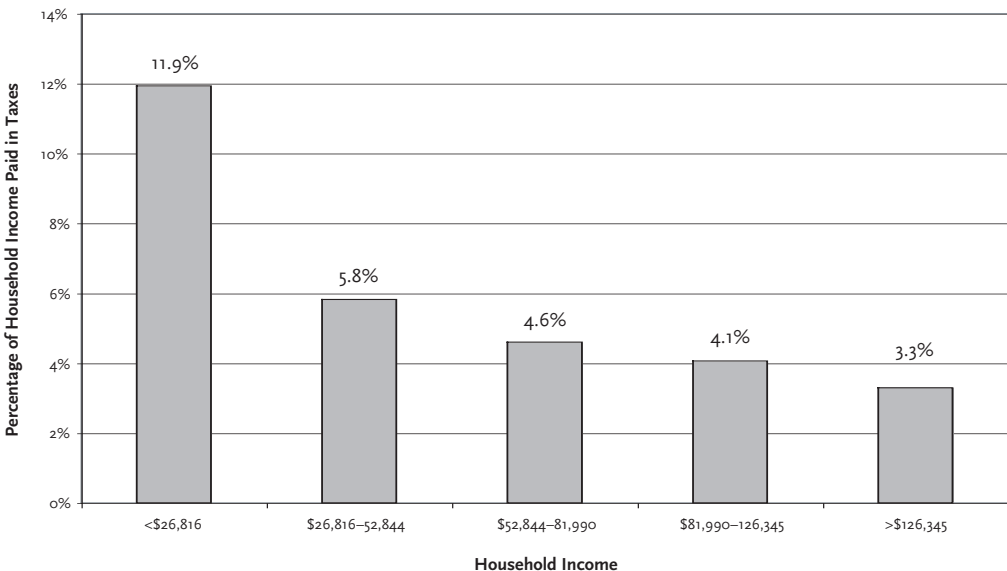
Texas—Equalizing the Tax Burden

In civil society budget work, it is much easier to get groups interested in working on the expenditure side—getting their programs funded—than on the revenue side. “People are afraid of looking at revenues because they feel that they might not know enough to get involved,” said Dick Lavine of the Center for Public Policy Priorities (CPPP) in Texas.

While governor of Texas in 1997, George W. Bush put the issue of revenues squarely on the table with a proposal to slash property taxes by \$1 billion. According to Lavine, the center saw a serious problem in the Bush proposal. Reducing property tax with a set of new taxes on consumption (a sales tax and a value-added tax) would result in a major shift of the tax burden downward on the income scale; it would make the tax system far more regressive. The center went to work to draw public attention to that weakness in the governor’s plan.

“There was no source within state government for estimates of the tax incidence of the plan,” Lavine said. “We turned to Citizens for Tax Justice, a Washington, D.C., tax research and advocacy organization, which was able to provide us with estimates of the impact of the overall plan on families of different income levels. They also updated these estimates as the plan changed during its progress through the legislative process.”

**Texas Households With the Lowest Income in 1997
Paid the Highest Percentage in State and Local Taxes**



To turn that data into an image that could make the issue clear to policymakers and the media, Lavine described how the center created a poster-sized chart (reproduced on the previous page) showing the already regressive nature of Texas’s tax system. “Because of its large size and striking colors, the chart became well-known within the Capitol and helped demystify the concept of regressivity,” Lavine said.

In the end, the Texas legislature approved an alternative property tax reduction measure that was not as regressive as the one originally proposed by Bush. However, the center’s focus on the issue of regressivity produced an important side victory—a statute requiring the state’s chief fiscal officer to publish, on a regular basis, a “tax incidence” study outlining how the state’s major taxes and tax exemptions affect families according to their incomes. Lavine said, “There is now much higher awareness of tax equity as an important consideration.”

Getting Started—Important Choices

Civil society budget work starts from many different places. In Mexico, FUNDAR traces its budget work to a lawsuit that it brought against the Mexican president to open up records to a secret presidential fund. In Uganda, budget work began with the UDN’s campaign for debt relief. In Croatia, the Institute of Public Finance (IPF) started as an academic think tank; now it carries out applied analytical work on the national budget. Civil society work on budgets has grown out of human rights work, anticorruption campaigning, women’s rights activism, and many other kinds of projects.

There is no one right place from which budget work can begin. However, there are some considerations and choices to be made about how organizations want to equip themselves, carry out their work, and position themselves politically. The IBP’s St. George identified four key issues that organizations need to consider:

1. Analytic Think Tank vs. Advocacy and Coalition Building

Budget work exists along a spectrum. At one end is pure academic analysis that makes no active effort to influence policy and is more likely to focus on long-term issues rather than immediate topics in the current public debate. At the other end of the spectrum is advocacy work aimed at changing public policy, but without any real analytic capacity to support the advocacy positions. “You need to be somewhere in the middle for the best budget work,” St. George said.

Changes in budget policy rarely happen just because someone provided the right piece of information at the right time. Budget groups need to consider how much effort they will put into recruiting, educating, and organizing allies to lend political support

to the positions that come out of their analysis. Again, it is a question of balancing analysis on the one side with advocacy and coalition work on the other. “The best balance,” St. George said, “is analysis married to advocacy.”

2. Government Ally vs. Government Critic

Budget groups need to sort out what kind of relationship they want to have with government officials. Will they be harsh and public in their criticism or will they try to maintain cordial relationships and seek influence through the quiet sharing of information and analysis? Is the group more oriented toward an “inside strategy” of relationship building or an “outside” strategy of confrontation? Many budget groups at the Budapest meeting reported both kinds of relationships. Katarina Ott from the IPF in Croatia noted that when a political party was in office it would sometimes be hostile to IPF criticism while the opposition party would be a strong ally. When the the roles of the political parties switched, so did their attitudes toward the IPF. “People who did not notice us or were critical while they were in power started consulting us,” Ott said. “Sometimes, it can be really quite amusing.”

The key for all budget groups is to maintain independence, to be credible, and to base their positions on the issues rather than the political alliances or conflicts those positions might produce. St. George called this being a “critical ally,” meaning that the budget group is regarded as a crucial ally by all political actors while maintaining enough independence to freely criticize each actor whenever necessary. In countries with repressive regimes, personal safety is a legitimate consideration in deciding how critical a group or advocate can afford to be toward the government.

SNAPSHOTS FROM THE FIELD

Mongolia—Budget Work: Taking the First Steps

Once a satellite of the Soviet Union, Mongolia has undertaken both market and political reform for the past decade. Civil society groups are trying to make the monitoring of public budgets a part of that historic change. “In general, monitoring of the government’s activities has not been a widespread practice in Mongolia,” Dorjdari Namkhajantsan of the Mongolian Foundation for Open Society said. “NGOs lack skills and finances to do monitoring activities, the public has little belief in the findings of the few monitoring attempts, and the government is dismayed or displeased with these attempts, believing it

is only their business.” According to Namkhajantsan, when some citizen groups asked the Ministry of Finance and Economy for copies of the budget the Ministry replied that it “was too expensive to print.”

Nevertheless, a few initial steps toward citizen budget work can be reported. In January 2004, the Open Society Forum, in collaboration with the World Bank, convened a public meeting to discuss the budget process and look at the proposed 2004 budget. The World Bank and IMF have also made increased budget transparency a condition of recent loan packages. At the local level, the NGO Women for Social Progress worked with one governor to publish budget information in the group’s local newspaper.

The Mongolian Foundation for Open Society has identified the next steps toward effective budget monitoring and advocacy. “A good beginning would be to attract the interest of two to four NGOs to devote a significant amount of their time to budget work,” Namkhajantsan said. Supporting better media coverage is also a priority. Namkhajantsan observed that Mongolia’s media lacks the skills, the funding, and the political independence to cover budget issues effectively. The foundation also wants to engage the relevant public officials, with an aim toward building relationships and increasing those officials’ own capacities in the budget area. “They might simply not have the needed information or skills themselves,” Namkhajantsan said.

3. Large Studies and Reports vs. Short Briefs

Groups doing analytic work on budgets need to decide what kind of material they will produce—long reports or short briefs or something in between. “Large reports tend to work well if you need a doorstop or a heavy paperweight,” joked St. George. Still, larger studies are often important in establishing the organization’s credibility on a particular topic and providing the background research needed for shorter analyses.

Ultimately, budget analysis is only useful if it will actually be read and understood by key audiences—policymakers, the media, civil society groups, and the public. Many budget groups focus their work on shorter briefs and newsletters. “We started publishing relatively popularly written newsletters and sending them to members of parliament, parliamentary committees, ministries, agencies, the media, and NGOs. We also put them on our website,” Ott said. Her group quickly found those brief reports quoted by members of the government and in media stories. Budget groups should produce a variety of types of information, depending on what is needed for a given issue and in a given situation. The guiding rule, however, is that more words are not necessarily more effective.

4. Internal Capacity vs. Analytic Alliances and Contracting Out

Lastly, budget groups need to decide what kind of analytic capacity to have within their organization (through the hiring of analysts) and what analytic work is better contracted out to expert consultants. Certainly, any group intending to get involved in budget work in a substantive way needs to have some basic in-house analytic capacity to be able to understand basic policy issues, to review, interpret, and evaluate the analytic work of others, and to produce some types of analytic work on their own.

However, not all groups need to have deep in-house analytic capacity. Some advocacy groups form alliances with groups that possess analytic skills. In Mexico, for example, advocacy and service groups concerned with maternal mortality formed a working alliance with FUNDAR, which is widely recognized for its budget expertise, to create a whole campaign for improvement of health services for pregnant women. In some cases even groups with quite sophisticated budget skills might choose to contract out for specialized analytic information. In Texas, the CPPP found itself in a dispute with then-Governor George W. Bush over a tax-cutting proposal. “We contracted out with a specialized think tank to give us the tax analysis we needed to comment accurately on what effect the governor’s proposal would have,” CPPP’s Dick Lavine explained.

Ingredients that Make Budget Work Successful

What does it take for budget groups to be truly effective, to develop a genuine civil society voice in debates over budgets and revenue, and to have an impact on policy?

To be sure, the right formula of approaches and actions depends a good deal on the local political context. Budget groups need to assess the government’s receptivity to civil society input, civil society’s capacity and interest in budget issues, and the amount of resources available for public services and programs. All of these factors vary a great deal from country to country. Nevertheless, according to St. George, there are three factors that come close to being universal:

1. Accurate and Timely Analysis

Once again, analysis is crucial. Budget work is fundamentally about information—obtaining it, understanding it, interpreting it, translating it for a popular audience, and using it to influence policy outcomes and people’s lives. To do this, the analysis must be applied, not theoretical; it must be of use in a current policy debate.

To be effective in budget work, civil society groups need analysis that is accurate—what some participants referred to as “bulletproof,” able to withstand criticism and attack by others. Even the smallest of errors can damage a group’s analytic credi-

bility for a long time to come. The analysis must also be timely. A solid review of the impact of a proposed budget cut in education, for example, is not of much value if it is presented after the policy is already approved. The analytic work of budget groups must also be made accessible—something, as Petr Hlobil, campaign coordinator for Bankwatch, put it, “our grandmothers can understand.”

2. Effective Advocacy

Advocacy, an organized and strategic effort to influence policy, is another key element in successful budget work. Good analytic work provides the basis for advocacy. Effective advocacy depends on building ongoing relationships with public officials, not just “I need you today on this issue,” but an exchange based on mutual respect that can evolve over many years. These relationships are not only with people at the top of government. In budget work, some of the most important relationships, as Katarina Ott noted, are with people in mid-level positions who are often far from public view.

Advocacy also involves partnerships, organizing, and coalition building (dealt with in more detail later in this report). Finally, budget groups all emphasize the importance of “getting your information out there.” This includes active media relations, publishing in different formats, using the Web as a distribution tool, and taking your analytic work directly to groups that can use it.

3. Dedicated, Year-round Budget Work

In addition to offering budget analysis that is solid and independent, civil society organizations need to work on budget issues at every stage of the budget process—from the budget’s development within the executive branch, to its consideration and approval in the legislative branch, to its implementation and the final audit and review process. Budget work is also far more likely to be effective if the organization dedicates time, resources, and staff to the activity, especially analysis. Budget work is not simply a sideline that can be added arbitrarily to other kinds of work.

Groups should not expect budget work to produce big results overnight. “It takes a long time to have an impact,” Warren Krafchik of the IBP said. “You can’t just take something on in one year and expect to make a substantial difference.” He emphasized that effective, long-term civil society budget work contributes to the construction of an essential pillar of genuine democracy.

Indonesia—Cracking Open the Process

The law in Indonesia says that national and local budgets are to be “managed in an effective, efficient, transparent, and accountable manner,” with the aim of achieving the maximum amount of public prosperity possible. Budgets are also supposed to be formulated with strong public participation. However, Laode Ida of the Jakarta-based Indonesian Forum for Budget Transparency said that the reality of the budget process for the city’s nine million residents is something quite different.

According to Ida, budget making in Jakarta has traditionally been based not on meeting public needs, but on funding “the government apparatus”—expenses to support the leadership of the city’s government. Development and management of the budget has been a closed process. “Budget documents are never circulated among the public,” Ida said, and members of the public are left clueless about how the budget process works. He cited a wealth of evidence about the effects of this budgetary neglect, including one million people in poverty, low public health and high infant mortality rates, child malnutrition, and poor housing.

To crack open the closed process of Jakarta budget making, the forum has embarked on a series of advocacy activities. It analyzes the budget based on whatever data is available, actively educates the media, testifies at hearings with city officials, sponsors public discussions with other key stakeholders (businesses, students, etc.), forms alliances with other NGOs, provides trainings, and publishes a variety of materials.

Steadily, these interventions are having an effect. While formal access to budget materials remains a problem, civil society groups are getting informal access to some officials. From 2000 to 2004, Ida reported, the budget allocation for public services, including antipoverty programs, leapt from 30 percent to 68 percent, with a corresponding decline in the portion allocated for the expenses of city leaders.

Ida said that the main challenges ahead for Jakarta budget advocacy groups are to expand their efforts from the already involved elite circles to the grassroots level, and to increase overall public education on the budget.

“Leaders who depend on spending resource revenues to stay in office generally do not favor transparency of public finance or systems of budgetary control.”

–SVETLANA TSALIK

“If government revenues come from taxing citizens, then citizens are in a better position to argue that they should have a voice in the process. If revenues come from oil, government can easily become one step less accountable to the people.”

–MARTIN TISNÉ

III. Civil Society Work on Extractive Industry Revenues—An Overview

There is an urgent need for effective budget work in extractive sector countries. Here the wealth of a nation is not in the hands of its workers and citizens, or even in most of its businesses. It is in the ground, and there are huge issues to be addressed about how that wealth is divided between corporations, most of them large multinationals that extract resource wealth, and the governments that negotiate with them and decide how to use their share of the wealth as public funds.

The Resource Curse

According to Svetlana Tsalik, of the Open Society Institute’s Revenue Watch program, petroleum and mineral wealth has often done more to damage the well-being of countries than to improve conditions. “Since the 1950s, many development economists have believed in the power of natural resources to lift developing countries out of poverty,” she said. “Even now, lending to the extractive sector remains one of the most profitable portfolios for development banks.”

Over the last 20 years, however, a significant body of research has shown that resource-led development not only fails to propel economic growth but also often results in worse social and economic conditions than before resource extraction began. Recently, the World Bank established an independent panel to evaluate whether its support of extractive sector projects was consistent with its mission of reducing poverty. The panel's conclusion was stark—it recommended that the Bank phase out its support for oil production by 2008.

“Many terms have been invented to explain this odd paradox surrounding mineral and petroleum wealth,” Tsalik said. “Paradox of plenty,’ ‘economic indigestion,’ and even the more graphic ‘devil’s excrement.’ But the most apt may be the ‘resource curse.’”

Continuing and evolving research into the resource curse created by extractive wealth suggests that it can have three major negative side effects.

1. Greater Poverty, Lower Growth, and Slower Development

One would think that when a nation is resource wealthy that its people would enjoy rising levels of income and development. According to Tsalik, the truth is actually the reverse. Numerous studies have found that countries lacking oil and mineral resources have stronger GDP growth per capita than resource-rich countries.

Between 1960 and 1990, resource-poor countries experienced growth rates two to three times higher than resource-abundant countries.

Looking at 48 countries for which oil comprised more than 30 percent of total exports between 1965 and 1995, nearly half of these scored in the bottom third of the United Nations 2002 Human Development Index. Only one-quarter of these scored in the top third, and many among them, such as Norway and Canada, were wealthy long before oil exports became a major source of income. In fact, 12 of the world's most mineral-dependent states and 6 of the most oil-dependent states are on the World Bank's list of Highly Indebted Poor Countries, the most destitute nations in the world.

In Saudi Arabia, per capita income fell from \$28,600 to \$6,800 between 1981 and 2001. In Ecuador, external debt rose from \$217 million in 1972 when oil was first discovered to \$11.8 billion in 2002. In Angola, the International Monetary Fund (IMF) has admitted that \$1 billion of oil money disappears annually.

Nigeria, one of the world's largest oil exporters, has earned about \$340 billion from oil exports since it began production 40 years ago. Yet, living standards have plummeted and 70 percent of the population lives on less than a dollar a day. “If we hadn't discovered oil, we would have been better off today,” commented the country's finance minister. “Once we had oil, our agricultural sector collapsed. Oil has made us lazy. When I was growing up I knew I had to use my brains to succeed. The oil generation doesn't feel this. We have become corrupted.”¹

1. Jonathan Power, “Nigeria Struggles Against the Curse of Oil,” *International Herald Tribune*, January 8, 2004.

Chad—Seeking to Escape the Resource Curse

Chad, a former French colony located in Central Africa, is a ripe candidate for the resource curse. One of the poorest nations on earth, Chad sits on a freshly exploited oil reserve. Oil production began in 2003 and, according to Oliver C. Mokom of Catholic Relief Services, that production could potentially double the country's GDP within a couple of years. However, Chad has also spent 30 of the past 45 years plagued by intermittent civil wars, with control of those oil reserves being a contributing factor. Chad's current leader took over by coup in 1990.

That history has also rendered the country's democratic institutions tremendously weak. "Democratic reforms are implemented in name only. There remains excessive centralization of power and laws are violated with impunity," asserted Mokom. "There is little space for truly democratic practices and any attempts at meaningful nongovernmental initiatives and full participation of the citizenry in development efforts have been crushed."

The possibilities arising from new oil production have mobilized a series of civil society efforts to engage the policy and revenue issues at stake. A civil society information seminar on oil issues in 1998 brought together representatives from a variety of NGOs, labor unions, human rights organizations, and women's rights organizations, raising awareness and leading to the creation of new networks for lobbying and advocacy. These groups have also linked up with international organizations concerned with oil issues.

The official channel for civil society involvement in oil revenue issues is the College for Control and Monitoring of Petroleum Resources, or Collège de Contrôle et de Surveillance des Ressources Pétrolières (CCSRP). Civil society groups have four formal seats on the nine-member panel, which has the mission of "ensuring the proper utilization of oil revenue by state institutions with the objective of reducing poverty." However, Mokom reported that the government engages in different ways of reducing the CCSR's authority over revenues and in one case diverted some of those funds to purchase arms.² Repression is always a threat. "Advocating for transparency in oil revenue management, though key to any meaningful development, is therefore scary even for top Catholic Church leadership in the country," Mokom said.

2. World Bank, *The Chad Cameroon Petroleum Development and Pipeline Project: Note on the Use of the Petroleum Bonus* (June 2001), www.worldbank.org/afr/ccproj/project/bonus.pdf

2. Corruption and Weaker Democracy

Another all-too-common characteristic of resource-wealthy countries is high levels of corruption, along with weak systems of public governance. “Those countries that possess abundant natural resources mostly cluster near the low end of the World Bank’s governance indicator,” Tsalik said.

The logic of this is easy to understand. When vast amounts of wealth are at stake in a poor country and the decisions about that wealth rest in the hands of a few public officials, corruption happens in at least two ways. First, there are the obvious risks that the negotiations between government officials and the multinational corporations involved will be susceptible to bribes, special favors, and other instruments of corruption. “Multinational corporations themselves encourage nontransparent relationships,” noted Martin Tisné of Central European University. “They would rather deal with a few high level officials than with parliamentary committees.”

Second, because oil or mining revenues allow a government to become the “biggest spender in town,” interested parties gather around it, trying to sway government officials to spend money in a way that benefits them, regardless of whether that spending is for the greater good—a process known as “rent-seeking.”

3. Violence and Civil War

Carried to its extreme, this intense incentive to control political power in nations that are rich in resources often goes beyond corruption to produce violence and civil war. According to Tsalik, several studies show that natural resource-exporting countries are highly vulnerable to violent conflict. Studies have found not only a correlation but also a causal link between natural resources and civil war. Moreover, such wars tend to be longer and inflict higher casualties than conflicts with no resources to capture. As a result, countries rich in natural resources spend a greater share of their budget on the military than countries lacking resource wealth.

The Economic Reasons Behind the Resource Curse

What is it that links resource wealth to such deep economic and political problems?

1. Underemployment

Oil and gas development are capital intensive, not labor intensive. They require plenty of investment but they do not generate many jobs. In Azerbaijan, for example, while the oil and gas sector represents a significant portion of the economy, it accounts for

less than 1 percent of total employment. Since much of the labor that is required is highly skilled, the multinational companies that control production often fill those positions with foreigners from countries that have more-developed higher education and technical sectors than Azerbaijan.

SNAPSHOTS FROM THE FIELD

Azerbaijan—In Search of Sustainability and Participation

At first glance, Azerbaijan is a country doing well, thanks in part to its substantial public revenues from oil production. Economic growth has been running at an average annual rate of 10 percent, a high mark for any country, especially a developing one from the former Soviet Union. For the time being, that growth and oil revenues have been a boon to public spending as well. Yet for all its current economic vigor, Azerbaijan still faces serious questions about both economic sustainability and underdevelopment of its political system.

Azerbaijan's proven reserves, while large, will not last long. BP estimates that, depending on oil and gas prices, the government of Azerbaijan will earn \$21–\$58 billion by 2024 when current reserves are expected to be exhausted. In that short window of opportunity, Azerbaijan must wrestle with severe poverty problems. A territorial conflict over Nagorno-Karabakh left Azerbaijan with approximately 800,000 internally displaced people, many of them still living in temporary housing in railway cars and with relatives. According to the UNDP, 49 percent of the population lives in absolute poverty. A decision by the government to add \$35 million in military spending to the 2004 budget is unlikely to provide any direct benefit to the poor.

Azerbaijan has already suffered the consequences of lower oil prices. “Public receipts fell considerably in Azerbaijan in 1998 due to a sharp drop in world oil prices,” said Ingilab Akhmedov of the Public Finance Monitoring Center. Because the government continues to depend so heavily on the oil sector for its revenues, the next fall could be especially hard. According to the center, while the oil sector constitutes 27 percent of the GDP, taxes paid by the oil sector make up approximately 40 percent of all public budget revenues.

Other aspects of the tax system are also problematic. Because so few people and enterprises formally report their incomes, the government relies on consumption taxes—value added tax, alcohol and cigarette taxes, duties on imports—that tend to be regressive, falling disproportionately on the poor. Regional imbalance is also a big issue. According to the center, taxes from the nation's capital, Baku, and its outskirts make up 90 percent of all public revenues, even though the area contains only one-third of the country's population.

Addressing these sustainability issues is critical, but building public interest in doing so will not be easy. “The overwhelming majority of the population continues to regard the budget processes as something strange and has no idea of active participation in the formation of a public budget or the use of budget funds,” Akhmedov said. “NGOs also have been slow to take a look at budget issues.”

A promising exception to this disengagement was the effort to include budget issues in the 2003 presidential elections. The center’s public roundtables allowed the parties of presidential candidates to describe their platforms on budget policy and transparency in the use of oil revenues.

Azerbaijan has taken an important step toward improving fiscal transparency by volunteering to report what it earns from oil and gas development through the Extractive Industries Transparency Initiative. A coalition of NGOs has formed to monitor the government’s progress in this reporting, and to recommend changes that would make the data more informative for the public.

2. Price Shocks

Resource-rich countries often become reliant on revenues from their resources to finance public sector services. However, prices for resources are subject to wide and sudden fluctuations in the world market. In some instances, upward shifts in resource prices can bring a windfall to these countries. Inversely, when the price falls dramatically, the countries are subject to economic shock, unexpected belt-tightening, and the fallout of both economic and political instability. This is especially challenging for medium- and long-term budget planning in countries where resource revenues are a key element.

3. Currency Pressures and a Decline in the Purchase of Domestic Goods—“Dutch Disease”

When a country experiences a large inflow of foreign funds, as is the case when a nation sells significant resources to foreign markets, one economic result can be a phenomenon known as “Dutch Disease.” Foreign earnings from the sale of natural resources are converted into local currency, which then causes the local currency to appreciate in value relative to foreign currencies. This, in turn, raises the price of domestic goods relative to foreign goods. It makes the country’s exports less competitive on the global market. Local agricultural products, manufactured goods, and other items suffer a decline leading to a loss of jobs and income, and a greater reliance on the oil, gas, or mining sector for government revenues.

4. Lack of Renewability

By definition, extracted resources such as oil and gas are nonrenewable. Every barrel of oil or meter of gas pumped out of the ground pushes the producing country one step closer to the time when the resource and the revenue it generates will be a thing of the past. Self-promoting statements about economic growth in oil-producing countries disguise the fact that the country is getting poorer, not richer, unless it can convert its foreign-exchange earnings into a renewable source of wealth. “In a country like Saudi Arabia, oil reserves can provide fiscal cushioning for perhaps a century,” Tsalik said. “But in a country like Azerbaijan, unless new reserves are found, production is expected to taper off in 20 years. In Kazakhstan, production will taper by mid-century.” Resource-rich countries often have no plan in place to turn the wealth they are generating now into a stable economic base for the future.

5. Resource Revenues Become an Excuse for Poor Governance

When a country has substantial and growing revenues from resource extraction, those revenues can become a cushion that shields political leaders from both political accountability and sensible planning for the future. If a nation’s leader can, for a time, offer citizens a growing pot of resources for local projects, he or she may feel little pressure to hold free and fair elections. As long as those revenues keep flowing, there is also little incentive for political leaders to begin to make hard choices about how to live with scarcer resources in the future or how to weed out inefficiencies in the way government does its job.

“Leaders can spend vast amounts of money to create jobs and provide favors for people that help them stay in power,” Tsalik explained. “Leaders who depend on spending to stay in office also generally do not favor transparency of public finance or systems of budgetary control.” In many oil-rich countries, information about how much governments earn from extraction of natural resources is a tight secret. This secrecy permits unsound budget policies to flourish. According to Martin Tisné, “If government revenues come from taxing citizens, then citizens are in a better position to argue that they should have a voice in the process. If revenues come from oil, government can easily become one step less accountable to the people.”

In Indonesia, for example, President Suharto used the state oil company as a secret reserve to control oil revenues and to dispense funds that the public and finance ministry would have seriously questioned. In 1975, largely as a result of that secrecy and those payments, the Indonesian oil company had to default on a \$10 billion foreign debt that exceeded the government’s foreign debt. The Indonesian government had to bail the company out and suffered from severely reduced borrowing for the rest of the decade. In a number of countries, oil revenues are kept in separate oil funds,

which, if lacking adequate controls, can be easily raided for political purposes. In Azerbaijan, for example, the government used \$100 million from the oil fund to pay pensions and raise civil service salaries in a presidential election year. In Venezuela, the government raided each of its special oil funds because it was unable to control its spending.

Strategies for Change

The first window of opportunity occurs in the period before governments and corporations sign contracts governing oil, gas, and mineral production. That is when the most fundamental questions are still on the table. Will the country nationalize its resources or privatize them? If it does privatize a part or all of those resources, what provisions will it demand to assure that the people receive a fair share of the benefits? How will those protections capture the unexpected windfall benefits as markets change? What will happen over time to ownership of both those resources and the extraction infrastructure?

If possible, these issues should be addressed in public discussions before contracts are drawn up. However, there are a number of effective strategies for increasing transparency and responsible distribution and use of revenues even after agreements are in place. Some of these strategies can be carried out at the country level, while others can take the form of broad international efforts.

At the Country Level

Budget monitoring groups in Chad, Azerbaijan, and Kazakhstan have pursued the following issues at the country level:

1. Demanding Transparency

A critical theme that runs through both budget work and extractive industry work is the demand for transparency.

Meruert Makhmutova of the Public Policy Research Center in Kazakhstan noted the importance of disclosing the production-sharing agreements between the companies and the government (which include the pact for sharing revenues), production volumes, the prices charged by the companies, and the revenues earned on those sales.

According to Ingilab Akhmedov of the Public Finance Monitoring Center in Azerbaijan, it is also critical that civil society actors get access to information about how much in oil funds is transferred into the national budget so that those expenditures can

be tracked as well. Akhmedov said monitors should ask corporations and governments to “publish what you pay, publish what you receive, and publish what you spend.” In Brazil, where civil society engagement in public policy has a long history, João Sucupira from the Brazilian Institute for Social and Economic Analysis noted that the major oil companies disclose and publish their annual audits.

SNAPSHOTS FROM THE FIELD

Kazakhstan—The Mechanics of Oil Revenue Transparency

Located on the Caspian Sea, the Republic of Kazakhstan is a diverse bastion of mineral resources and high economic growth. But the benefits of that wealth and growth are not spread evenly among its people. “Unemployment remains high, especially in rural areas and among young people and women,” Meruert Makhmutova of the Public Policy Research Center said. “Official estimates indicate that nearly three million people are self-employed, but this really means ‘unemployed.’ Revenues from extractive industries have not affected the recovery of Kazakhstan’s economy, nor helped the country’s overall development.”

Civil society groups have placed a high priority on the task of monitoring the flow of oil industry revenues and getting the government to direct a serious share of those funds toward poverty reduction and economic development. These efforts, led by Kazakhstan Revenue Watch (KRW), a program of the Soros Foundation–Kazakhstan, focus on two goals: persuading the government to make the flow of those revenues transparent and equipping civil society groups to understand the issues involved and to take a role in monitoring and influencing policy.

In the struggle for transparency, KRW is working to obtain copies of all contracts signed between extractive companies and the government, reports on those companies’ gross revenues and expenditures, and figures for the companies’ sales volumes, prices, and taxes paid. KRW believes that obtaining this information is a prerequisite to developing a sound oil revenue policy. “The experience of Alaskan and Norwegian oil funds shows that public transparency increases the chances that revenues will be used for the public interest,” Makhmutova said. Her views are shared by many activists in Kazakhstan.

To build civil society capacity to join in that monitoring, KRW provides regular training sessions on oil revenue and budget monitoring issues as well as grants to organizations at the local level to support monitoring efforts. The group also works closely with the media, inviting journalists to roundtables, seminars, and workshops, with these events covered in newspapers and in TV news broadcasts.

The Public Policy Research Center, according to Makhmutova, has managed to become a bridge between civil society and the government, always maintaining both its political independence and its commitment to a public interest approach. “Keeping a healthy distance from all political parties and movements has allowed the center to become a neutral debate ground, where interested parties and interest groups can meet,” she said.

2. Directing Extractive Industry Revenues toward National Investment

In many countries, revenues from extractive industries are treated as if they will last forever. Often, they are spent on ongoing budget programs instead of on strategic investments that could help prepare for when resource revenues will decline and disappear.

In Kazakhstan, the national government created a special National Fund in 2000 that receives a designated portion of national oil revenues. The fund is designed to meet two main objectives: to use oil revenues to ensure stable social and economic development by reducing the economy’s vulnerability to oil price fluctuations, and to accumulate financial resources for future generations. One focus for civil society work on extractive industries in Kazakhstan is to monitor the operations of the National Fund effectively.

Azerbaijan’s government also set up a special national oil fund, the State Oil Fund of the Azerbaijan Republic (SOFAZ), in 2000. It is meant to be used to finance strategic investments rather than ongoing expenditures. In its first years of operation, the fund’s expenditures included funding for an oil export pipeline and resettlement of refugees. In 2003, the president issued a decree allowing monies from the fund to also be used to cover national budget deficits, making it harder to monitor the use of those funds and threatening the principle of using them to invest for the future.

3. Direct Participation in Oversight

In Chad, civil society groups have won four seats on an official governmental oversight committee for oil revenues—the College for Control and Monitoring of Petroleum Resources. The college was set up in 1999, with nine members, including four from civil society. “Prior to the creation of the college, there was a total lack of information on state income and spending [of oil funds],” explained Catholic Relief Services’ Oliver Mokom. The committee is mandated to verify that the allocation of funds conforms to national finance laws and to authorize disbursement from special oil fund accounts. However, the government in Chad is making efforts to move more and more of the

nation's oil revenues beyond the authority and scrutiny of the college. Mokom reported that recently a portion of oil funds "was used by the state to purchase arms without consulting the college."

4. Building Civil Society Capacity for Revenue Monitoring

Regardless of the formal policies and structures established by governments, there is still a critical need to build up the capacity of civil society groups to engage effectively in monitoring revenue from extractive industries. Two key efforts have already been initiated by the Open Society Institute in Kazakhstan and Azerbaijan. Kazakhstan Revenue Watch, for example, provides regular training sessions for civil society groups interested in joining monitoring efforts and, through the Soros Foundation–Kazakhstan, plans to provide grants to groups that will be involved in revenue monitoring at the local level. Building that capacity brings additional benefits in a nation where democracy is still new. "By initiating this project, we hope to establish another solid base in the development of open society in Kazakhstan," Makhmutova said.

In some countries, groups monitoring extractive industry revenues need to understand that their activities can incur repression and danger. In Kazakhstan, civil society groups need direct permission from the government to publish their reports, including anything published in English and even regular newsletters published in the national language. In Chad, government efforts at control and repression are more extreme. When local citizens demanded compensation for damages caused by an oil development project in Doba, there were reports of arbitrary arrests, extra-judicial trials, torture, and even summary executions. According to Mokom, "the victims were not guilty of any crime other than asking for a fair compensation for damaged crops, grazing land, and shelters."

At the International Level

The practices of multinational extractive industries and the public policies that various governments adopt to regulate and tax these industries are not simply national issues. The extraction of mineral and petroleum wealth is part of an international market and an international system. For that reason, citizen action dealing with extractive industries must also be international. Moreover, by teaming with international NGOs and coalitions, groups in extractive sector countries can have a much more powerful impact, bringing their message to capitals far from their own.

The following four international efforts have made substantial progress in focusing attention on resource revenue and budget monitoring issues.

1. Publish What You Pay Campaign and the Extractive Industries Transparency Initiative

Launched in 2002 by 30 NGOs, Publish What You Pay is an international campaign now backed by a coalition of over 200 NGOs worldwide. The campaign's aim is to help citizens of resource-rich developing countries hold their governments accountable for the management of revenues from the oil, gas, and mining industries. Publish What You Pay calls for the mandatory disclosure of the payments made by oil, gas, and mining companies to host governments where they operate. According to its public declaration, the campaign is “not calling on companies to disclose commercially confidential information. We are just demanding that companies publish the same basic data on net payments made to government and other public authorities which they are required to disclose in many developed countries.”

Publish What You Pay advocates that such disclosure be mandatory and industry-wide. Voluntary disclosure is not a viable option because individual companies might be put at a disadvantage by disclosing information others fail to reveal. The campaign also takes advantage of the growing demands for corporate transparency on the part of investors, a powerful force when added to the demands of environmentalists, consumers, taxpayers, and other citizen groups.

Publish What You Pay undertakes a broad variety of activities all over the world. It applies pressure—through letter writing, media activity, and other approaches—on both governments and extractive industry corporations to adopt transparency and disclosure practices. It advocates with other international initiatives such as the UK-led Extractive Industries Transparency Initiative (see below). It has pushed international transparency legislation in the U.S. Congress and it provides support and counseling to national-level Publish What You Pay efforts.

In 2002, the British government launched the Extractive Industries Transparency Initiative (EITI) at the World Summit on Sustainable Development in South Africa. The EITI's stated aim is to increase transparency over payments by companies to governments and government-linked entities, as well as transparency over revenues by national governments. It will try to engage “key stakeholders”—including oil companies, national governments, the UN, the World Bank, the Organization for Economic Cooperation and Development, and civil society groups—to organize voluntary corporation/government transparency agreements. The EITI is set to begin in eight pilot countries, including Nigeria and Azerbaijan.

The Publish What You Pay campaign warns, however, “while some of the EITI pilot countries may succeed in accomplishing payments and revenues disclosure, the PWYP coalition's point is that the proposal for a voluntary approach at national levels will not deliver in the countries where transparency is most needed.”

2. Revenue Watch

The Revenue Watch program of the Open Society Institute, begun in January 2002, builds the capacity of civil society to monitor how governments are collecting and spending revenues from the production and sale of natural resources. Revenue Watch provides funding to civil society budget monitoring groups in resource-rich countries and collaborates with these groups on research, training, and advocacy. In 2003, Revenue Watch published *Caspian Oil Windfalls: Who Will Benefit?*, which examined best practices in the use of oil funds. Other publications are underway, including a guide for journalists who cover extractive sector issues, a guide for investors on how to invest responsibly in resource-rich countries, and a guide for policymakers on how to make the best use of limited natural resource revenues. The project and its local partners have hosted numerous trainings for NGOs, journalists, legislators, and government officials about extractive sector revenue management issues.

3. Global Witness

Founded in London in 1993, Global Witness takes aim at the link between natural resources and violent conflict and human rights abuses. Global Witness's first target was the illegal timber trade on the Cambodia-Thailand border that the Khmer Rouge was using to finance its war efforts. Global Witness was able to provide eyewitness accounts of the illegal trade. "When we published this information, there was a scandal in Thailand and the border was closed," Diarmid O'Sullivan, a Global Witness campaign organizer, said.

Global Witness continues to focus on the connections between natural resources, corruption, and conflict, analyzing everything from diamonds to oil to timber. Revenue transparency is a key part of all these efforts. "First, we look for very hard, very specific information about corruption," O'Sullivan said. "Then we put it in a report and use the report to create controversy and annoy people into doing things they otherwise might not do."

A recent Global Witness report called *Time for Transparency* looked at the natural resource disclosure practices of five countries, including Kazakhstan. The report investigated allegations that President Nursultan Nazarbayev and other high-level officials engaged in acts of corruption with companies such as Chevron and Mobil, skimming off payments that transferred as much as \$78 million to the president through foreign bank accounts. The report also included a rather unflattering photo of Nazarbayev in his bathing suit, with the caption, "President Nazarbayev isn't so open about his finances."

"As an international organization we are able to be a little more confrontational toward public officials than local groups, for safety and political reasons," O'Sullivan said. He added, however, that Global Witness never makes charges without a rigorous

checking of the facts and careful review by the group's lawyers. "We don't say, 'the president of country X is a thief' even if we know that he is. We publish the documents suggesting that he is a thief and we ask him to explain what they mean."

4. Central and Eastern Europe Bankwatch

Central and Eastern Europe Bankwatch is a network of NGOs from 12 countries in Eastern Europe and the former Soviet Union. According to Petr Hlobil, the network's mission is to prevent the environmentally and socially harmful impacts of international development projects, to promote better alternatives, and to support public participation in development policy. Bankwatch focuses on energy, transport, and mining issues as well as public access to the dealings of international financial institutions (IFIs), such as the European Investment Bank, the World Bank, and others.

"The main focus of our work is not the policies of the IFIs but specific projects," said Hlobil. "The proposals that we make for policy change come directly from our experience with the problems with specific development projects."

As part of this work, Bankwatch publishes reports, fact sheets, newsletters, and extensive Web materials. It has also developed a network of citizen "Bankwatchers" who receive ongoing email alerts on IFI activities in the region and are given opportunities to directly lobby officials from those institutions on environmental and other issues. Hlobil reported that the information that Bankwatch produces is in itself an effective lobbying tool, and he pointed out that "the biggest reader of our pages is the European Investment Bank."

“Government is not a monolith. It is made up of many different pieces— departments, the executive and legislative branches, audit agencies—all of which are potential sources of relevant information. We still need to look to the government as the main option for information, but sometimes it takes a long time to build up the credibility, alliances, contacts, and knowledge to do that.”

–WARREN KRAFCHIK

IV. Four Key Factors in Successful Budget and Revenue Work

There are four important factors that help determine the success of budget and revenue work: analysis, organizing and coalition building, media and public education, and dealing with public officials.

Analysis

Public budgets and public policies dealing with extractive industries usually involve detailed technical documents and can raise a range of complex issues. It is important to approach both with a solid sense of purpose and the intent to make those policies more responsive to the needs of the public. However, good intentions are not enough. Civil society groups also need to be thoroughly informed in order to determine what they want and how to effectively advocate for it. Quantitative analysis based on good data is important because people can differ about values, judgements, and priorities, but it is much harder to disagree with numbers. If budget data show that the share of the budget going toward education has been shrinking over time, it is hard to take seri-

ously official claims that education is a priority. People may still disagree about what meaning or inferences to draw, but analysis can demonstrate incontrovertibly what is happening or has happened.

Analysis in this context is not academic analysis, which does not impact directly on current budget issues, but rather *applied* analysis—analytic work that gets its hands dirty in the issues of the day, with an aim toward not just understanding public policies but changing them. Applied analysis asks three fundamental questions: What are the facts? What do those facts tell us? And what actions and changes are needed as a result of those facts? Applied analysis results in information that is credible, timed to the process of policy change, and aims to open debate to broader public participation.

There are four main challenges to effective analytic work: getting the information that you need; developing analytic capacity; deciding what to analyze; and translating and disseminating that analysis to the right audiences.

1. Getting the Information That You Need

An often daunting challenge to applied analysis of budgets and civil society work on extractive industries is getting the necessary information. Many countries have no history of even collecting in-depth budget information for the government, let alone making it available to the public.

In some cases, even before analytic work can begin, civil society needs to wage a campaign for transparency of budget information and data about government interaction with extractive industries. This is evidenced in the work of FITRA, a budget group in Indonesia that was established with the initial mandate to secure basic information on the budget. Successes in this area allowed them to expand into budget analysis and training.

What are some of the basic indicators of transparency when it comes to budgets and extractive industries? Transparency is more easily achieved if a government's plans for the collection of revenue and the spending of public funds are made public; are published in a format understandable to citizens; are accurate and broken down in sufficient detail as to be meaningful; and are accessible in time and in sufficient quantity to allow public comment before proposals are finalized. "If you get the information from a member of parliament [when the budget is nearly approved], it is too late," IPF's Ott said. "You can't analyze the data in just one day."

Civil society demands for access to budget information can expect to encounter every excuse imaginable, ranging from "we don't have the numbers" to "it is too expensive to print." Demanding transparency from governments is often a double challenge. First, governments must be pressured to provide public access to the data that they have available. Second, budget groups need to help government improve its own data collection capacity, as well as develop their own methodologies and capacities to analyze the data.

Peru—Building a Culture of Citizen Vigilance

According to Carlos Monge of the Citizens Budget Group, or Grupo Propuesta Ciudadana, a coalition of 11 NGOs and other institutions, “Peru is a state with strong oligarchic power patterns. Despite the modernization processes taking place here since the sixties, Peru has remained closed to citizen participation regarding decision making and access to public information.” Domestic and foreign businesses alike, he said, are accustomed to secret and privileged dealings with the government, based on favoritism and corruption. Citizens, in turn, have lacked a culture of participation and oversight and are often unaware of their rights to do so. It is against this difficult backdrop that Monge and his colleagues have worked to promote public involvement in policymaking.

Their efforts are helped by a new national law on transparency and access that defines citizens’ rights to access public information, establishes the procedures by which citizens can demand public information, and makes it mandatory for public offices to respond to such requests. The law also requires public offices to publish all relevant information on the Web. A parallel statute requires regional and local governments to engage with civil society groups in an evaluation of each year’s proposed budget.

Grupo Propuesta Ciudadana is taking advantage of these legal openings for participation with a specific civil society program, Vigila Peru, to engage citizens in evaluating government performance at the national, regional, and local levels. The group looks at budget expenditures, transparency, health issues, education, civil society participation, and the inclusion of women, indigenous peoples, and the extremely poor. They then use their analyses to produce a series of reports distributed broadly to officials, the media, and the public.

What has the effort achieved so far? “We have developed local citizen monitoring capacities in 15 regions,” said Monge. “That, in turn, has had a positive effect on the behavior of regional and local authorities regarding access to public information.” However, much more work remains to be done. There is still a lack of an overall, coordinated civil society strategy. Many groups focus on immediate concerns while broader issues remain unaddressed. There is also a lack of understanding about both transparency and public policy on the part of much of the media. The group’s next major steps will be to engage both civil society and the media in a series of educational workshops to increase awareness and foster more genuine public participation.

In Peru and Mongolia, civil society groups working on budget issues used the strategy of first securing public promises about transparency from their governments and then applied pressure on public officials to keep those promises. Elsewhere, other groups first secured freedom of information laws requiring transparency and then demanded implementation of the law.

The legislative branch can actually be a key ally for civil society groups. In many countries, the executive branch holds nearly total power over budget development and budget information, a lock-hold that many in the legislative branch would also like to break. Legislatures as a rule are a much better access point than the executive branch for civil society forces seeking to influence revenue and budget policy, so strengthening the legislative branch's own access to data and analytic capacity can strengthen civil society's political hand as well.

International financial institutions (IFIs) such as the World Bank and the International Monetary Fund (IMF) can also be allies in the struggle for transparency. Advocates from Mongolia and Croatia reported finding powerful supporters among IFIs in their demands for access to budget information.

While civil society groups often find themselves at odds with the World Bank and IMF on development policy, IFIs are generally strong advocates for fiscal transparency. The World Bank and the European Bank for Reconstruction and Development have endorsed the Extractive Industries Transparency Initiative. The International Monetary Fund conducts voluntary reviews on member countries' fiscal transparency that assess how well member states observed IMF standards and codes. These reviews can be found on the Internet (see the resource list in the appendix).

Working on oil and gas issues creates additional information transparency hurdles. In many cases, extractive industry revenues are wholly or partly kept off budget, allowing them to be more easily siphoned off or hidden away in secret accounts. Civil society groups focusing on extractive industries have often emphasized the challenge of first getting those revenues and expenditures included in the budget, so that they can be scrutinized properly and looked at in the context of all public revenue and spending.

An added information challenge to extractive industry revenue monitoring is that there are other actors to pressure beyond the national governments involved, in particular multinational corporations. "Getting government to make information public is one thing. Getting private corporations to do that is quite another," noted Tsalik. Nonetheless, the Publish What You Pay Campaign, the Extractive Industries Transparency Initiative, and civil society groups are focusing international pressure on these companies to make their dealings with governments more transparent.

Civil society organizations working on budgets and extractive industries cannot afford to just wait for governments and corporations to make transparency a common

practice and start making their data public. Monitoring groups can pursue a number of strategies to go around uncooperative governments and companies and get solid information on their own.

SNAPSHOTS FROM THE FIELD

Uganda—Bringing Budget Analysis to the Grassroots

The Uganda Debt Network (UDN) is an NGO dedicated to serving the needs of the country's poor and giving them a voice in economic and political decision making. When it began its work in 1996, UDN's primary mission was to advocate for debt relief because Uganda's large foreign debt was drying up scarce resources for programs serving the poor.

Two years later, Uganda won that relief, to the tune of \$90 million per year, which the government committed to spending for poverty alleviation. The UDN then set out on an ambitious and pioneering effort to assure that those funds were budgeted for the poor and actually reached the poor at the community level.

In 2002, UDN piloted its Community Based Monitoring System (CBMS) project. Basil Kandyomunda, UDN's deputy executive director, said, "The program is a long-term process aimed at mobilizing communities to participate fully in monitoring the quality of delivery of services by government agencies. It involves people at the grassroots to measure the performance of those agencies and the impact that government programs are having on the poor." In the process, the program also provides the poor with a host of new skills and experiences in political decision making, community empowerment, and public participation.

Community monitors measure how many mattresses are being delivered, whether teachers are showing up for work, whether the roads are wide and secure enough to prevent traffic accidents, and other crucial nuts and bolts evaluations of how the government is alleviating poverty.

To carry out this work, UDN selects and trains a group of local volunteers in each area. "Some of them are retired, some are school drop-outs, and some are leaders of the community," said Kandyomunda. These initial volunteers then pass along their training to others to form an ever-widening network of volunteers. Kandyomunda said that at first there was friction between the community monitors and local officials but over time they have become allies, with officials seeing the project as a way to help track what they should be receiving from governments higher up and as a constructive vehicle for community input.

According to Jim St. George, there is a wealth of sources and information beyond government and corporate walls—people in the field, contracts, surveys on the ground, rivals, national legislation, international organizations—as well as unofficial informants within the walls. The bottom line for St. George is that groups should get information wherever they can find it. Dick Lavine of Texas said, “I have people in the government who leak information to me using hotmail addresses with fake names to protect their identities, or who whisper things to me in elevators.”

Diarmid O’Sullivan of Global Witness described a wide range of sources that his group has used to get information on the dealings of extractive industries and governments, including dissatisfied government officials who want reform, people working for foreign governments or for international organizations, disgruntled corporate competitors, journalists, and local civil society groups.

According to Warren Krafchik, no matter how good you get at finding sources of information from outside government, it is still crucial to keep up the pressure on government itself to become the source of the information you need. “Government is not a monolith, it is made up of many different pieces—departments, the executive and legislative branches, audit agencies—all of which are potential sources of relevant information,” Krafchik said. “We still need to look at the government as the main option, but sometimes it takes a long time to build up the credibility, alliances, contacts, and knowledge to do that.”

In some cases, groups have started to collect their own data in order to get around weaknesses in government data collection and management. The Uganda Debt Network’s pioneering strategy is to go directly to communities to see how many budget dollars actually arrive there, how they are spent, and what effect that spending has on people’s lives.

It is also natural for groups to be concerned about not having enough data or information in order to say something useful in public. One strategy suggested by St. George is for monitors to prepare analyses using the information they have, show it first to the relevant public officials, and say: “This is the best we can do with the data we’ve got. Is this accurate?” “If it is not accurate,” St. George said, “they may be more inclined to make the relevant data available.”

2. Developing Analytic Capacity

For civil society work on budgets or mineral extraction, solid analytic capacity is essential and groups need to think strategically about how they want to develop that capacity and position themselves as an analytic organization.

Accuracy and credibility are essential. One highly visible error can lead to questions about the accuracy of your work for years to come. On the one hand, a person does not have to have a Ph.D. in order to work effectively as a budget analyst; in many cases, the technical skills needed are nothing more than adding and subtracting, mul-

tipling and dividing. On the other hand, it does involve certain analytic skills, particularly the ability to think about how numbers and data can strengthen one's case. The groups themselves, regardless of the skill level of their staff, need to maintain the highest commitment to analytic integrity.

Some groups start out by subcontracting for analytic work, giving their coalition or group some basic analytic capacity without the expense of adding staff or extensive training. If a group is going to be engaged in budget analysis in depth and for a longer period of time, building up in-house analytic capacity will be necessary. In Croatia and elsewhere, groups have emerged from academia, creating institutions that mix academic analytic capacity and broader civil society participation. Groups also need to think about where they want to place themselves on the spectrum between “academic analyst” and “advocate,” with the real power, as noted earlier, coming from being positioned somewhere between the two.

There are a number of differences between the kind of analytic capacity needed to undertake budget work versus work on extractive industries. “Revenue watching requires more investigative skills,” Kandyomunda of Uganda said. Jim St. George pointed out that “budget groups are typically generalists on most spending issues—they know something about health care, for example, but then partner with other groups to get more specific expertise.” Extractive industry work, on the other hand, often requires some very special industry-related expertise.

In all cases, the challenge of relying on “analytic experts” is in assuring that a group's analytic agenda is directed toward the issues, questions, and objectives that match broader civil society priorities, not just what one analyst finds interesting to study. Who sets the analytic agenda? In Mexico, FUNDAR addressed this issue by linking its budget analysis capacity with people on the front lines of maternal health. Other groups do this by making the analytic agenda a key discussion point for their group's broader membership and by linking that analytic capacity into broad coalition efforts.

While analytic work needs to be credible and solid, as well as independent from any political party, it does not have to be neutral. Analytic work can come from a specific set of values—that the interests of the poor ought to be a key priority, or that oil revenues should be used toward improved social services. Analysis can be rock solid and still be aimed at having something clear to say about how the world should be.

3. What to Analyze

“There are an infinite number of burning issues that you could analyze,” St. George said. “The question is: How do groups determine which issues and questions to raise?”

The purpose of civil society analysis, on both budgets and extractive industries, is not to know something for the sake of knowledge, but because that knowledge can be an instrument for policy or social change.

In some cases, groups will want to analyze “big picture” issues. How much is the overall budget for the country and where does that money go? Where does that money come from? How much are the main oil companies operating in the country paying in taxes? How does that compare to their profits? How does that compare to what they pay elsewhere? How are those funds invested? Questions like these can help analysts illuminate the big picture for the public, media, and policymakers.

In other cases, groups choose to focus—again for strategic reasons—on narrower issues. In Peru, civil society groups focused on government performance in areas like health care after the national government began to decentralize government services and functions.

For budget groups, poverty-related issues are often a main focus. IDASA, in South Africa, concluded that poverty reduction in general is too broad to develop political traction. They decided instead to “disaggregate” poverty issues, looking first at expenditures for children (see Snapshots from the Field on the next page). A number of groups worldwide have done analytic work on gender issues in the budget.

A shared characteristic of budget work and extractive industry work is that both rely on certain fundamental documents that civil society groups obtain, analyze, and interpret. For budgets, these include the budget itself, audit reports, information about government revenue sources, and economic data. “We have many groups looking at needs, but very few looking at revenues,” said Lavine of Texas. “People are afraid of looking at revenues because they feel that they might not know enough to get involved.”

Groups working on extractive industries have their own set of basic documents to obtain and analyze. These include contracts between the government and corporations, production-sharing agreements or joint venture agreements that spell out how extractive revenues will be shared, annual income reports from the extractive sector companies, data on production, exports, and world commodity prices, and other material that, combined, paint the picture of how much the government earns from its natural resources.

Both budgets and extractive sector issues touch directly on a host of macroeconomic issues that civil society groups might choose to analyze, including the effect of policy on growth, inflation, employment, debt, foreign investment, and other factors. If we raise taxes, what will be the effect on growth? If we spend more on education, how will that affect debt? If a greater share of oil revenues is spent now, how will that affect inflation? Government officials, corporations, international financial institutions, and others will have opinions about the answers to these questions. To participate effectively in these policy discussions, civil society groups must also present educated opinions and factually supported arguments.

Civil society work on budget or extractive sector issues is not carried out in a vacuum. In most cases, the government has its own processes underway to develop pol-

icy. João Sucupira explained that in Brazil, “before the budget, there is a four year planning period that lays out the goals. These are quantitative goals. One of the kinds of analyses that we do is to check whether the allocations in the budgets correspond to these goals.”

SNAPSHOTS FROM THE FIELD

South Africa—Beyond “The Poor”

One of the rallying cries of civil society work worldwide is to work toward public budgets that are “pro-poor.” Budget policy has been linked to a host of global efforts to reduce poverty—including debt relief, the World Bank’s PRSP, and others. But what does “reducing poverty” mean? How can a problem so large and general be undertaken effectively, especially in the policy world where advances are made most often when the objectives are narrow and clear?

In South Africa, where poverty runs deep but civil society work is well advanced, the budget work pioneer IDASA has adopted a strategy that it calls “disaggregating the poor”—looking at poverty groups and poverty issues one by one. IDASA’s work on poor children is a well-regarded model.

Through its Budget Information Service, IDASA analyzes public expenditures on issues such as children’s health and access to education. It evaluates those expenditures, not just against what was spent the year before, but against the South African government’s legal obligations to children under national law and international human rights accords. Focusing on just one group of the poor makes the issues specific and clear. Bringing the government’s legal obligations into the picture adds another argument to the case for more spending. IDASA has undertaken similar issue- and sector-based budget research on issues such as HIV/AIDS care, women, and the disabled.

IDASA then empowers civil society groups to use its information and analyses, to help journalists develop solid stories, and to interact directly with relevant South African public officials. This work includes trainings, news events, coalition building, and lobbying.

For the next stage, IDASA plans to examine how the funds are used and what difference the spending is making in the lives of children. In the end, it is not about what is spent; it is about how civil society budget work can demonstrate the impact of that spending on individual lives.

In neighboring Bolivia, a potential increase in taxes on foreign oil companies is a major political issue in the country. Jim Shultz recently interviewed Bolivia's president, Carlos Mesa, and asked about his resistance to raising taxes on these companies. President Mesa explained that raising taxes on foreign companies would make Bolivia look like an "unstable investment environment." Analyzing the validity of that belief is an obvious project for civil society groups there.

The various mechanisms and processes that the government uses in the budget field and in mineral and petroleum extraction raise other important policy questions. How does the government collect taxes? Is it efficient or does it allow for loopholes and corruption? How does the government require oil companies to report production and revenues? Does it account for all the economic activity that it should? Or does it leave important gaps? For example, where regulation is weak, companies can take advantage of transfer pricing operations to evade paying taxes to governments where they operate. Similarly, a lack of expertise within government about oil, gas, or mining company fiscal operations can result in insufficient taxes levied on companies. How the government carries out its business can have just as much impact as more obvious measures like tax rates and budget allocations and are just as worthy of civil society scrutiny.

Both budget and extractive industry work look at what is on paper. However, what is declared on paper is not necessarily what actually gets spent or what is happening in the real world. "In many of the countries where we work, there is a wide difference between the budget approved by the legislature and the budget that is actually spent," Warren Krafchik said. "It is extremely important that we look at how the funds are actually spent and what they actually buy." Krafchik encouraged budget groups to work closely with state auditing officials, or to expand efforts like that of the Uganda Debt Network to monitor budget realities on the ground.

There are few people who actually find their heart racing at the image of a bar graph. Most people need something more compelling than numbers and graphs to get interested in an issue and to support efforts to change policy. The best analysis puts a human face on an issue that would otherwise be abstract. Referring to FUNDAR's work on maternal health, Helena Hofbauer said her group made their analysis of maternal health in Mexico more compelling by adding information and anecdotes from groups working on the ground.

Getting started on analyses that will be thorough and compelling for the public can seem intimidating. Many advocates may feel that unless they can write a major treatise that includes every fact imaginable, their analytic work is insufficient. Monitoring and advocacy groups should consider starting with something narrow and manageable (for instance, the five year trend in reported oil revenues to the state, or how much the government proposes to spend on schools this year compared to last year) and gradually expand their focus.

Another lesson is that you do not have to create all original material to have something meaningful to say. Some of the best analytic work repackages material that other people have produced to say something important in a new way. According to O'Sullivan, Global Witness reports usually use "a mixture of information that's already public with some new information from our own sources." This strategy has helped Global Witness frequently make international news.

4. Translating and Disseminating Analysis

A vital part of good analysis is making it understandable and compelling to people outside the field. Equally important is getting that compelling information out to the key audiences that you want to influence.

Rather than a formula, the process of simplification and translation is an attitude. Groups need to keep their audiences in mind—citizens, policymakers, reporters, and other organizations. Very few journalists or lawmakers are experts in budgets or extractive industry policy. A comprehensive analysis in layman's terms can be very effective with these influential audiences.

The first step is to filter out jargon, the litany of technical terms that analysts and experts use to speak in shorthand to one another but which mean little to anyone outside that small circle. If certain terms are essential ("progressive taxation," "production-sharing agreements"), then those terms need to be defined in simple language. This is not about oversimplifying the analysis but rather explaining certain complex ideas in ways that make them accessible.

The next step is the creation of accessible materials that present the analysis and message in an engaging way. Monitoring groups have used everything from long reports (with clear, brief executive summaries) to regular newsletters and short "briefs." The Internet is a crucial and growing vehicle for distribution, offering economy, speed, and a broad, global audience. Katarina Ott counselled budget groups to get their information on the Internet even before printed materials are ready, since in budget work it is crucial to have your analysis out when the issue is under consideration.

Once a group has developed a plan to simplify, translate, and disseminate an analysis, it must take the next step and offer direct training to the audiences that matter most—civil sector allies and key reporters and officials involved in the issue. "The information that we produce is thoroughly explained to the groups that we work with, and we empower them to understand it," Hofbauer said.

Building and Maintaining Advocacy Coalitions

Building coalitions has been called both the best of times and the worst of times in advocacy work. Coalitions can be sources of political clout and personal camaraderie or a never-ending series of conflicts and headaches. They play an especially important role in budget work, including work on extractive industry revenues. There are three main issues to consider regarding coalitions: costs and benefits; development strategies; and organizational structure.

1. The Benefits and Costs of Coalition Budget Work

Effective coalitions can add a good deal to advocacy work. They can strengthen your political clout by creating a stronger and broader public image. They can also bring together diverse resources and ideas, something especially important for budget and extractive industry work. A particular danger of budget work is that it can split civil society into technocrats on the one side and grassroots activists on the other. Connecting these two groups builds political power, helps assure that budget analysis asks the right questions, and disciplines groups to speak in an accessible way. “These issues are often highly technical, and often the people that undertake this work are economists or scholars not accustomed to making things easy for nonexperts to understand,” Tsalik said. “Coalitions help assure that we don’t get so caught up in things like ‘debt-earnings ratios’ and findings that only 5 to 10 people understand.”

Coalitions can also help avoid needless duplication of effort, and establish links between groups working locally, nationally, and internationally. They also provide a learning opportunity for people new to the work, and broad coalitions can create an entity through which government officials and political adversaries can negotiate.

In budget work, coalitions can address the natural tendency for civil society organizations to focus on their narrow program interests rather than work together for the common good. Too often these groups end up in competition against one another to protect their own “slice of the pie,” instead of undertaking joint efforts to make the whole pie bigger. Coalitions let these groups work together on unifying issues such as the battle for budget transparency or work on revenue and tax issues. This makes mineral extraction and the revenue it generates a potential common ground for many groups and interests.

These are positive reasons for building and acting in coalitions. However, there are also some serious downsides to coalition work. Coalitions move slowly, their actions can be cumbersome, and they require a great deal of time and energy to build and maintain. “NGOs spend a lot of time fighting over who has the right strategy,” said Petr Hlobil. “The possibilities for conflict range from what actions to take to simple conflicts between individuals.”

According to Martin Tisné, “coalitions are often most effective when they are geared toward a well-defined goal. Once that goal has been reached, the coalition dissipates, or reinvents itself. An advantage for budget and revenue watch coalitions is that their goals are generally quite specific.”

SNAPSHOTS FROM THE FIELD

Mexico—Building a Coalition on Maternal Health

In 2001, five women died daily in Mexico due to complications during pregnancy, birth or immediately afterward. Two-thirds of those deaths were taking place in the country’s poorest regions with the largest indigenous populations, where lack of access to quality health care is commonplace. In 2002, FUNDAR, a center for analysis and research working on budget issues in Mexico, launched a project to examine how state funds were being directed at addressing maternal mortality. The project stands as an important model for how to build an effective coalition between organizations with solid research capacity and groups working on the front lines.

While FUNDAR had experience analyzing budget issues, including landmark work on gender, it did not have the specific knowledge needed to analyze public spending to reduce maternal mortality. FUNDAR bridged the gap by reaching out and forming key alliances with researchers and activists who knew the field best. “By turning the project into a joint effort we were able to go beyond just an analysis of the federal budget,” said FUNDAR’s executive director, Helena Hofbauer. “We were also able to combine those findings with information and stories directly from the field. This was crucial in order to understand what was happening on the ground.”

The analytic work was also planned with a direct eye toward the accompanying advocacy efforts. “As we looked at what issues to analyze, the women’s organizations laid out the kind of information that would be useful to their campaigns as well,” Hofbauer said.

The research document that the coalition created offered more than 100 pages of data, analysis, and arguments. It also included a clear executive summary to make the information accessible to advocates, the media, and policymakers.

With the analysis in hand, the coalition developed concrete budget proposals and launched a full-scale media and advocacy effort to promote them, including a public forum with key government officials that was broadcast on the public affairs channel of the con-

gress. As a result of the coalition's effort, a key maternal health program saw its budget increased almost tenfold.

The strategic alliance that FUNDAR and others formed has produced stronger NGO relationships, more technical knowledge, engaged officials, and a political presence that can be applied to other related issues in the future. "All of the different strengths of the different participants were put to work," Hofbauer said. "It produced better results than any of us could have achieved alone."

With some issues, coalition clout is unneeded, and it may be simpler and smarter for one group to act alone. However, when monitoring and advocacy groups anticipate a tough battle to change public opinion and/or policies backed by strong opponents, the strength of a coalition may be essential.

2. Development Strategies for Coalitions—Goals, Leaders, and Allies

The actual mechanics of building a coalition begin with a common goal and with leadership that can bring people together. The goal can be narrow or broad, depending on circumstances. Jim Shultz described bringing together a difficult budget coalition in California for the specific, short-term goal of carrying out a joint analysis of the state's budget crisis. Building on that project, the coalition went on to become an ongoing alliance. FUNDAR in Mexico built a coalition around a specific policy issue, maternal mortality, which developed into a collaboration that deepens around new issues each year.

Coalition leadership can come from a group already working on the issue that potential coalition members will trust to play a leading role. Coalitions can also begin with outside groups acting as a catalyst. On debt relief issues, Basil Kandyomunda from the Uganda Debt Network said that Oxfam has played a catalytic role in forming coalitions. Bijan Khajepour from Iran noted that UN agencies should also be considered as potential outside catalysts. Whether from the inside or the outside, a coalition leader must be seen as an honest broker, a group or individual that participants believe is genuinely trying to build and share influence rather than grab power for themselves.

When building a coalition and convincing others to join, it is useful to first consider what resources the coalition needs and which groups can provide them. The right coalition partners can bring public credibility, a large membership base of activists, specific analytic or issue expertise, good media relationships, advocacy experience, grassroots links to those directly affected, and relationships with public officials.

Getting key individuals and groups to join a coalition is another thing entirely. Budget issues and extractive industry issues generally suffer the same political handicap—both are often perceived as one step removed from the concerns, such as education, health care, and so on, that affect people’s daily lives. To recruit interest and involvement, it is important to establish the links between budgets and the issues that groups are already working on. Some budget groups have made the link by creating a children’s budget, or a focus on women. The Uganda Debt Network made the link between budgets and corruption and the fight against poverty. The Vigila Peru program used the interest of groups in local budget work to engage them in budget issues at the national level. Bridge building strategies such as these can also play an important role in coalitions around extractive industry issues.

Coalition building can help budget groups find many common allies and also some unexpected ones. “The landless movement is the strongest movement in Brazil,” said João Sucupira. “Now they want information about the budget, and with this information, the movement has become stronger.” Since public budgets touch on a wide variety of issues and sectors (health, education, housing, etc.) groups concerned with all those issues are potential allies.

Extractive sector issues have their own pool of diverse potential allies. Environmentalists, industry workers, indigenous communities, human rights groups, and even disgruntled competitors can be potential allies. When extractive industry work focuses on revenue and how it might be spent on various public programs and projects, the potential alliances become broader still. Petr Hlobil explained the importance of building coalitions that can have an impact on international actors: “If you want to change the institutions, you need to work with the countries that are the main shareholders.” On extractive industry issues, where multinational corporations and international financial institutions play such a pivotal role, coalition building and networking with groups in the United States, United Kingdom, and European Union are also crucial.

It is critical to remember that any coalition must be an alliance based on common goals. “You have to keep in mind what matters for people,” said Carlos Monge from Peru. A solid coalition led by a group or network still has to work hard to garner broad support at the grassroots. “Coalitions are one thing,” Monge said. “Moving to permanent grassroots partnerships is much more difficult.”

The other main ingredient of effective coalition building is cultivating relationships that will last beyond the issue of the day. Lasting relationships are strengthened by giving all coalition members concrete tasks, and matching these tasks with each member’s abilities to contribute.

When Bankwatch identifies a development project for possible intervention, such as a pipeline, it goes to NGOs that are potentially interested and shares ideas

about how they might get involved. It also offers opportunities for involvement through its Bankwatch Network where individuals and groups receive online alerts and invitations to action.

Finally, reciprocity—not only asking for support and action but offering something in return—is crucial to coalition building. In many coalitions, reciprocity can take the form of training on topics ranging from media advocacy to specific issues to grassroots organizing. Training not only offers something back to groups but also strengthens the coalition by improving the skills of its members. The Uganda Debt Network succeeded in what Kandyomunda called “killing three birds with one stone” by combining training with budget monitoring and local empowerment.

3. Structure: How Much and What Kind

It may be goals and vision that bring a coalition together, but it is often struggles over structure, decision making, and power that blow coalitions apart. Decisions about what kind of structure to have are a matter of balance. If a coalition settles for too little structure, its work can be left uncoordinated and undone and misunderstandings can arise about how decisions are made. “There should be some sort of an authority,” said Anton Artemyev of the Soros Foundation–Kazakhstan. “Without that authority there will be complete disorder.” If the coalition reaches for too much structure, however, it can end up devoting all of its energies to debating questions of structure instead of working toward its advocacy goals. Bankwatch’s Hlobil warned: “In Europe most of the networks that have failed did so because they started to discuss structures, rules, and budget first, instead of discussing their goals or common activities.”

Coalition structures vary from loose to formal (see chart on the next page). At the least formal end are “networks,” simple lists of organizations that share information (through newsletters, etc.), but do not meet or pursue a specific campaign. More formal are “ad hoc coalitions,” in which one organization may take the lead, pulling together a support coalition which has no formal membership or structure but does take some coordinated action.

As coalitions become more organized and structured, they may formalize membership and eligibility criteria, begin holding regular meetings, develop joint letterhead, elect their leaders formally, and even raise some joint funds to cover expenses. When a coalition becomes even more formal, it might add bylaws, form an executive committee with a special decision-making authority, create other committees that deal with specific aspects of the work, levy dues, and hire staff. Finally, coalitions themselves may become legally incorporated organizations.

In Peru, Carlos Monge does budget work through a coalition that has a small technical team to carry out analytic projects. Gary Hawes of the Ford Foundation’s South Africa office noted that once coalitions get to the point of wanting to seek

COALITION TYPES

Informal			Formal
NETWORKS	AD HOC COALITIONS	FORMAL COALITIONS	PERMANENT COALITIONS
Information sharing only	Have a specific objective	Have name, letterhead, etc.	Bylaws
No organized meetings	Have informal leadership	Have formal leadership	Dues structure
Do not take joint positions	May not have a name	Eligibility rules	May have staff/office
	Fluid membership	May have dues	Have executive committees

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funding, those funders are likely to seek the accountability of a secretariat or other formal governance structures (and a registered NGO to serve as fiscal agent). In some cases, national laws may force a certain structure on a coalition. “If you seek funding in Uganda,” Kandyomunda said, “you must register as an organization, and you need a structure.”

When left with a clear choice, however, how much structure is right? This always depends on the coalition’s goals and situation. Does the structure allow the coalition to make hard decisions? Will the coalition need funding? Will it need staff? Is the vision of the coalition temporary or permanent? There is no one formula that applies to every situation. The general rule, according to Shultz, is: “Have only the structure that you need to get the job done, and no more.”

Effective Media Work

Dealing strategically and competently with the media is fundamental to effective advocacy.³ Some monitoring groups feel that media coverage is often a key to being taken seriously.

3. A guide for journalists who cover the impact of petroleum development on producing countries, published jointly by the Revenue Watch project of the Open Society Institute and the Initiative for Policy Dialogue, will be released in early 2005.

1. Why Engage the Media?

There are three compelling reasons why civil society groups should do media work: to build overall public awareness about the issues; to break the monopoly that governments and the private sector typically have as information sources; and to use the media as a tool for influencing the actions of public officials.

Building public awareness about budget and extractive industry issues goes hand in hand not only with changing public policy on those issues but also with larger efforts to build democracy. Only an informed public will understand the issues that affect them. And only an informed public will create the political climate to make important changes in policy. João Sucupira, who has led participatory budgeting efforts in Brazil, said that the task is not just about highlighting issues of the moment, but about engaging in education that makes people aware of budget issues over the long term.

According to Katarina Ott, journalists in Croatia tend to rely on the government for information on budgets and on corporations for information about extractive industry issues, leading to “sloppy” coverage of budget issues. Advocates seek to break this government and corporate monopoly on information by providing solid, independent analysis and working with reporters to disseminate that information as widely as possible. By establishing reputations as reliable experts on budget or extractive sector issues, advocates will find that journalists routinely come to them for information and quotes about these issues.

As a result of FUNDAR’s work on women and health in Mexico, Hofbauer said, “the media now come to us to learn what is new with those issues in the budget.” Basil Kandyomunda agreed: “When the political opposition is not there, like in Uganda, for example, you are the dissident and the media comes to you because they think you are the one who stands up to the government.”

Effective media work can also be a powerful strategy for influencing policymakers. Public officials, even in countries with weak democracies, are concerned about their public image and usually react to what the media has to say. For example, exposés by Global Witness about illegal timber sales, diamond smuggling, and the siphoning of oil revenues were instrumental in changing government policy and initiating international efforts to control the theft of these resources. By getting the media to present their analyses of an issue, groups can help push officials toward actions that further civil society objectives.

2. Strategies for Effective Media Work

Effective media work begins with understanding how the media do their jobs and designing media activities to make stories as interesting and as easy as possible to cover. How to do this varies from country to country and from one media environment

to another. However, there are a number of general approaches groups should consider when dealing with the media.

SNAPSHOTS FROM THE FIELD

Croatia—Filling the Information Vacuum

Katarina Ott works with the Institute of Public Finance (IPF) in Croatia, an academic think tank that began to work on applied budget analysis in 1998. Her pet peeves about the budget process are inadequate media coverage and the government's monopoly as the media's source for budget information.

"The media usually depend on press conferences organized by the government," Ott said. "The result is sloppy coverage and an inclination toward rather unimportant details. Often you can read in newspapers or hear on TV how many thousands the presidential office spent on furniture or exotic travel while at the same time millions or billions could leak through some road building schemes or some big government procurement contracts."

Spurred by this frustration, the IPF used its solid analyses to become an alternative source of budget information for the media—and a political force as well.

IPF began by publishing a simple newsletter that analyzed the national budget in terms of its overall revenue sources, compared the main areas of expenditures and the size of government in relation to GDP, and offered some conclusions and proposals. According to Ott, the report and its accompanying charts and tables were more explanatory than reports issued by the government itself.

"After the distribution of our first newsletter there was a big fuss in the country," Ott said. "The media coverage was unbelievable. Newspapermen cut and pasted parts of the newsletter and phoned and asked for interviews. Some members of the parliament phoned and visited us."

The IPF filled an important information vacuum by providing information that was accurate, timed to the calendar of policy decisions, easy to understand, and linked to a skillful strategy for working with the media. "We established relationships with a number of leading journalists who could always phone, email, or visit us and get straight answers on any issue," Ott said.

Pick the Forms of Media that Best Meet Your Goals

The term “media” includes three basic methods of communicating with the public—print media such as newspapers and magazines; radio; and television. Which one or combination to focus on depends a good deal on the local context and the program’s objectives. In some very poor countries, where literacy is low, print media coverage is obviously not a strong means of reaching the public and radio and television coverage is essential. IDASA in South Africa, for example, produces a weekly community radio program on economic issues to which local stations add local content and then translate into multiple languages. In Brazil, similar work is done with television programming. The print media are especially useful for messages aimed at policymakers and their staff; important articles can be easily circulated to officials and others.

Make the Story Compelling and Newsworthy

Reporters, whether in print, radio, or television, have to sell stories to their editors. Editors are looking for stories that will interest their readers, listeners, and viewers. That means that the initial challenge for civil society advocates is to make their stories compelling and newsworthy, in situations in which the competition for media attention is often quite strong.

For analysts and advocates dealing with extractive industry and budget issues, getting media attention is not always easy. Issues can be dismissed by journalists as too complex for them to master and even more difficult to explain to the public. Ingilab Akhmedov, from the Public Finance Monitoring Center in Azerbaijan, said, “You need to begin with simple language, to talk about the main problem and what it means to people.” That problem then needs to be given a “hook,” an angle that will draw media and public interest. “At Global Witness,” O’Sullivan said, “we draw reporters’ attention to the particularly juicy allegations about corruption and sleaze.”

Not every story has “juicy corruption” angles, but most stories can be “reframed” to make them more compelling. “For example, if we were analyzing the corporate taxes paid by oil companies,” Tsalik said, “you might get more media attention if the story was presented as ‘Why is Chevron paying less to Chad than to Nigeria?’ rather than as ‘an analysis of corporate taxes paid by Chevron to Chad.’”

In some countries, the best way to make a story compelling to local journalists is to get coverage from the international press. “In Central and Eastern Europe, if a story is reported outside, in the *Financial Times* or the *International Herald Tribune*, then it quickly pops up in the local media,” Petr Hlobil said. Bijan Khajepour added: “All you need to get good coverage in Tehran is good relations with the Reuters correspondent.”

Give Journalists Timely Information

A big part of making it easy for journalists to cover a story is to feed them timely information in a form they can use. “Journalists live in another dimension,” Ott said. “For them everything is urgent.” To address that urgency and keep its media communications as accurate as possible, her group in Croatia developed a special approach for dealing with requests from journalists. A secretary fields all calls and passes the requests along to the analyst specializing in that area. The reporters are told that they will receive a response via email. This, according to Ott, gives the IPF staff time to develop a more thoughtful response and improves its chances of being quoted accurately. Along with emailed responses, IPF sends reporters documents relevant to the issue and links to materials posted on its website. “This has been a very good strategy for the print media,” Ott said. “But not so good for television, which is generally looking for something visual to go with a story.”

Participants also identified an important standard list of materials for advocates to provide to journalists: press releases that summarize the story or findings in a clear, media-oriented style with short, eye-catching quotes and contact information for follow-up; succinct and clear executive summaries to accompany longer reports; and easy-to-understand fact sheets or graphs that make the data easier to follow. “Few journalists anywhere have the time or skills to wade through detailed economic reporting,” Tsalik said. “They have to sell a story idea to an editor and they want to be able to look at a report and know within two to three minutes what the point is and what the hook is for them. Don’t expect reporters to look for the hook themselves. It is your job to make it obvious to them.”

For longer reports that might take some time for reporters to digest, another strategy employed by advocacy groups is to give journalists an “embargoed” copy a few days in advance, with the understanding that they can not publish a story about it until its formal release date. This strategy gives reporters time to go through the report more thoroughly and ask more informed questions of the advocacy groups.

Another strategy is to give a reporter on an influential newspaper an “exclusive” on a story a few days before others receive it. Editors love exclusives because they give them information that others do not have. This arrangement often brings an issue more attention than it might otherwise receive. Once it appears in a key media outlet, other media will pick up the story.

Global Witness explained that it translates all or part of its international reports into the languages of the specific countries involved and gives local journalists the report and story the same day as foreign reporters. Global Witness and other groups also stressed the importance of following up after a story or report is released by meeting with public officials to ask them to comment on a story or support a demand, or seeking editorial support from a newspaper.

Develop Media Relationships

Building ongoing relationships with journalists is a vital part of effective media work. These relationships help reporters develop trust in the political independence, credibility, and reliability of an advocacy group. Good relationships are developed by knowing what kinds of stories reporters are interested in, and then helping them get those stories. It is important to maintain ongoing informal communication with journalists and not just to make contact to pitch a story. Good relationships can also be built by responding to a reporter's request for help even if it will not result in a quote or other acknowledgment in the story. According to Tsalik, groups should not "be shy in asking journalists what they think of their work." The feedback can be a great guide for making a group's media work even more useful and effective.

3. Building the Media's Capacity for Covering Your Issues

Helping journalists build their capacity to cover stories on budgets and the extractive industry, particularly in developing countries, is important for groups expecting coverage of these technical issues. This assistance can include making journalists aware of the influence they can have by covering efforts to monitor government budget and policy decisions.

In Peru, South Africa, Mexico, Brazil, Azerbaijan, Kazakhstan, and elsewhere, groups have made trainings on budget issues for journalists a key part of their overall strategy. The Uganda Debt Network, in addition to reaching out to journalists when they have a specific story to pitch, holds informational "media breakfasts" on current issues, to which they invite both reporters and editors. Other groups explained the importance of helping reporters cover various stories on an ongoing basis, noting that it is easier for journalists to report on an issue that they have already covered before. Gary Hawes noted that journalists, especially the most able ones, are not just conveyors of information but producers as well. Civil society advocates can advance their issues by encouraging and supporting reporters who conduct their own investigations into budgets and the extractive industry.

4. Creating Your Own Media

Seeking out coverage from newspapers, magazines, radio, and television is not the only way to get information out to the public, policymakers, and other civil society groups. Civil society monitoring groups can also reach these audiences by producing their own newsletters, briefs, and print and electronic reports, which they can distribute widely to the press, civil society organizations, and public officials. They can also develop substantive websites. Grupo Propuesta Ciudadana in Peru created its own monthly supplement on budget issues, and distributed it as an insert in Peru's second largest newspaper, reaching more than 70,000 people.

5. Working in a Repressive Media Environment

It is important to note that many budget and extractive industry monitoring groups work in an environment in which freedom of the press does not exist. According to Meruert Makhmutova, civil society groups in Kazakhstan have to secure permission from the government to publish any material in English and most publications in Kazakh. State security laws also restrict publication of certain economic data, and press outlets found violating this law risk being shut down.

“In Azerbaijan, speakers on TV can not say anything about the budget that would not be liked by government officials,” Ingilab Akhmedov said. Journalists in a number of countries, fearing repression, often censor themselves. Svetlana Tsalik explained that self-censorship is a primary obstacle to good local reporting on extractive industry issues. “It is in many of the countries richest in natural resources that the media is the least free,” she said.

Dealing with Public Officials

In many ways the ultimate objective of civil society work on these issues is to engage the public officials who make decisions and push them in the direction of civil society’s agenda. Analysis, media work, and coalition building all contribute to achieving effective changes in public policy. Reform efforts often must confront political environments ripe with corruption and lawmakers who do not understand the issues or who are concerned only with special interests rather than the public at large. Groups working to change policy should ask themselves several questions when dealing with public officials: Which officials should we try to influence? What kinds of relationships should we have with these officials? What are effective strategies for engaging them?

1. Which Officials to Deal With

Budget and extractive industry policies are influenced by a wide variety of officials. Civil society advocates have to pay attention to many government branches and agencies simultaneously. “Government is not one bloc,” Warren Krafchik said. “It is made up of many different parts and each one is worth engaging in some way.”

Many of the most critical policy decisions, on both extractive industry issues and budgets, are made at the national level—a typical starting point for civil society work in most countries. The work usually begins with the executive branch in the various ministries where budgets are developed and in the regulatory bodies that govern extractive industries. It can also include seeking to directly influence the president and his or her chief advisors. Katarina Ott explained that in Croatia, the IPF has its best success deal-

ing with second and third tier people in the government—the permanent technocrats who stay from one party in power to the next—especially as a source of data and information.

The legislative branch is another important target for civil society work. As a rule, legislatures and parliaments are far more accessible to citizens and civil society groups than executive ministries and departments. These bodies can offer more opportunities for collaboration as they are frequently pitted against ministries and the executive branch in efforts to increase transparency and access to decision making. Legislators are often understaffed and are also hungry for the same information about extractive industries and budgets that civil society groups seek.

National independent auditing offices, such as the Auditor-General or the Supreme Court of Audit, can be important allies in securing critical information about whether or not budget execution is consistent with the approved budget. An independent auditing office has the legal power (often constitutionally entrenched) to secure data from the government on budget implementation. The weakness of many auditor's offices is their inability to have their findings taken seriously and to prompt change. Civil society budget groups can use their political clout to bring external auditor reports to the attention of the media and the legislature.

Regional and local officials are also a crucial audience. Many national governments have implemented decentralization reforms that push both authority and revenue down to the regional and local level. In Peru, Uganda, and elsewhere, working with these officials has become critical to civil society groups' efforts at reform. Many local officials come to rely on civil society groups because they can provide good information about what they should receive from the national-level government and how those funds can be most effectively spent.

At the international level, officials from international institutions and foreign governments are also important players who can wield substantial influence over both the extractive industry and budget issues. "Don't forget about international organizations and embassies," Tsalik said. "They are often in a position to try to influence your government to adopt the changes you want through private meetings." Petr Hlobil also suggested focusing on international financial institutions, especially international development banks (the World Bank, regional banks), because their policies can have a strong impact in both issue areas, and because of their influence with national governments. "We need far less information from the banks than they need from us. Our job is to analyze what the impacts are from bank lending," Hlobil said.

Corporations are clearly key actors regarding mineral extraction issues. Even though these corporations are private interests, there are many strategies that civil society groups employ to apply public pressure on them and their leaders. Drawing media attention to corporate wrongdoing is a standard means of applying pressure. Groups

have also used consumer boycotts, actions at stockholder meetings, and personal pressure on corporate leaders through picketing their homes and offices and conducting public letter-writing and email campaigns. At the same time, it is also important to recognize situations where corporations may be as frustrated with corruption and mismanagement as civil society groups, thus becoming potential allies for transparency efforts.

2. What Kind of Relationships: Friendly or Adversarial?

Organizations working on extractive sector issues and on budgets, like most advocates, are faced with a never-ending set of strategic choices about how cooperative or adversarial to be with government officials.

A frequently suggested approach is that of a “critical ally”—someone who does not take an automatic adversarial position toward the government, but rather maintains clear independence from governments and political parties in order to criticize policies when required. “So much of the work is about building mutual respect,” Jim St. George said. “Most public officials are trying to do the right thing and it is important to think about their needs—for information, for example—and how you can respond to them. You either have to respect officials or at least pretend to respect them.”

According to Bijan Khajepour, “in the majority of cases in Iran, the problem is a lack of knowledge on the part of officials rather than oppressive government. There has not been a single issue in 10 years where the government has not been interested to learn more. Officials are very ignorant. They need knowledge, but may be too proud to admit it.”

Many civil society groups report that exchanging information has been a critical component in building relationships with officials. Women’s groups in Mongolia worked in collaboration with government officials to produce an NGO newspaper providing budget information. In Uganda, community organizations were able to team up with the government on poverty reduction issues. “We started out being seen as adversaries,” Kandyomunda said. “Now, in many cases, we are partners.” In Kazakhstan, budget groups saw themselves as being a bridge between officials and civil society.

For many groups, solid relationships at the technical levels of government are a key source of information, especially about budgets and revenues, including information given in secret or without formal authorization.

Yet not all interactions between civil society groups and public officials are cordial. “Our institute is notorious for having very poor relations with the government,” Ott said. “Leading policymakers are easily offended by our writings, they take it personally.” Her institute found its relationships were largely determined by who was in power. Croatian officials who were eager allies while in opposition to the government became far less

friendly when they entered the government and vice versa for government officials who lost power and became the opposition. For Ott, the lesson was to focus on building relationships with the budget experts who stay in office regardless of party changes. “Our attitude is that governments change but we are here forever,” she said.

In Mexico, Hofbauer said her group gets along with some parts of the government better than others. “We have good relations with the Ministry of Health, because the blame is never laid on them,” she said. “However, the Ministry of Finance, which makes the overall decisions, always seems to be a target.”

One strategy that can work with coalitions is to take a balanced approach, dividing different functions among different groups. “It is very useful to have some sort of partnership with a group willing to be more confrontational with officials,” Shultz said. “Some groups can maintain good relations and open communication while their partners keep up the public pressure with a more confrontational approach.”

International organizations, such as Global Witness, are in a strong position to be harsher in their criticism of governments and allow local groups to be less confrontational. Indeed, in many countries direct public confrontation with the government is outright dangerous. “In Azerbaijan, it is far too early to even speak about this,” Akhmedov of the Public Finance Monitoring Center said. “There are still 700 political prisoners in the country.”

Ultimately, the purpose of building government relationships is not to be friendly but to influence policy. “It is the job of civil society groups to make sure that officials cannot ignore their work,” Tsalik said.

3. Strategies for Effectively Engaging Public Officials

Having solid, independent information can be a crucial tool for engaging public officials. “Our currency is information,” CPPP’s Lavine said. “Policymakers need information. Civil society groups often have it. So our interests frequently coincide.”

Even when officials might be hostile to a group’s positions, having hard data lays the groundwork for communication. Describing FUNDAR’s meeting with an official in the Mexican government, Hofbauer said, “She tried to look for arguments that would allow her to respond to our findings—it was confrontational really, but she could not question the credibility of our information.”

Information exchange between civil society groups and governments often goes both ways, with groups receiving information from officials (especially those in technical positions) as well as providing it. Several groups explained the importance of working with sources in the government as a way to verify the accuracy of their work. “Before we publish reports, we show the drafts to relevant officials so they can correct any errors,” Carlos Monge said.

In some countries, governments have set up formal participatory budget processes where civil society and policymakers interact on these issues. Under the Brazilian process, a certain portion of budget funds at the local and regional level is set aside for citizen groups to allocate through a public process. These formal government–civil society forums can help elevate civil society’s role in the budget process. The risk, however, is that groups not representative of their communities can be given leadership positions and used to coopt more confrontational, but potentially more productive vehicles for civil society input.

Timing is another important element in engaging public officials. Great analysis and strong civil society engagement does not mean much if the basic policy choices have already been made. It is crucial for budget groups to try to be involved in every stage of the budget-making process—from elaboration by the executive, to approval by the legislature, to implementation by ministries and departments, and the auditing that follows. “For our maternal health project,” Hofbauer said, “we put the topic on the table before the whole struggle over resource allocation even began.”

Once groups contact officials, there are a number of strategies for keeping track of the relationships and how they develop. Some groups keep databases of who has been contacted, when, by whom, and with what result. This information is then used to automatically send reports and other materials to relevant officials and make requests for a meeting to discuss the findings.

SNAPSHOTS FROM THE FIELD

Brazil—Forging Budget Democracy

João Sucupira of the Brazilian Institute of Social and Economic Analysis described Brazil as a “country of continental dimensions, the fifth largest in area in the world and the sixth largest population.” In the world of citizen budget work, Brazil looms large as well. Civil society groups from around the globe have flocked to the city of Porto Alegre to get a first-hand look at its famous “participatory budgeting” process, in which a portion of the budget is directly allocated through a process driven by citizens.

Now Brazil’s experiment with democratizing budgets is spreading nationwide, under the leadership of its popular, populist new president, Luiz Inacio Lula de Silva, a former factory worker. “Brazil is now experiencing a unique moment in its history,” Sucupira said. “President Lula is the expression of the current political changes within Brazilian soci-

ety, which, though not complete, point at an inclusive process to bring the lower classes into citizenship.”

Building genuine public participation in budget making, with a special emphasis on the country’s poorest groups, is a vital part of that national transformation.

At the national level, the Lula government has committed itself to a budget process more transparent and more pro-poor than any before and civil society is to play a major role in helping the president keep that promise. This will include formal civil society representatives to consult with the government on budget development and defining clear, quantitative outcome goals against which budget policy can be measured. A priority area identified by the new government is the eradication of hunger, still widespread in a nation that is the fourth largest exporter of food in the world.

However, Sucupira said none of this guarantees a true voice for the country’s poorest. “Civil society participation alone does not assure that public and social policy will focus on the most vulnerable populations. In the political dance the cries from the invisible ones are not heard.” Sucupira described the process of budget democratization as a long-term one that will require changing the vocabulary of budget debates so that all people can understand and participate. This kind of “long haul” education can steadily build broad public awareness.

“The demand for participation in certain local and regional administrations has increased democratic innovation,” Sucupira said. “At the federal level, we are now seeing a new participatory wave as well.”

“Budget analysis and revenue watching are both deeply political. They go to the core of relations between citizens, the state, and democracy.”

—CARLOS MONGE

v. Conclusion

Budget work and extractive sector revenue work are closely related pursuits. Work on extractive sector revenue issues is an important part of budget work and will become even more so in the years ahead.

There are, however, some unique aspects to extractive sector work that sets it apart from other kinds of public budget work. Traditional budget analysis deals with changes in domestic laws and mainly with domestic political actors. It has obvious and direct constituencies to mobilize that are able to see a direct benefit in the form of increased public funding.

Oil, gas, and mineral issues involve powerful international actors and forces. Activists have to understand and try to change not only domestic laws but complex private contracts and agreements as well. The public benefits of increasing revenue from extractive industries are also one more step removed from the issues that generate public interest—schools, health care, children’s programs, antipoverty projects, and so on. “Budget work is mostly about how you prioritize scarce resources,” Hofbauer said. “The debate is different with extractive industries where the issues revolve around geopolitical strategies and discussions.”

Distinctions like these bring urgency to the need to highlight the connection between general budget work and extractive industry work. Budget groups acknowledge the importance of increasing their work on revenue issues. To make real differ-

ences in budget policy, civil society must examine income as well as spending. In many countries, analyzing oil, gas, and mineral extraction revenues will be an important part of that effort. Similarly, as groups working on mineral extraction issues look for new allies and new expertise about how extractive industry revenues can be effectively invested and monitored, groups working on other budget issues will be important partners. The lessons that general budget groups have learned in recent years are often highly relevant to emerging groups focused on extractive industry issues.

Analytic expertise, new alliances, pooled capacity, ideas, and inspiration—these are all resources that these two groups of activists and organizations have to share with one another. The time for such collaboration is now, with initiatives such as the World Bank's Extractive Industries Review and others well underway. The opportunity to impact policy in a serious way will not last forever. "Fashionable topics in international affairs and development come and go and in a few years from now groups working on these issues are likely to have far fewer allies and potential partners than they do now," Martin Tisné said.

There are risks as these two issues are joined and work on each is stepped up in countries around the world. One risk is personal. It is in precisely those countries that possess substantial oil and gas wealth where repression is most extreme and where being an activist can come at a high personal price. Identifying strategies to support the safety of local advocates—letting international groups take the lead with the harshest criticisms of government and giving local groups an international profile—will be very important.

There are also questions about the effectiveness of all this civil society work on both issues. What strategies work best? How can we be sure that we are not wasting funds? Civil society work on budget issues runs into two of the hardest evaluation questions that there are. How do we measure the impact an advocacy campaign has had on public policy, when there are so many other factors that affect the outcome? How do we measure the effects of changes in public spending on the lives of people?

"Applied budget work is relatively new to all of us," Krafchik said. "Despite the differences between these two movements, the overall concept is the same—that you can take an organization outside of the executive branch, do credible analytical work, link it to citizens' concerns, and have a serious impact on the country."

Yet despite all the difficulties ahead, the two movements continue to evolve. As the old Bolivian expression goes, "We will make our path as we walk it." Know the facts, develop an agenda, marshal support, and take concrete action in making demands—that is the advocacy formula that both movements share and will continue to use as a map forward.

The other ingredient is patience. As Carlos Monge observed, our efforts are very much about building democracy. "Budget analysis and revenue watching are both

deeply political,” he said. “They go to the core of relations between citizens, the state, and democracy. Even in Peru, where freedom and democracy are okay for now, trying to get people involved in the budget reveals the limitations of formal representative democracy and brings us toward more participatory democracy.”

Appendix

Meeting Participants

The following people attended the meeting on monitoring budgets and extractive industry revenues in Budapest, April 2004.

<i>Name</i>	<i>Organization</i>
Ingilab Akhmedov	Public Finance Monitoring Center (Azerbaijan)
Anton Artemyev	Soros Foundation–Kazakhstan
Seyfi Gasilov	Open Society Institute Assistance Foundation–Azerbaijan
Gary Hawes	Ford Foundation (South Africa)
Petr Hlobil	CEE Bankwatch Network (Czech Republic)
Helena Hofbauer	FUNDAR Center for Research and Analysis (Mexico)
Laode Ida	Indonesian Forum for Budget Transparency
Basil Kandyomunda	Uganda Debt Network
Emil Kerenji	Open Society Justice Initiative (Hungary)
Bijan Khajehpour	Atieh Bahar Consulting (Iran)
Warren Krafchik	International Budget Project (United States)
Dick Lavine	Center for Public Policy Priorities (United States)
Meruert Makhmutova	Public Policy Research Center (Kazakhstan)
Ivona Malbasic	Center for Policy Studies at CEU (Hungary)

Carlos Monge	Grupo Propuesta Ciudadana (Peru)
Dorjdari Namkhajantsan	Mongolian Foundation for Open Society
Diarmid O'Sullivan	Global Witness (United Kingdom)
Katarina Ott	Institute of Public Finance (Croatia)
Leda Perez	Community Voices Miami (United States)
Jim St. George	International Budget Project (United States)
Tamas Scsaurszki	Charles Stuart Mott Foundation (Hungary)
Jim Shultz	The Democracy Center (Bolivia, United States)
João Sucupira	Brazilian Institute for Social and Economic Analysis
Sara Svensson	Center for Policy Studies at CEU (Hungary)
Martin Tisné	Center for Policy Studies at CEU (Hungary)
Svetlana Tsalik	Revenue Watch (United States)
Violetta Zentai	Center for Policy Studies at CEU (Hungary)

Shun Govender of the Institute for Democracy in South Africa, Arimbi Heroepetroi of Debtwatch (Indonesia), and Oliver Mokom of Catholic Relief Services (Chad), though unable to attend, provided case studies for the meeting.

Internet Resources

The following is a list of Internet resources identified as useful by the Budapest meeting participants.

Organizations

Atieh Bahar Consulting
www.atiehbahar.com

Catholic Relief Services
www.catholicrelief.org

CEE Bankwatch Network
www.bankwatch.org

Center for Policy Studies
www.ceu.hu/policy_center.html

Center for Public Policy Priorities
www.cppp.org

Center on Budget and Policy Priorities
www.cbpp.org

Ford Foundation
www.fordfound.org

FUNDAR
www.fundar.org.mx

Global Witness
www.globalwitness.org

Grupo Propuesta Ciudadana
www.participaperu.org.pe

IBASE
www.ibase.br

Indonesian Forum for Budget Transparency
www.internationalbudget.org/groups/indonesia.htm

Institute for Democracy in South Africa
www.idasa.org.za

Institute of Public Finance
www.ijf.hr

International Budget Project
www.internationalbudget.org

Kazakhstan Revenue Watch
www.kazakhstanrevenuewatch.org

Mongolian Foundation for Open Society
www.soros.org.mn

Open Society Institute Assistance Foundation–Azerbaijan
www.osi-az.org

Open Society Justice Initiative
www.justiceinitiative.org

Public Finance Monitoring Center
www.pfmc.az

Public Policy Research Center
www.pprc.kz

Publish What You Pay
www.publishwhatyoupay.org

Revenue Watch

www.revenuewatch.org

Soros Foundation–Kazakhstan

www.soros.kz

The Democracy Center

www.democracyctr.org

Uganda Debt Network

www.udn.or.ug

Reports

Catholic Relief Services report: *Bottom of the Barrel*

www.catholicrelief.org/get_involved/advocacy/policy_and_strategic_issues/oil_report.cfm

Global Witness report: *Time for Transparency*

www.globalwitness.org/reports/show.php/en.00049.html

IMF Country Reports on Fiscal Transparency

www.imf.org/external/np/rosc/rosc.asp

Promises to Keep: Using Public Budgets as a Tool to Advance Economic, Social and Cultural Rights

www.internationalbudget.org/themes/ESC/FullReport.pdf

Revenue Watch report: *Caspian Oil Windfalls: Who Will Benefit?*

www.revenuewatch.org

Texas tax incidence study

www.window.state.tx.us/taxinfo/incidence03/

Various academic articles on the resource curse by Professor Michael Ross

www.polisci.ucla.edu/faculty/ross/

Glossary

Budget work: A term used loosely to define efforts by civil society groups to monitor government expenditures, often around spending on public goods such as education, health, and the environment.

Capital intensive: A method of production requiring a high amount of capital investment, such as mining or petroleum development.

Debt relief: Reduction of the principal and/or interest payments of loans to less developed countries.

Dutch Disease: The deindustrialization of a nation's economy that occurs when the discovery of a natural resource raises the value of that nation's currency, making manufactured goods less competitive with other nations, increasing imports and decreasing exports. The term originated in Holland after the discovery of North Sea gas. (Source: investorwords.com)

Embargo: To restrict the release of a report—and news coverage about it—until a certain date.

Exclusive: Giving a story to a journalist or media outlet on the basis that he or she is the only one to receive it.

Executive summary: A summary of a longer research report that explains why the research was done, what was found, what those findings mean, and what action, if any, should be taken.

External debt: Debt owed to creditors outside the country. This includes debt owed to private commercial banks, debt owed to other governments, or debt owed to international financial institutions such as the IMF and World Bank. (Source: Citizens Network on Essential Services, http://www.servicesforall.org/html/el_menu1.shtml)

Extractive industries: Industries that extract natural resources, such as oil, natural gas, diamonds, coal, and other minerals from the ground.

Extractive sector revenue work: A term used loosely to refer to efforts by civil society groups to monitor how much governments earn from the development and sale of petroleum or minerals, and how those revenues are being managed.

Fiscal transparency: Adherence to policies that make information about government budgets available to the public. As defined by the International Monetary Fund's Code of Good Practices on Fiscal Transparency, fiscal transparency requires clarity of roles and responsibilities of the public sector from the rest of the economy; public availability of information about the government's fiscal activities; open budget preparation, execution, and reporting; and assurances of integrity that the fiscal data meets data quality standards.

Freedom of information laws: Article 19 of the International Covenant on Civil and Political Rights establishes the right of individuals to "seek, receive, and impart information and ideas of all kinds, regardless of frontiers." Many individual countries have also adopted freedom of information laws that require government agencies to disclose information about their activities upon the request of citizens, unless specified exemptions apply.

Hook: An informal term used by editors and journalists referring to that aspect of a news story which will make it interesting to readers.

Joint venture: A partnership arrangement between a number of companies or a company and a host government. Often, in a joint venture between companies and a host government, the companies bear the costs of exploration, and then retain a right to develop discoveries while sharing profits with the host government.

Labor intensive: A method of production requiring a large amount of labor, such as coffee or cotton production.

Oil Fund: A separate account set up by some governments whose budgets are highly dependent on the export of petroleum. These accounts can be used to protect the budget against oil price volatility, as well as to collect savings for future generations.

Participatory budgeting: A process, pioneered in Porto Alegre, Brazil, in the 1980s, to give citizens a direct role in making municipal budget decisions. In the words of the author and municipal budgetary expert, Uribatam de Souza, “Participatory budgeting is a process of direct democracy, universal and voluntary, through which the population has the opportunity to discuss and to decide the budget and public policies. It combines direct democracy and representative democracy.”

Per capita income: Total national income divided by total population, which gives you the average income per person.

Production-sharing agreements (PSAs): An agreement between an energy exploration company and a host government in which the company bears the costs and risks of exploration and production of a petroleum or mining project in exchange for a share of the production. In some cases, the host government receives a smaller percentage or no share of production up to the point that the energy company has recovered its investment.

Progressive taxation: A tax that is larger as a percentage of income for those with larger incomes. It is usually applied in reference to income taxes, where people with more income pay a higher percentage of it in taxes. The term “progressive” refers to the way the rate progresses from low to high. (Source: WordIQ.com, http://www.wordiq.com/definition/Progressive_income_tax)

Quantitative analysis: A research technique that deals with measurable values as distinguished from qualitative factors.

Regressive taxation: A tax that takes a larger percentage of income from people whose income is low. Regressive taxes, as opposed to progressive taxes, are more burdensome on lower-income individuals than on higher-income individuals and corporations. (Source: WordIQ.com, http://www.wordiq.com/definition/Regressive_tax)

Renewable resources: Resources that are capable of being regenerated or replaced by ecological processes on a time scale relevant to their use. These resources, such as biomass or solar energy, are contrasted with nonrenewable resources, such as fossil fuels and mined products. (Source: Agroecology, http://www.agroecology.org/glossary/glossary_q_z.htm)

Rent-seeking: The expenditure of resources in order to bring about an uncompensated transfer of goods or services to one’s self as the result of a “favorable” decision on some public policy. Examples of rent-seeking behavior would include the various ways by which individuals or groups lobby government for taxing, spending, and regulatory policies that confer financial benefits or other special advantages upon them at the expense of others. (Source: Dr. Paul M. Johnson, “A Glossary of Political Economy Terms,” <http://www.auburn.edu/~johnspm/gloss/>)

Reserves: The quantity of oil and gas estimated to be recoverable from known fields under existing economic and operating conditions.

Sales tax: A tax levied on sales of goods and services which is calculated as a percentage of the purchase price and collected by the seller.

Tax equity: The idea that the burden of taxes should be equally shared. For example, a 15 percent tax levied on a poor family will leave them with much less disposable income than a 15 percent tax paid by a wealthy family. See also “progressive taxation.”

Tax incidence study: A study showing how groups at different income levels bear the burden of particular tax mechanisms.

Transfer pricing: A device used by affiliated companies to take advantage of differing tax rates in different countries. On transfers between the affiliates, a high price is charged to the affiliate in the high tax state so that it will have a small profit, and a low price is charged to the affiliate in the low tax state so that it will have a large profit. The result for the worldwide operation is a net tax savings. (Source: International Law Dictionary and Directory, <http://august1.com/pubs/dict/t.htm>)

Value added tax (VAT): A form of indirect sales tax paid on products and services at each stage of production or distribution, based on the value added at that stage and included in the cost to the ultimate customer.

Many countries rich in natural resources squander their wealth, enriching a minority, while corruption and mismanagement leave the majority impoverished. A special responsibility falls on civil society in such countries to push their governments toward transparency and spending that responds to public needs.

Follow the Money: A Guide to Monitoring Budgets and Oil and Gas Revenues provides practical information to nongovernmental groups on how to monitor government earnings and expenditures. By detailing and disseminating monitoring information and strategies, *Follow the Money* aims to help lift the “resource curse” that impedes the development of many impoverished countries.

The Open Society Institute and its Revenue Watch program published this report in collaboration with the Center for Policy Studies at Central European University and the International Budget Project. It is the first in a series of guides to be published by Revenue Watch in an effort to help nongovernmental organizations, journalists, investors, and policymakers promote government transparency and accountability.



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