FREE UNIVERSITY OF BERLIN
Institute for East European Studies

Hayarpi Karapetyan

WHY DO OIL-RICH COUNTRIES OF THE FORMER SOVIET UNION DIFFER IN QUALITY OF GOVERNANCE?

MA Thesis

Supervisors: Prof. Klaus Segbers; Prof. Vello Pettai

Berlin 2018

Abstract

A large body of literature finds a negative relationship between oil abundance and different governance indicators in developing countries. Still, there is a substantial variation among them in terms of quality of governance (QoG). Why do even similar oil-rich countries differ in QoG? This master thesis investigates that puzzle, taking three oil rich post-soviet states - Azerbaijan, Kazakhstan and Turkmenistan during 1996-2014- as examples. Relying on the literature on the rentier state theory, fiscal sociology paradigm and ownership structure theory, this study finds that the difference can be explained by the chosen ownership structure of natural resources. Not aimed at generalizing the findings, this study shows that the more substantial role private companies have in the oil industry the better is the QoG.

Key words: QoG, post-soviet states, ownership structure

Table of contents

Introduction………………………………………………………………………...1

1. The Main Concept……………………………………………………………………5

1.1. The Quality of Governance: What Does It Suggest?...5

2. Theoretical Framework…………………………………………………………….. 11

2.1 Fiscal Sociology Paradigm-Emergence of Representative Government; Moor's Model and the QoG……………………………………………………………………………… 11

2.1.1. Rentier State Theory and the QoG………………………………………………. 14

2.2. Ownership Structure over Mineral Resources and the QoG: Demand and Supply Side Incentives……………………………...……………………………………………… 16

3. Methodology……………………………………………………………………… 21

3.1. Research Design-MSDO……………………………………………………………..21

3.2. Variables and Data…………………………………………………………………...24

3.2.1. Dependent Variable and Data…………………………………………………….24

3.2.2. Independent Variables, Data and Hypotheses…………………………………… 25

4. Empirical Findings and Cases………………………………………………………28

4.1. Data Analysis and Discussion………………………………………………………..28

4.2. Case Studies…………………………………………………………………………41

4.2.1. Azerbaijan………………………………………………………………………...41

4.2.2. Turkmenistan……………………………………………………………………..51

Conclusion……………………………………………………………………………60

Appendix…………………………………………………………………………….. 62

References…………………………………………………………………………… 64

Introduction

The argument that oil-rich developing countries are more prone to negative governance outcomes (Busse and Groning 2013, Ross 2015, Bulte et al 2005, Chaudhry 1989) is well established in the resource-curse literature. Yet, there is considerable variance, even controlling for the level of socio-economic development. In 2016, for example, the United Arab Emirates had the percentile ranking of 91 with regard to the government effectiveness measured by the World Bank Institute's Worldwide Governance Indicators (WGI) project, which means that the country's government performed worse than only 9% of the world countries. The percentile ranking for Kuwait, another high-income country in the Middle East and North Africa (MENA) region, was 47. Why do the oil-rich developing countries differ in the QoG? Under which circumstances might it be beneficial for some of them to ensure a good or relatively good QoG? The following master thesis revolves around this puzzle in the context of the post-Soviet space, focusing on three oil-rich countries: Azerbaijan, Kazakhstan and Turkmenistan.

Over the past decade a new research program has emerged and developed in comparative literature on authoritarianism in an attempt to reveal the relationship between authoritarian regimes and different economic and political outcomes (Wright 2008:322), where, however, differences with regard to the QoG were overlooked (Charron and Lapuente 2011:398). The main focus of this wave of literature was on exploring such questions as: why do some autocrats create political institutions? (Gandhi and Przeworski 2006, Wright 2008, Boix and Svolik 2013); why do certain autocracies remain stable while others collapse? (Gerschewski 2013); why do some autocracies vary from one another in such indicators as economic performance (Gandhi 2008), stable growth (Chandra and Rudra 2013), etc.

When it comes to the research on the differences among autocracies with regard to the QoG/governance institutions, it is rather limited. In a pioneering study, Egorov et al (2009) - later also Lorentzen (2014) - investigate the question of why certain dictators would allow free/ relatively free media. Knutsen and Fjelde (2013), and Wright (2009) explore possible differences among dictatorships in terms of protection of property rights, enforcement of contracts and provision of public goods, respectively.

Of special importance for this thesis are the studies by Ahmadov (2011) and Luong and Weinthal (L-W) (2006*a*, 2006*b*, 2010) with their focus on oil-rich post-soviet states. Ahmadov investigates the reasons behind the existing differences in the level of autocracy in those countries and the degree of autocratic stability. L-W, in turn, develop a theory arguing that the variety of institutional outcomes among oil-rich countries can be explained by the ownership structures of resources (i.e. the rights to develop them) adopted by their leaders. The authors have qualitatively tested their theory on Azerbaijan, Kazakhstan, Russia, Turkmenistan and Uzbekistan with regard to tax and spending policies.

The last two studies are at the core of this master thesis, but it differs from them in several respects. First and foremost, it is the focus on the QoG. Second, L-W developed and used categorical variable on ownership, which implies that the differences among the same type (say, "private ownership") cannot be observed. This study, instead, uses numerical data on ownership capable of identifying even smaller changes within ownership structures (Wegenast 2016:40). The third aspect, which stems from the second, is that this study does not treat all the oil rich post-Soviet countries equally, as did L-W. Rather, it follows Ahmadov's (2011:86) suggestion to be cautious in doing so, given that, analytically, the cases are not so equivalent as it is assumed. Thus, this study chooses and compares the cases which are as similar as possible.

Studying differences between the QoG in the context of post-Soviet countries is relevant from several perspectives. Unlike extensive studies on the political regimes in the post-Soviet space, the QoG, especially in the countries under study, is relatively less investigated. Up until the latter half of the first decade of the 2000's Auty and Pomfret (Auty 1997, Auty 2006, Auty and de Soysa 2006, Pomfret 2006, 2003) did extensive studies on the Central Asian states and Azerbaijan. Their main focus, however, was on the negative impact of abundant resources on economic development. Gawrich, Melnykovska and Schweickert, in their 2010 study, investigate the reasons behind bad governance and autocratic stability in five Central Asian states and Azerbaijan. By employing a regression analysis and conducting a qualitative research, the authors show that the regimes' neo-patrimonial features (the strong top and widespread clientelism) can explain both the manifestation of bad governance in these countries and difference among

them when it comes to “voice and stability” indicators. The difference element here refers to the quality of political regime per se rather than to the QoG.

Also, theory-guided analysis with regard to post-Soviet governance is largely absent (Gelman 2017). Recent years have seen several research agendas developed to help research on governance in the post-Soviet space. However, their main focus is on the prevalence of overall bad governance in the region. Melville and Mironyuk (2015), for example, suggest analyzing the absence of “perfect authoritarianism” in the post-Soviet space through a model which consists of the following elements: (a) economic rent extraction as the most efficient way of maximizing the revenues (b) compliance with political monopoly as a *sine qua non* of access to economic rents; (c) specific inversion of institutions of rather bad governance; and balancing of repressions and cooptation. Gelman (2017) as well focuses on “bad governance”, stating that in post-Soviet Eurasia it is a by-product of the intentionally built politico-economic order where rent extraction is the major goal. Reliance upon a “good Soviet Union” as a normative ideal, diminishment of elite circulation and reproduction of ruling groups, weak western influence are the main contributory factors to its prevalence.

While this master thesis also admits that there is no perfect authoritarianism in the post-soviet space given that the countries are still in “the minus category” - as numerous international evaluations of the QoG suggest. However, the focus of this study is on the differences among countries, differences in trends with regard to the QoG throughout the period under review. This, in turn, implies taking into account the partial but gradual improvement trends and the lack thereof in the QoG among the countries.

Considering the above, I put the following research question: “Why do oil-rich post-soviet states differ in the QoG?”. To reveal the possible causes behind differences, I employ a hypothesis testing small-N comparative study method in Most Similar System Design with a different outcome (MSDO). As the first step of the empirical analysis, relying on the rentier-state theory, the fiscal sociology paradigm and the ownership structure theory, I test two hypotheses: (1) The higher the reliance on unearned income in a country, the lower the non-resource tax burden, the worse is the QoG. (2) The higher the level of privately controlled oil, the better the QoG in a respective country. The results reveal a positive link between private companies’ higher involvement in the oil industry and the

QoGs improvement. Based on the results gained in the first stage, I employ a theory-guided qualitative analysis aimed to clarify the concrete changes or lack thereof in dependent variable (DV) – the QoG *vis-à-vis* independent variable (IV) and the causal mechanism that accounted for those changes.

The rest of this thesis proceeds as follows: the first part outlines the core concept – QoG. The next chapter describes the theoretical framework of the thesis. The methodological issues are discussed in the third chapter. The fourth chapter presents the empirical results and case studies. And the findings are summarized in Conclusion.

1. The Main Concept

1.1. The Quality of Governance: What Does It Suggest?

The term governance is an elusive notion (Levi-Faur 2012:1, Jose 2014:2) with a seemingly unlimited capacity to circulate within and between diverse academic disciplines and different fields of study (Jose 2014:1, 2, Bevir 2011:1). Over centuries, "governance" has been used with the word government interchangeably (Plattner 2013:18). There seems to be a general agreement, however, that the things changed in the early 1990's, when "governance" acquired a new meaning and a new lease on life" and began to be used, among others, in deliberate opposition to "government" (Fukuyama 2016:90, Plattner, ibid).

Over the years, different usages of the term "governance" have appeared in literature which can be conventionally divided into two groups: a) the "policy approach" to governance (with the main usages as follows: governance as "the minimal state", governance as "corporate governance", governance as "the new public management", governance as "a socio-cybernetic system", governance as "self-organizing networks"/meta-governance), referring to the state's changing role and the new process of governing, where the government cannot but share its responsibilities with other actors and b) "the political economy approach" (with the main usage: governance as "good governance"), mainly a state-centric approach, which refers to a range of desirable characteristics defining the ways of exercising government authority in a country (see Rhodes 1996, Rothstein 2013, Fukuyama 2016).

In the latter half of the 1990's, the rapid expansion of the term necessitated closer attention to its conceptualization (Jose 2014:5). However, discussions on this front almost without exception remain(ed) largely focused on exploration of different usages of the term, its operationalization, analysis of its usefulness for one phenomenon/political process or another (ibid). As a result, there is no definitional consensus on governance, even within each "usage" (Fukuyama 2016), leaving the researchers to select among dozens of definitions the one which they find appropriate for their research.

This master thesis revolves around the state-centric approach to governance and relies on the WGI project for both defining and operationalizing the QoG. The reason for the choice

of the WGI is first and foremost the fact that it covers all important elements of the state-centric approach to governance (see Kaufmann and Kraay (KK) 2008:5-7).

The WGI project's team defines governance as the "traditions and institutions by which an authority is exercised in a country". More specifically, this includes (a) the process through which governments are selected, monitored and replaced, (b) the capacity of a government to effectively formulate and implement sound policies, and (c) the respect of citizens and the state for the institutions governing economic and social interactions (Kaufmann, Kraay and Mastruzzi (KKM) 2011:222). Each of these components is based on (and measured by) two indicators: the political dimension - Voice and Accountability (VA), and Political Stability and Absence of Violence/Terrorism (PV), the economic dimension - Government effectiveness (GE) and Regulatory quality (RQ); and the institutional dimension - Rule of law (RL) and Control of Corruption (CC) indicators (ibid:223).

This master thesis employs WGI's understanding of governance based on only the last two dimensions - the economic and institutional ones. I exclude the first one for two interrelated reasons. First, "the political dimension" relates to the quality of political regime as such rather than to the QoG (Gelman 2017:497). Second, this understanding of governance (i.e. without the political dimension) is in line with the current trends in governance literature. Fukuyama, for example (2013a, 2013b, 2016), who made one of the latest attempts to make sense of governance, suggests excluding democratic accountability from the definition of governance, arguing that an authoritarian regime can be well governed just as a democracy can be maladministered (2013a:351). Rothstein and Tannenberg (2015:18) also exclude democracy from their definition of governance, arguing that the impact of democracy on human well-being and production of valued social goods is uneven.

Thus, given the above and relying on the WGI's understanding of the concept, governance in this master thesis is defined as "the manner in which authority is exercised in a country"; and the QoG refers to the economic dimension of governance, i.e. capacity of a government to effectively formulate and implement sound policies (GE and RQ) and institutional dimension, i.e. the respect of citizens and state for the institutions governing the economic and social interactions among them (CC and RL).

As could be noticed, the WGI team provided a very brief definition of the governance. Their definitions of each indicator are as brief as that of governance: the authors do not get into a detailed discussion on the indicators as well. However, they make data sources underlying the indicators annually available on their website. These contain detailed information on the sub-indicators the measuring of each of the indicators is based on. Tables 1-4 contain a summary of the sub-indicators of each of the four indicators[1]. They are presented below with two purposes: to better understand what each of the indicators means and to serve as a basis for discussing the QoG in individual countries in the fourth chapter.

Thus, the capacity of a government to effectively formulate and implement sound policies is, as has been mentioned, constructed on the GE and RQ indicators. The WGI defines ens the GE as "the quality of public and civil services, degree of its independence from political pressures as well as the quality of policy formulation and implementation and the credibility of the government's commitment to such policies" (KKM 2009:6). The GE is measured based on the sub-indicators presented in Table 1.

---

[1] The Tables are composed by using Millennium Challenge Corporation's summary of the WGI data sources, available in "Who we fund" section, https://www.mcc.gov/who-we-fund, as well as WGI Data sources ("Documentation" Section, http://info.worldbank.org/governance/wgi/index.aspx#doc).

Table1. Government Effectiveness

Country Assessment is Based on	Country Assessment is Based on the Extent to Which
• Competence of civil service, effective implementation of government decisions • Efficiency of revenue mobilization • Quality of budgetary & financial management • Flexibility and innovation within the political leadership • Quality of transportation infrastructure, electricity supply and telecommunications • Quality of health care services and education system • Excessive bureaucracy/red tape hinder business activity	• The budget is implemented as planned • Budget monitoring occurs efficiently • Policies and priorities are linked to the budget; off budget expenditures are kept to a minimum • Government revenues are generated by low distortion taxes • The tax base is broad, and free from arbitrary exemption • Tax administration is effective and rule-based • Annual fiscal reports and public accounts are prepared regularly and provide full and accurate data • The business processes of government agencies are under regular review • Hiring and promotion within government is based on merit

The RQ is defined as "the government's ability to formulate and implement sound policies and regulations that permit and promote private sector development". The WGI measures the RQ based on the following subindicators.

Table 2. Regulatory Quality

Country Assesment is Based on	Country Assessment is Based on the Extent to Which
• Regulations and requirements that impose burden on business • Government intervention in the economy; the extent to which government subsidies keep uncompetitive industries alive • Pro-investment tax policies • Prevalence of trade barriers • Investment attractiveness, financial regulations on foreign investment, restriction on the ownership of business • Legal regulations of financial institutions, foreign currency regulations • The strength of the banking sector, ease of access to capital markets • Share of private sector in infrastructure projects, foreign investors' access to public sector contracts • Enabling conditions for rural financial services development • Existence of policy , legal and regulatory framework supporting emergence and development of private rural business sector	• Corporate governance laws encourage ownership and protect shareholders' rights • State intervention in the goods and land market is limited to regulation and/or legislation to smooth out market imperfections • Trade laws, regulations, guidelines are published, simplified and rationalized

The respect of citizens and of the state for the institutions governing economic and social interactions among them is based on the RL and CC indicators. The RL refers to "the extent to which agents have confidence in, and abide by, the rules of society, particularly, the quality of contract enforcement, property rights, police and courts, as well as likelihood of crime and violence."

Table 3. Rule of Law

Country Assesment is Based on
• Strength and impartiality of the legal system • Reliability of police services • Independence of prosecutors from political directions and control • Judicial independence • Security of private property rights • Enforceability of private and government contracts • Access to land • Prevalence of tax evasion; size of the informal economy • Protection of law enforcement agencies from political interference

And finally, the CC refers to the extent to which public power is exercised for private gain, including petty and grand forms of corruption, as well as "capture" of the state by elites and private interests (KKM 2009, ibid).

Table 4. Control of Corruption

Country Assesment is Based on
• Prevalence of corruption at all levels of government • The impact of corruption on attractiveness of a country as a place for doing business • Nepotism, cronyism and patronage in the civil services • The strength and effectiveness of the anti-corruption laws and institutions • Bribing and corruption in economy

Country Assessment is Based on the Extent to Which
• Allegations of corruption are thoroughly investigated and prosecuted • Government is free from excessive bureaucratic regulations, registration requirements • Government ensures transparency and effective competition in the awarding government contracts • Government authorities monitor the prevalence of corruption and implement sanctions transparently

As can also be noticed from the content of the Tables presented above, WGI rely solely on perception-based data sources such as surveys of households and firms, expert assessments produced by different organizations, etc. (KKM 2011:224-227). The WGI authors explain their decision to rely on this type of data by several reasons: first, this type of data, they argue, has a particular value especially for measuring governance concept: enterprises base their investment decisions on how they perceive the investment climate, while citizens base their decisions to vote on their government's performance (KK 2008:4, KKM 2011:240); second, they believe that alternatives to reliance on perception data are very scarce in many areas of governance. That is especially true in the case of corruption which cannot be "captured" through objective measures (KK, ibid); third, "fact-based data" on governance very often capture a *de jure* notion of rules "on the books", which differs from the reality on the ground (ibid). Finally, the rule-based data, according to them, have little normative content on their own, which makes it difficult to understand what is good or bad for governance. Are presidential systems good or bad in essence? The authors are sure that this question and similar ones would be better answered by perception-based data, rather than by rule-based indicators (KK 2008:7-9).

Over the years, the WGI project has prompted widespread criticism (KKM 2007). Despite that, the WGI are the most widely applied measures (Rothstein 2011:8) and "probably the most carefully constructed" indicators (Arndt and Oman 2006:49), which makes them appropriate for using in this thesis.

2. Theoretical Framework

This chapter discusses two theoretical approaches - derived from the literature on governance - that help shed light on variations in the QoG in different countries. The first point discussed below is the causal connection between the sources of state revenue and governance patterns, followed by the next, namely, the ownership structure of mineral resources and its impact on the QoG. The outlined theoretical reasoning will serve as a foundation to define variables and advance hypotheses in the following chapter.

2.1 Fiscal Sociology Paradigm-Emergence of Representative Government; Moor's Model and the QoG

The first part of the theoretical framework is based on the notion that the state dependence on revenues, sources of these revenues and the need to negotiate and bargain for these revenues with resource providers can significantly shape patterns of governance. How do we know at all that there is/can be a causal connection between revenue sources and the QoG? Historical evidence of emergence of representative government in Western Europe, Mick Moor's analytical model of taxation and governance, and literature on rentier-state provide a solid analytic base to assume that revenue sources can have a significant impact on governance patterns. Below each of these dimensions is discussed separately.

Fiscal sociology is a wave of multidisciplinary scholarship that studies effects of taxation on various social categories. Its origin traces back to Joseph Schumpeter's understanding of fiscal sociology. He borrowed the term from Rudolf Goldscheid to suggest a science that combines the study of economics with that of society, history and politics (Martin, Mehrotra and Prasad 2009:2, Moore 2004:298). In his writings, the German economist called for treating tax policy/fiscal policy of a state as both a cause and a symptom of changes in society and economy (Martin et. el, ibid) and made two general propositions about the History of Europe (Moore, ibid) that are relevant in our context. The first one was that it was nothing but transition from the domain state, which lived at the expenses of the domain revenues (incomes drawn from crown-owned properties, such as estates, forests and mines), to the tax state, which resourced itself by taxing its citizens that gave rise to the "modern state" (Moore, ibid, He 2013:51). The second proposition was that the introduction of the tax apparatus into the private economy led to the creation of vast civilian public bureaucracy that itself became a distinct and powerful societal force

(Moore, ibid, see also Schumpeter 1918/1991:100-131). Not amounting to a theory, Schumpeter's fiscal sociology, however, became an effective point of departure for emergence of sets of literature that explore the links between dependence on tax revenues and emergence of representative government in Western Europe, between dependence on rents, rather than on taxes, and a range of political pathologies in the Middle East (Moore 2018:227-228), as well as between dependence on taxation and the QoG, promoted by Moore himself. Before turning to Moore's model, the emergence of representative government needs discussing. The model of connection between taxation and representation is based on the historical experience of emergence of parliamentary government in Western Europe in the 16th to 18th centuries.

The threat and reality of war (which was states' main activity thus shaping the states' revenue needs) created a need for the European rulers to raise more resources to stand military competition (Moore 2008:45, Brautigam 2008:2, see also Tilly 1994: 20-28). Two main alternative options to bargaining- increasing taxes on "domain revenues" and "coercive taxation" – proved insufficient and ineffective respectively[2] (Bates and Lien 1985:55, Moore 2008:37, 40-46, see also Tilly 1994:96-103). At the same time, taxes on trade and movable assets - property that could be transferred from place to place - had a potential to be increased significantly (Bates and Lien 1985:55, Brautigam 2008:12). All these were the assets that could also be easily hidden or moved to another political jurisdiction (Bates and Lien, ibid:55). Under the circumstances, the most reasonable option was to negotiate/bargain with the taxpayers and, by sharing power with them[3], to increase taxes on mobile assets (Moore 2008:44-49). But why did attempts to raise taxes lead to the creation of representative institutions proper? In short, it was beneficial for both sides. Negotiating and bargaining with fewer taxpayers - representatives of all taxpayers – enabled reduction of transaction costs for rulers, as well as ensured that agreements be binding on all the similarly situated agents. Taxpayers, in their turn, could be sure that all similarly situated agents were taxed at the same rate (Bates and Lien, ibid:56-57). Thus, wherever a representative legislature already existed, it became a major

---

[2] It was difficult to acquire adequate properties and especially expand income quickly based on them and thereby stand the war (Moore 2008:46). Coercive taxation, in turn, generated low and unreliable revenues, due to resistance by taxpayers (Brautigam 1992:6) and high collection costs: a large proportion of the proceeds was being appropriated) (Moore, ibid).

[3] The British parliament's right to share power with monarchs in national policy guidance, for example, was "purchased" by the taxes granted to Edward1 and Edward2 (Brautigam 1992:6, Jones 1994: 88-89).

forum for bargaining; wherever it did not, both sides were motivated to establish an organization that would represent taxpayers as a negotiator (Moore 2007:17-18).

Mick Moore, relying on the history of emergence of parliamentary government in Western Europe, in a number of his studies goes further and represents a model showing that broad taxation also leads to an improvement of governance. The model consists of the following elements: (a) the state focuses on taxing its citizens, which (b) engages citizens politically; this, in turn, creates needs (c) to bargain over revenues, and exchange the compliance for influence over the level and form of taxation and use of revenues. This process produces three main outcomes: greater (1) responsiveness and (2) accountability, (3) increased bureaucratic and political capability (Moore 2007:17, 2018:233). How exactly are these outcomes produced? Broad general taxation obliges the state to create a relatively reliable, uncorrupted public service capable of effective tax collection and assessment (Moore 2007:18). This, in turn, increases the bureaucratic capability of the state. Also, given that citizens' material prosperity increases their taxability, the political leaders will have incentives to promote economic growth and general economic prosperity of their countries (Moore 2007, ibid, L-W: 2010:32). This is the "responsiveness" part of the model, which has an impact on modes of governance. Lastly, the experience of being taxed engages citizens politically. They mobilize to monitor the mode of taxation and how the tax revenues are spent, etc. This, in turn, influences the state's political capability. All in all, the process constrains state power, obliging it to respect at least property rights of the citizens and to govern with the consent of at least their wealthier subject(s) (Moore: 2018:233).

In the case of the reverse situation, when the state does not need to broadly tax its citizens and is reliant on rents or, as Moore names it, "unearned income" the outcome would be "reversed". In short, the guaranteed source of income will make the state independent from its citizens, leading to non-transparency in public expenditures (Moore 2001:404-405). The citizens, in turn, will most likely not be motivated to engage in politics through a sense of right to influence the utilization of 'their' own money (ibid:405).

There is a growing body of empirical evidence proving the validity of the aforesaid. Baskaran and Bigsten (2013:96-105), using a sample of 31 sub-Saharan African countries 1990 to 2005, show that the increase in the tax to gross domestic product (GDP) ratio

results in an increase of such indicators of governance as "absence of corruption" and "democratic accountability". They conclude that fundamental relationship between fiscal capacity and the QoG that prevailed in Europe at the dawn of the modern age can be observed in present-day sub-Saharan Africa (ibid:105). Easter (2008) conducts a qualitative investigation of the role of taxation in building state capacity in East Central Europe and in the former Soviet Union. Taking Russia and Poland as representative cases, the author shows how the need to collect resources led the leaders in the two states to bargaining with different societal actors: ordinary taxpayers (broad taxation) in the case of the former and the elites in the case of the latter, which, in turn, produced different outcomes - strengthening democratic institutions in Poland and authoritarianism in Russia during the transition period (ibid:73, 83-88)

2.1.1. Rentier State Theory and the QoG

There is another set of literature – on contemporary rentier-state – which indicates that we should expect a causal connection between government revenue sources and the QoG. The term "rentier state" in its current meaning emerged in the last quarter of the 20th century to describe a new type of economies - states for which the "external rents" constitute a substantial part of the budget (Hachemaoui 2012:3, Ross 2001:329). Hussein Mahdavy (1970:428-432), who is credited with giving the term the above-mentioned meaning, defined the rents as "rentals received by the foreign governments and individuals" from the sale of oil and/or passage of the ships and similar transactions. Hazem Beblawi, about two decades later, refined the concept, added new elements to it, which have since become canonical (Hachemaoui, ibid). A rentier state is thus one where (1) "rent situations" predominate and where (2) only a small fraction of society is engaged in generating these rents with the vast majority involved in its distribution or utilization; (3) it is a state capable of sustaining the economy without a strong productive sector; finally, it is a state where the government is the principal recipient of the external rents and where most of the profits derived from the rents are intended for distribution (Beblawi 1987:384-385).

In the second half of the 1990's the scope of the "rentier state" theory was expanded into the so-called "resource curse" thesis (Hachemaoui 2012:5). While the "rentier state" theory first and foremost attempted to explain that authoritarianism is caused by rents, its successor was aimed at extending that argument, showing, on the basis of a correlation

between quantifiable variables, that they lead, all other things being equal, to other pathologies as well (economic ruin, civil wars, etc.) (ibid). In short, the resource curse might be defined and understood as the adverse effects of a country's natural resource wealth on its economic, social, or political well-being (Ross 2015:240)[4]. My focus is on the adverse effects of rents on the institution building process, specifically, on tax bureaucracy and related state institutions. In short, the model of connection here proceeds as follows: with easy access to oil revenues, resource-based states had no need to organize their societies to raise revenues, i.e. to bargain with taxpayers over taxes, build autonomous, capable bureaucracies that could make efficient policies (Brautigam 2008:18-19). This "model" as well is based on case studies and cross-national statistical analyses. For the lack of space two of them are discussed below.

Chaudhry (1989:113-114,123-137), in a compelling study on two rentier states, Yemen and Saudi Arabia, shows how external capital inflows during the years of economic boom in the 1970s (remittances in the former case and oil rents in the latter case) eventually diminished extractive and regulatory capacities in both countries, which reversed the state-building process in both of them. Gervasoni (2010:315-329) demonstrates how federal government transfers, which he calls fiscal federalism rents, reduce the governors need to tax the citizens heavily, thus weakening institutional constraints on governors' power.

Along with this, an increasing body of research in the resource curse literature demonstrates how the reliance on oil wells, rather than taxation, obstructs democracy. This body of literature is a reason as well to expect a causal connection between the governance and government revenue sources. Ross (2009:2), by exploring the oil-democracy link since the early 2000s, comes to the conclusion that the only alleged causal mechanism that seems to account for the link is the so-called 'rentier effect' - the combination of low taxes and high government spending that seems to dampen support for democratic transitions. The abundant flow of oil revenues enables the rulers to reduce taxes and to increase spending on patronage and public goods and hence to buy off potential challengers, reduce dissent and attenuate demands for greater accountability (Ross 2015:246). In sum, based on the aforesaid it is expected that the dependence on

[4] For more recent review of resource curse literature see Ross 2015, Papyrakis 2016.

unearned income will lead to a reduction of the earned income (taxation), and this, in turn, to worse-quality governance.

2.2. Ownership Structure over Mineral Resources and the QoG: Demand and Supply Side Incentives

The second part of the theoretical framework is anchored on a new and widely ignored dimensions[5] in the resource curse literature, arguing that it is not the resource wealth that curses the mineral-rich countries per se. Rather, it is the chosen ownership structure of those resources.

L-W (2006*a*, 2006*b*, 2010) were the first to focus on the ownership structure of mineral resources, particularly on oil in the context of resource curse. The authors point of departure is that the ownership structure of revenues is not something constant and inevitable, as it is widely believed in the resource curse literature, but rather something variable, accompanied by varying degrees of state control. Moreover, it may vary not only across the countries, but also within a particular country in different periods (L-W 2010:6). The authors, by analyzing the ownership structure in the petroleum-rich countries around the world (1900-2005), have identified four possible ownership structures: state ownership with control, when the state owns the rights to develop mineral deposits and controls majority of shares (i.e. 51%+) in production; state ownership without control, when the state still owns the rights to develop mineral deposits and controls majority shares in production, but the investors have significant managerial and operational control; domestic private (DP) ownership, when DP companies own the rights to develop mineral deposits and control majority share in production; and foreign private (FP) ownership, when FP companies own the rights to develop mineral deposits and control majority shares in production (for details, L-W 2010:7-8). They also developed a theory to analyze the relationship between the ownership structure and tax and spending policies in the five post-Soviet oil-rich countries for the period from 1990 to 2005, and came to a conclusion that different ownership structures foster tax and expenditure policies of different qualities, with the "state ownership with control" being the most harmful one: it fosters weak fiscal regimes (in terms of unstable and inefficient tax systems) and poor "budgetary discipline" in terms of how much revenue is spent rather

[5] An observation made by Khanna (2017:4).

than saved (L-W 2010:11-13). Later, several studies came to demonstrate that the ownership structure indeed does matter.

Brunnschweiler and Valente (2013:2-5) composed their own oil ownership dataset and their own "ownership structure" and investigated the impact of oil ownership on the income level. The conclusion was that the partnership type of the structure involving mixed control, with foreign firms providing the best technology and the State providing domestic capital, produces higher incomes than the other types. Wegenast (2016), in turn, empirically demonstrates that ownership of resources does affect the risk of intrastate violence. Under state ownership, large revenues accrue to state-owned firms, which intensify political competition for access to those resources and also enable the state to spend on the repressive apparatus, thereby increasing the risk of internal violence.

Of great importance for this thesis is Khanna's study of 2017. The author, using L-W dataset, empirically tested the impact of the ownership structure on governance institutions (law and order, bureaucratic quality, corruption and investment profile). The result is that overall private ownership leads to a 0.14-point increase in the above-mentioned indicators compared to state ownership (pp. 23-24)[6].

Why would different ownership structures produce different outcomes? The authors also provide some insight on this issue. In short, the answer is "incentives" (Khanna 2017, L-W 2006*a*, 2010, Brunnschweiler and Valente 2013). Different ownership structures produce different incentives among the actors involved in the mineral sector. The different incentives, in turn, produce different "outcomes". L-W also identify the main possible causal channel through which the ownership structure shapes the incentives - the transaction costs (TCs). Below these points are discussed in detail.

Demand and Supply Side Incentives under Private vs State Ownership and the TCs

To start with, different ownership structures cause different claimants to the mineral resources to appear, which, in turn, fosters different types of relationship between the main actors involved and imposes different TCs on them. Under private ownership, non-state actors represented by private companies have the decision-making authority over

[6] The author has excluded the domestic ownership from the study, given that in the data-set for the time period of her choice Russia was the only country that had domestic private ownership.

mineral sector development. They are also the main direct claimants to the proceeds from mineral wealth (L-W 2010:48, Khanna 2017:8). State actors under private ownership are only non-direct claimants to the proceeds with the main function to tax and regulate the private companies (ibid). The primary interest of private companies is to maximize their profits, which entails, on the one hand, making optimal investments in oil extraction (Khanna 2017:8), and, on the other hand, making their own tax burden as minimal as possible (L-W, ibid:55). To make and secure their investments, private companies are expected to put bottom-up pressure on governments to shape the sector-related legislation, grant exclusive private property rights to them (Dietsche 2014:150), ensure them against the risk of expropriations, which is a more frequent occurrence in the mining and petroleum industries than in any other (Khanna 2017:8, Hajzler 2014:124). Security and prosperity of investments, thus, largely depends on the quality of domestic institutional environment, such as strong legal institutions to uphold the rule of law, the stable domestic policies, and strong property rights institutions (Khanna, ibid).

The state, in turn, is interested in maximizing its proceeds, which is possible to do only through taxation and regulation (L-W 2010:182). This creates incentives for the state actors to provide greater security for investments and to ensure that the efficiency and profitability of private companies are not compromised (Khanna 2017:9-10). On the other hand, what the state actually receives depends on the income and profits disclosed by private companies (ibid, 10). The private companies seeking to maximize their proceeds, may have incentives to hide their profits, in order to minimize the amount of taxes to be paid to the state (L-W 2006*b*:45). This, in turn, creates incentives for the state to develop an efficient bureaucracy and to strengthen regulations for oversight. All in all, without strong bureaucracy and effectives laws and regulations, states cannot receive their fair share of the value of resources (Khanna, ibid)[7].

But what specific factor makes the state supply and the private companies demand good governance institutions instead of seeking other options to secure their primary interests discussed above? The TCs - costs of exchange that arise from the transfer of the property rights to another party seem to be the main causal mechanism. The concept derives its

[7] Even in cases of corrupt privatization, i.e. transfer of ownership by the leaders to their allies, the incentives to reform institutions should eventually come through (Khanna 2017:10). For an example, see L-W (2010:173-175).

background from Coase's work of 1937; and in its initial meaning and broadest sense refers to the costs of operation during economic exchange: costs of searching for information and partners, costs of negotiation of contract terms, etc. Over the years, the TCs came to be used in relation to political exchange as well, referring to the information, monitoring and enforcement costs and explaining the emergence of institutions triggered by a desire to minimize those costs and facilitate the exchange (North 1990:46-53). Regardless of the field of application, the underlying theme in the TCs is the notion of ignorance: asymmetry of information (Allen 2000:906). The information asymmetry arises not only from the fact that one party knows more about some valued attribute than the other party does, but also because he or she may stand to gain by concealing that information if the payoff to such activity exceeds the value of the alternative opportunities available (North, ibid:30). And when the asymmetry of information on other actors' behavior and interests are high, they exceed the costs of exchange and foster a desire to create institutions to help minimize those costs (L-W 2010:50, North 1990).

Under the private ownership described above, the objective functions of the two main actors in the oil industry were different, their knowledge about each other was far from being complete and, as a result, the transaction costs were high. Thus, reaching self-enforcing bargains to address the risk of expropriation and break-up of the contracts would be very costly to the private actors: the costs of monitoring and enforcement of the contracts and the effects of uncertainty can easily outweigh the gains from investments (Haggard et al 2008:207). But the credible third-party enforcement of property rights and contract(s), would increase private returns and deter opportunistic behavior (Haggard et al, ibid, North, ibid:58). Strengthening the governance institutions would also enable the state to prevent and detect possible cheating, shirking and hiding the information (North, ibid:55). The example of why both private companies and state actors would prefer a stable and efficient tax regime cited by L-W (2010:56) is an illustrative one in this regard: without a formalized tax regime the private companies and elites would be locked in a vicious cycle in which tax rates encourage tax evasion, tax evasion encourages even higher tax rates and threats of expropriation.

When it comes to the "state ownership", the "rentier state theory" logic helps explain why the actors engaged in the mineral sector would not have incentives to build strong institutions. Here the government enjoys the sole authority to make decisions in the

industry (L-W 2010:46). It normally performs its role via relevant ministries and national oil companies (NOCs). However, the boundaries between these two actors are blurred given the absence of an identifiable principal[8] (L-W 2006*b*:43). In most developing countries high government officials tend to chair the NOC's board of directors and are periodically rotated within the NOC's top management (L-W 2006*a*:247, 2010:53). The measured costs of transactions between the two actors due to dense interaction are very low (North, ibid:55). As a consequence, incentives to build strong institutions are absent. Institutions that foster internal and external oversight mechanisms increase transparency and thus constrain the actors' behavior (L-W 2006*b*:44). Rather, the actors prefer "informal agreements" which will allow them to allocate and use the proceeds as they wish (ibid)[9]. All in all, it is expected, based on the above, that private ownership leads to higher-quality governance than state ownership.

[8] In theory, population is the principal, but they lack the ability to monitor and control the agents.

[9] One note: as was mentioned, L-W differentiate between DP ownership and FP ownership. And the above-mentioned discussion on the private ownership is derived from the authors' discussion on DP ownership. Foreign ownership's capacity to lead to better tax and spending policies, according to authors, is narrow, being limited to the mineral sector. Khanna (2017), however, in her analysis does not differentiate between the two. I myself follow Khanna, especially given that, as is explained below, I do not employ L-W's categorization.

3. Methodology

3.1. Research Design-MSDO

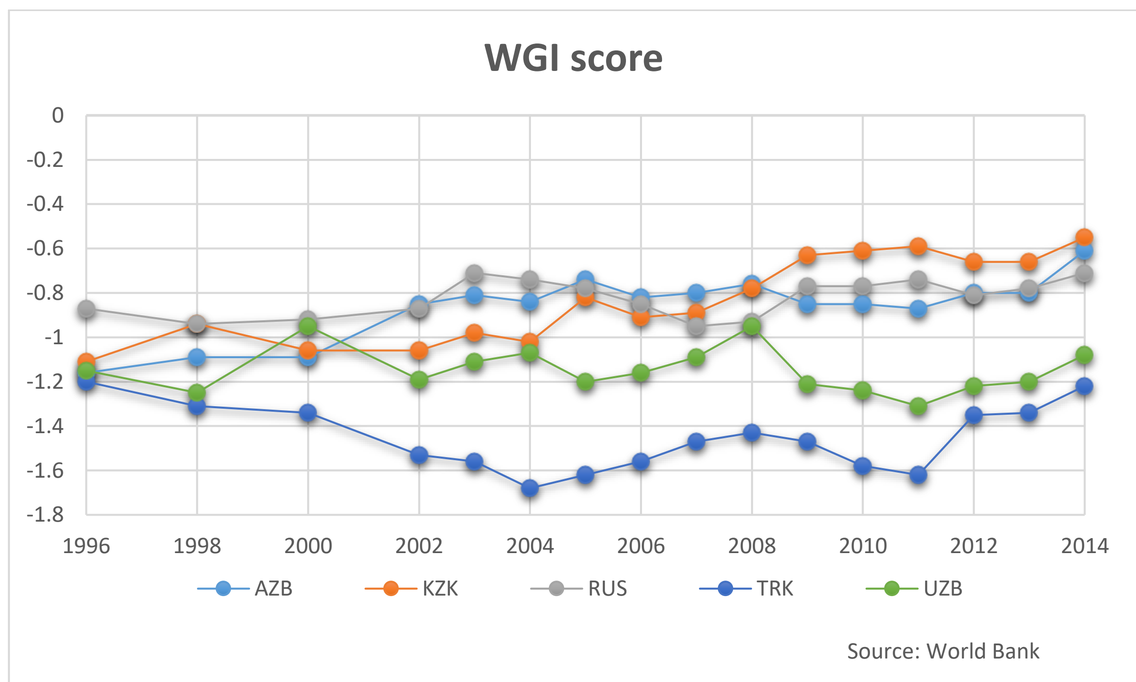
This master thesis is a hypothesis testing a small-N comparative study on MSDO. The choice of this particular research design, MSDO, and a comparative method (instead of an experimental or statistical analysis in a large N study, using a sample of all oil rich autocracies, for instance) is warranted for two reasons suggested in the relevant literature. The first one derives from the belief that political phenomena are best understood through a careful examination of a small number of cases (Collier 1993:105). Secondly, in case the time and resources are scarce, an intensive comparative analysis of a few cases is considered more promising than a more superficial statistical analysis of many cases (Lijphart 1971:685). Before discussing limitations of this particular research design, the first point is about the Most Similar System Design (MSSD). MSSD has to do with "comparing instances in which [a] phenomenon does occur, with instances in other respects similar in which it does not" (Lijphart, ibid:687). To put it simply, while making use of MSSD, the ambition is to test the effect of an IV on the DV, while keeping extraneous variance constant (Anckar 2008:391). Thus, MSSD is particularly well-suited for area studies, with a justification that there is something inherently similar about the countries that make up a particular geographical region (Landman 2008:71). While in pure MSSD, the IVs should vary, and the values of the DV are of no interest at the beginning of the research, both in principle and in practice, it is possible to use cases that vary in DVs as well, i.e. 'most similar cases with a different outcome' (MSDO) (Anckar, ibid:395). This will presuppose beginning the research process by focusing on the DV (ibid) and will enable the explanation of the reasons why, within a set of countries, some result in other patterns than others (de Meur et al 2006:71).

The MSSD and comparative method have some limitations, however. The major one is the difficulty in "generalizing the findings" (Collier and Mahoney 1996:71), with the "many variables, few cases" being another common one (Lijphart 1971:686). To overcome these problems, several suggestions are offered: (1) to focus on the comparable cases and carefully select the cases, by singling out the ones that are matched on variables that are not central to the study and that differ in the variables that are central to the study, (2) to reduce the number of variables by combining them (Lijphart, ibid:686-687), as well

as to include the contrafactual case in the case when the DV has one value (Collier 1995:464). In sum, the task is to identify those cases that are as similar as possible in the background characteristics, different as much as possible in IV and at the same time perform variation in DV.

The post-soviet oil-rich countries provide an avenue for such research. After the Soviet Union's dissolution in 1991, Kazakhstan, Turkmenistan, Uzbekistan, Russia and Azerbaijan emerged as independent oil-rich countries. Each of them gained a right not only to full control of their resources, but also to their own course of development - political, economic and institutional. However, the countries that were politically, economically, and socially similar under the soviet rule (Ahmadov 2011:73) throughout the independence era, as Figure 1 shows, came to differ in the QoG.

Figure 1: The QoG



Following the discussion above, the next step is to select from the five those that are as similar as possible "in extraneous variables" that can affect the QoG and, at the same time, keep variance in the QoG. Three of such variables are identified in the literature on governance: socio- economic development (Rothstein 2012:145), abundant natural resources (Ahmadov, ibid); and the level of democracy, though the democracy-governance relationship is uneven (Rothstein, ibid:146).

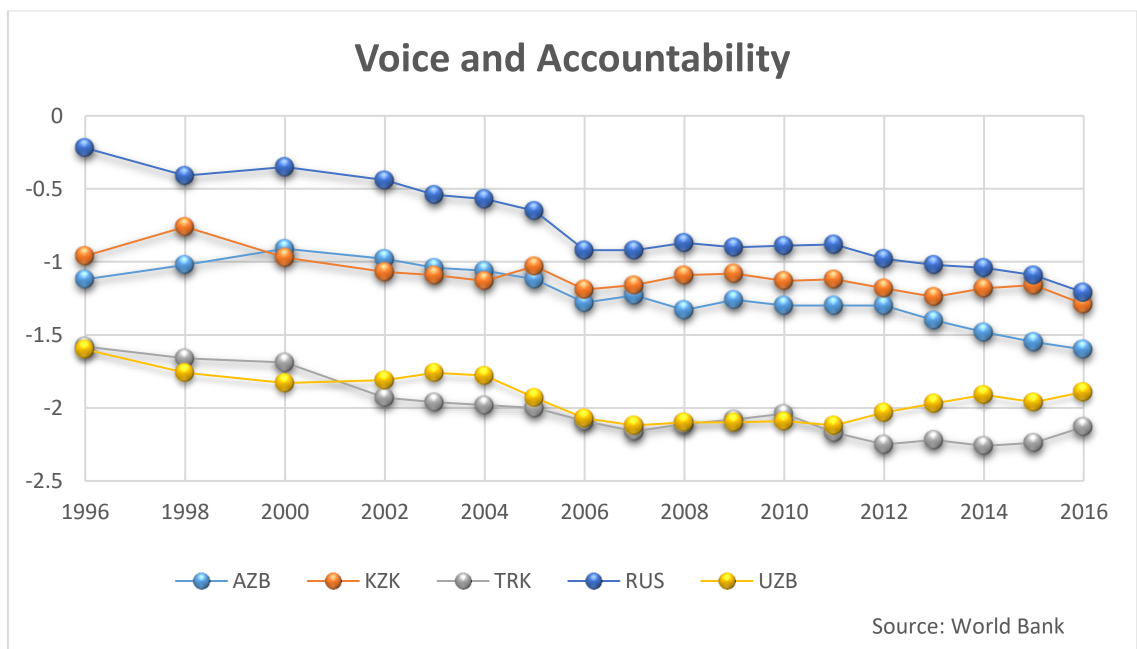
Table 5. Initial Level of Development and Resources

Country	Per cap GNP at PPP US$ 1989	Natural Resources
Azerbaijan	4620	rich
Kazakhstan	5130	rich
Turkmenistan	4230	rich
Russia	7720	rich
Uzbekistan	2740	moderate

Replicated from de Melo et al 2001, Table 1.

All five countries, as Figure 2 shows are autocratizing states. The rest two variables - "democracy" and "resources", however, proved a basis for excluding Uzbekistan from the sample: Uzbekistan had "moderate" natural resources at independence, as well as was much poorer in terms of GDP (Table 5). Also, Tashkent was the principal administrative center of Soviet Central Asia (Pomfret 2011:5), implying the existence of experienced bureaucrats at the state apparatus at independence. I exclude also Russia due to its high level of socioeconomic development.

Figure 2: Level of Democracy



Kazakhstan, Turkmenistan and Azerbaijan had almost the same level of socio-economic development at independence and were "rich" in natural resources (Table 5). These three also share several other background characteristics, though less relevant for the QoG: colonized by the Russian Empire, with 71 years spent as part of the Soviet Union, they are predominantly Muslim and part of the larger Turkic-speaking realm (Ahmadov 2011:74). However, throughout the independence period, Azerbaijan and Kazakhstan gradually improved the QoG, while Turkmenistan saw a gradual decline. This being so, it is a valid question to raise: why do they differ in values on the QoG?

3.2. Variables and Data

3.2.1. Dependent Variable and Data

The DV of this study is the QoG, which, as it was mentioned, will be measured based on the WGI. It is worth mentioning the WGI team does not provide a single measure of governance, i.e. all six indicators are not composited into one. Each of the six indicators is measured and presented separately, with a score ranging between –2.5 and 2.5, with higher scores corresponding to a better outcome. The literature employs different methods of aggregation to compose a single measure of WGI (take the minimum; take the arithmetic mean; take the maximum). Here I follow Baird (2009), who suggests taking the maximum score of each pair of indicators (VA/PS, GE/RQ and CC/RL) and then the minimum one of the three different clusters. Given that I have excluded from the research the first pair of indicators, I have composed the governance score by aggregating the two pairs of indicators -GE/RQ, RL/CC. First, I took the maximum score from each pair for a given year/country, then the minimum one from the two. I designate the aggregated single measure as "WGI score". This aggregation technique is consistent with the WB definition of governance (Baird, ibid:5-7) and allows one to understand which specific indicators led to the improvement of the QoG.

One of the essential features of the WGI data is the "standard errors" capturing imprecision in measuring governance (KKM 2011:231). The standard errors are lower for countries (1) covered by more data sources, and (2) for countries covered by data sources which are more highly correlated with other sources in the index (Arndt and Oman 2006:64). The lower values on standard errors thus indicate higher precision.

The standard errors, in turn, are related to the so-called "confidence level, which has to do with the "confidence" that the countries are ranked and scored correctly. The WGI always report the "confidence interval of 90%" or "margin of errors" along with "estimates of governance", which itself is a useful tool for comparison. The WGI team suggests comparing the margins of errors of two countries or of two points in time. Overlapping scores would mean that estimated differences in QoG between two countries/two points in time are too small to be considered statistically significant (KKM 2005:26-27). Following the team's suggestion, margins of errors of each indicator will be compared and discussed.

3.2.2. Independent Variables, Data and Hypotheses

The first IV of the study is the degree of reliance on unearned income in respective countries. I also employ an intervening/causal variable "dependence on non-tax revenues" to explain the relationship between the first IV and the DV. The inclusion of the intervening variable is not only in line with the theoretical story presented in the previous chapter, but it also alleviates the "too many variables" problem typical to the MSSD (p. 21).

The first IV will be operationalized based on two indicators: "total resource revenues" (TRR) and "the value of oil production per capital" in a particular country. The TRR are defined here as "natural resources that include a significant component of economic rent, primarily from oil[10] and mining activities (ICTD GRD, excel file). More specifically, they include royalties (a percentage of production or of the value of sales), taxes (corporate income tax, additional taxes on profits), and production sharing (the share of production going to the government under Production Sharing Agreements (PSA)), and the NOC's profits, if applicable (Knebelmann 2017:5). The TRR is one of the most important measures in resource curse literature (Ross 2015:242).

The TRR indicator will be measured based on the International Centre for Tax and Development Government Revenue Dataset (ICTD GRD). Released in mid-2014, it has been constructed by systematically merging, cleaning, and reshaping data from multiple international and country-level sources and offers "a more complete and analytically accurate" first choice" dataset (Prichard 2016:51). It is worth noticing that governments

[10] Hereafter the term "oil" refers to both oil and natural gas.

can hide their TRR in different ways by understating the value of the fuel they sell, colluding with foreign oil companies (FOCs) to conceal their transactions and using their NOCs to hide them, etc. (Ross, ibid, Ross 2013:6).To surmount these problems, researchers have turned to alternative measures. One of them is the oil production per capita - a country's oil and gas income divided by its population. The above accounts for the choice of the second indicator.

Data on the second indicator are taken from the Ross and Mahdavi dataset (2015). To calculate the total value of production, the authors multiply the volume by the world oil or gas prices. The oil production figures represent only the approximate volume and value of production in a particular year, do not tell us anything about whether these revenues are collected by governments themselves (Ross and Mahdavi 2015, Codebook). However, these figures unlike that of the first indicator, are "complete". Thus, they will also help make up for the missing data on certain years as far as the first indicator is concerned.

The intervening variable - "dependence of earned income" in a given state, which, according to the theory, is caused by the IV, is operationalized based on the "total non-resource tax revenues, excluding social contributions" indicator. It is calculated as taxes excluding the social contributions minus resource taxes (ICTD GRD, ibid). The choice of this indicator is accounted by the fact that "earned income" refers broadly to non-resources taxes, which are raised on a relatively broad base, and generally require a measure of negotiation with the population, as well as the construction of complex tax bureaucracies (Prichard 2016:49). These data are also derived from the ICTD GRD.

The second IV of the study is "ownership of resources" in a given country (1996-2010). I do not employ here L-W's "categorical variables" and their dataset to measure the ownership structure. L-W present ideal types of ownership structure, while my aim here is to follow differences in overall trends with regard to different variables and to identify small but constant changes. L-W's "*de jure"* categorization (relying solely on countries' laws/legislation) of countries have also prompted skepticism over the years in terms of its applicability (Sarbu 2014:65). "*De facto"* data on ownership, defined as/measured in "participation share of NOCs and private companies in the oil production", had been offered as an alternative measure of ownership (Sarbu 2014, Wegenast 2016). This type

of measurements reflects operational control rights of different actors over the industry per se. However, *"de facto"* data argued to be as "more precise and valid operationalization" of "ownership", capable of reflecting even slighter changes within countries' ownership structures over time (Wegenast, ibid:40). Especially the last point makes the above-mentioned approach to measuring ownership structure more appropriate for this thesis.

Thus, to measure the second IV, I will rely on Wegenast's dataset on ownership (1989-2010), which, however, contains only data on Turkmenistan and Azerbaijan[11]. In order to establish the ownership structure in a given country, the author has identified the total oil output by state-owned, privately-owned domestic and foreign companies in a given year (2010:40-42). The dataset does not provide any threshold value to identify the country as having "private" or "state" ownership. It just presents data on the share of state-owned companies vs privately owned companies in the oil production in a given country/year. The figures are presented in the equivalent of thousand barrels of oil per day. After my numerous attempts to get data on "ownership structure" in Kazakhstan (from different researchers, energy news publishers, etc.) failed, I decided to measure the ownership structure in Kazakhstan relying on two accessible sources: L-W's dataset for the period from 1995 to 2005 (2010:345-349), which also provides data on oil production; and, for the rest five years, the official statistics provided by the Kazakh NOC, Kazmunaigas, in its annual reports (Kazmunaigas Exploration Production, 2006, 2016). The reports, however, contain only data on Kazmunaigas, i.e. on "state-owned company's share".

The analysis of the research covers the period from 1996 to 2014, with the ownership structure variable having a limited sample (1996-2010). The selection of the sample period is dictated by the data available. I advance and in the next section test the following two hypotheses: (1) The higher the reliance on unearned income in a country, the lower the non-resource tax burden, the worse is the QoG. (2) The higher the level of privately controlled oil, the better the QoG in a respective country.

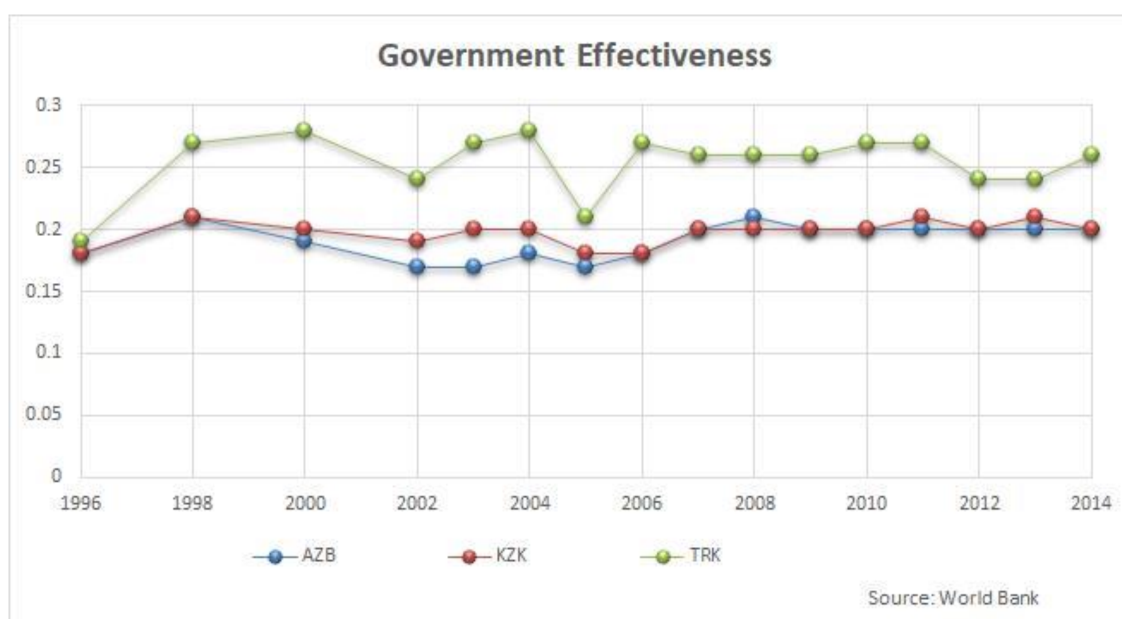
[11] I am extremely grateful to Dr. Wegenast for generously providing me with data on Turkmenistan and Azerbaijan.

4. Empirical Findings and Cases

4.1. Data Analysis and Discussion

Before proceeding to the testing hypotheses, the first thing to focus on is the standard errors of the four indicators in question (p. 24-25). In order to understand whether the countries in question are comparable in terms of QoG, it is especially important to look at the figures of 1996 and 2014. Thus, as can be seen, the standard errors dating back to 1996 reveal, with just one exception[12], an overlap between the scores of Kazakhstan and Azerbaijan in all indicators. At the same time the figures show a significant difference between both the scores of Azerbaijan and Kazakhstan and those of Turkmenistan. This means that, while we need to be cautious when talking about the differences between Azerbaijan and Kazakhstan in terms of QoG in 1996, we can feel free to state that there is a marked difference between both Azerbaijan/Turkmenistan and Kazakhstan/Turkmenistan in the same year.

Figure SE-1



*SE = Standard Error.

[12] Azerbaijan and Kazakhstan on RQ.

Figure SE-2

Figure SE-3

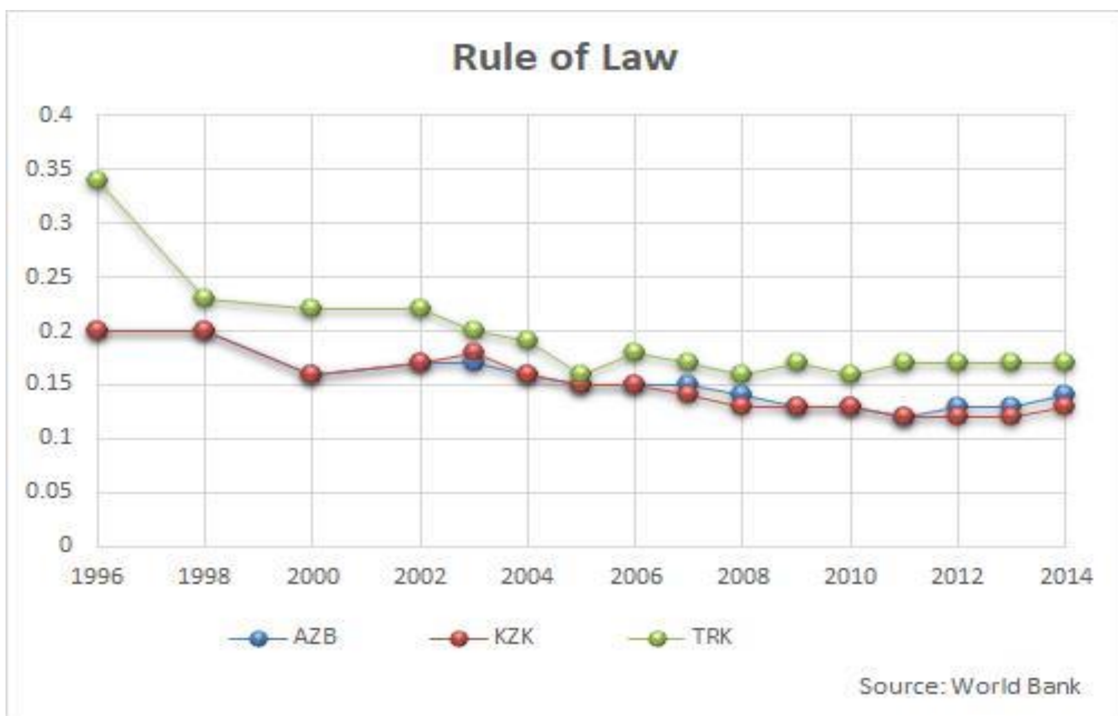
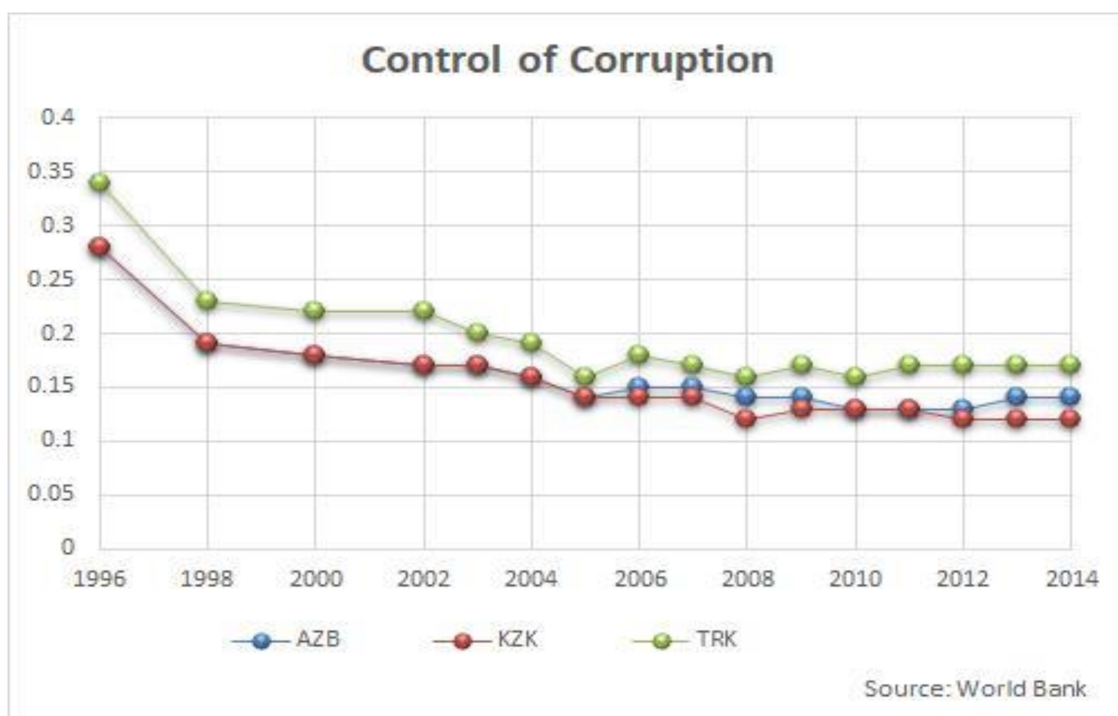


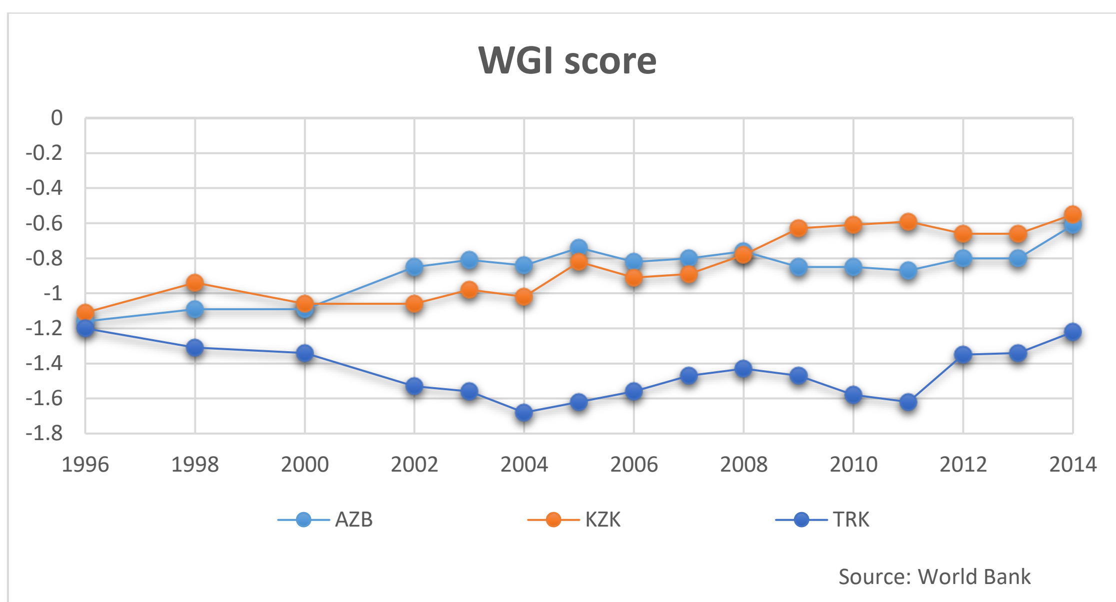
Figure: SE-4



The 2014 picture, however, is different: there is no overlap between any country in any indicator, except the RL, where we observe overlapping scores among Azerbaijan and Turkmenistan. However, given the existing significant difference in the RL "estimate" (Appendix 2) between Azerbaijan and Turkmenistan, we can note that the two indeed differ from each other in that indicator as well. Also, there is a clear difference between the scores within each country between the two time periods (1996 and 2014), implying a real change in the QoG in each case throughout the period under review.

Now let us look into the DV: figures in Figure 3 indicate Kazakhstan and Azerbaijan gradually and constantly improved the QoG throughout the period under study, while Turkmenistan's score shows a gradual decline. In the case of Azerbaijan, a constant gradual improvement is visible immediately after 2000, while in the case of Kazakhstan progress is observed a bit later - after 2004. However, the country manages to ensure faster progress and achieve the best results among all the countries in the sample.

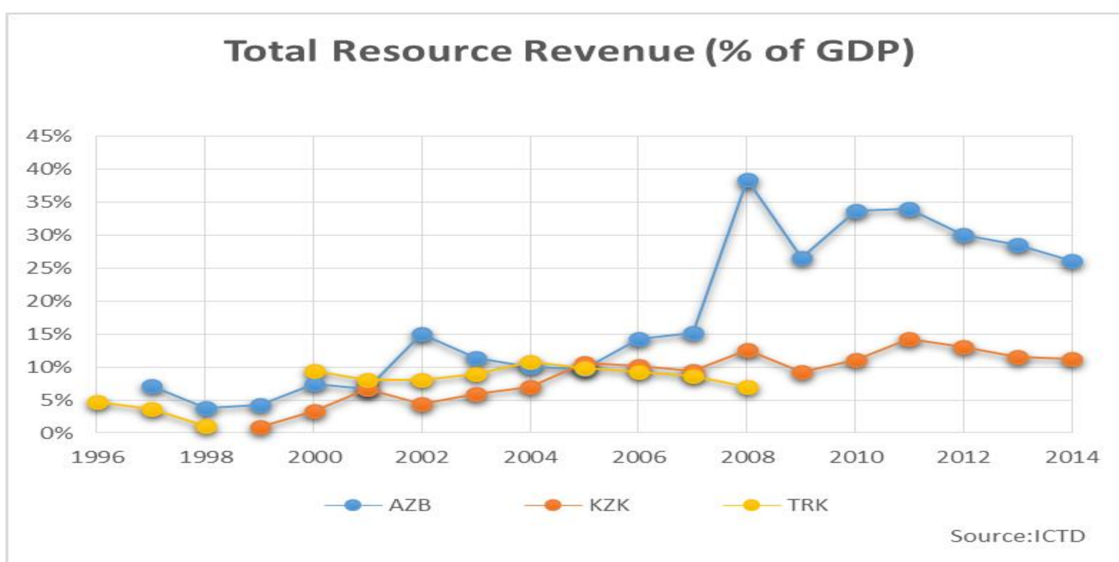
Figure 3: The QoG



Up until 2011, the QoG in Turkmenistan, on the contrary, saw a steady and gradual decline. The scores slightly improve subsequently, approximating to the 1996 level.

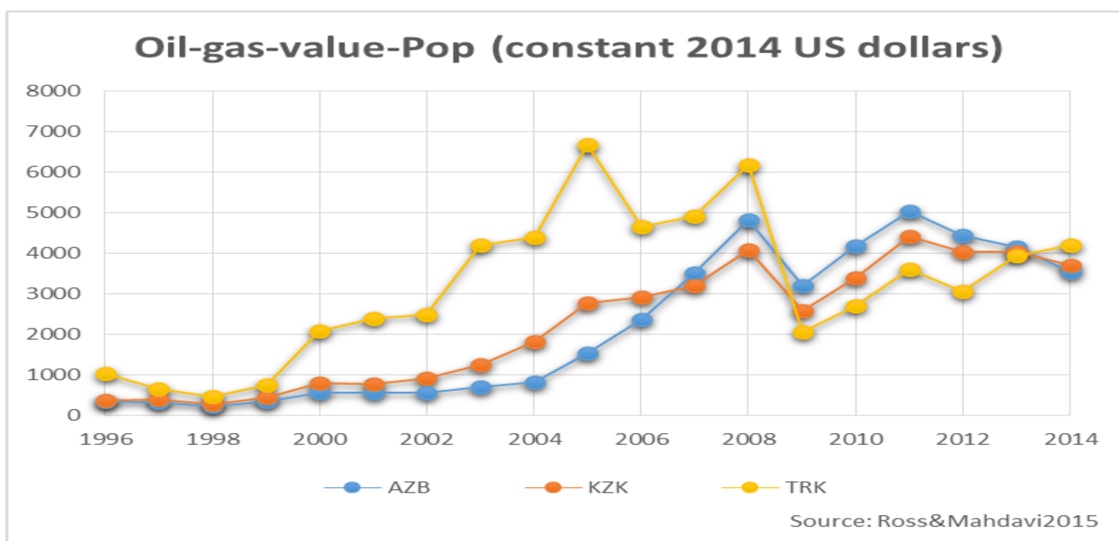
Figures 4, 5, 6 present data on the first IV with its two indicators- TRR and oil and gas volume per population, and those on the intervening variable - non-resource taxes, respectively. Data on TRR reveal Azerbaijan as undisputed leader even if we, with the incomplete data on Turkmenistan, limit the analysis to the 13-year period. The shares of Kazakhstan and Turkmenistan are, on average, exactly the same - 7 per cent. The oil-gas-value-pop indicator shows a different result: Turkmenistan appears to be the leader here, followed by Kazakhstan and Azerbaijan respectively.

Figure 4



Note: The gaps in the lines in Figures 4 and 6 indicate absence of data in the dataset.

Figure 5

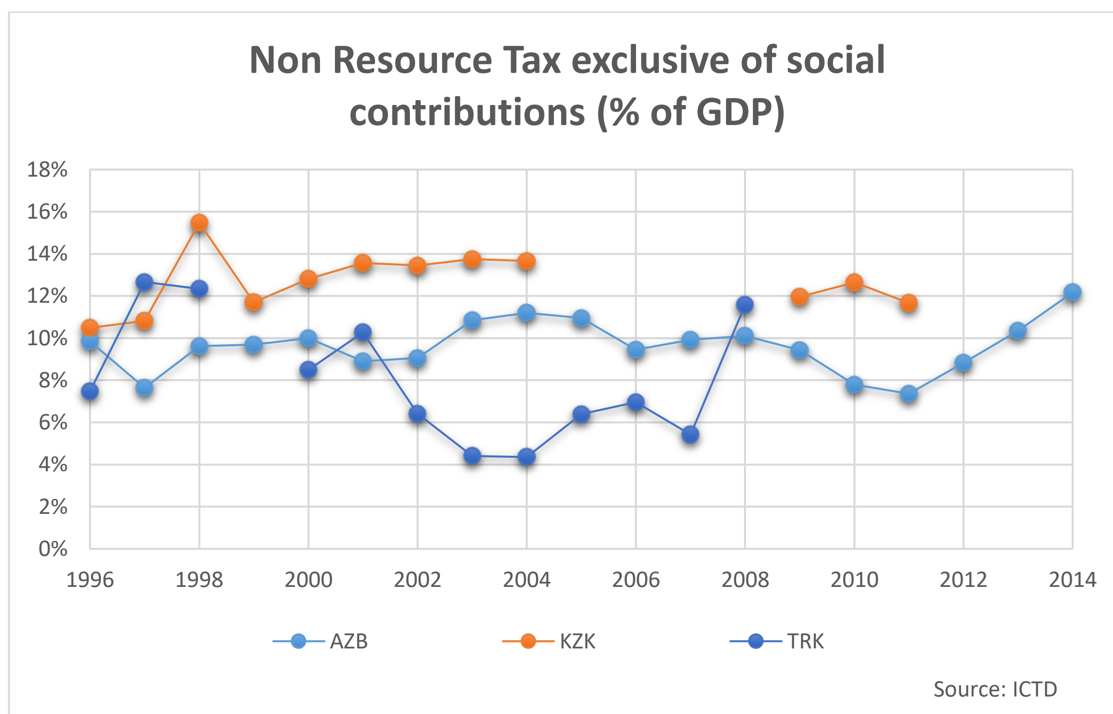


In all three countries (based on both indicators) the resource revenue/oil production sees an overall gradual increase up until 2008. Azerbaijan and Kazakhstan see a jump in TRR in 2002 and 2001 respectively; later, in the latter half of the first decade of the 2000s, both countries see an oil boom as well. After a sharp decline of resource revenues amid the global economic crisis in 2009, the overall growth continues in both countries. The oil boom in Turkmenistan starts in the early 2000's, after a dramatic decline in output from 1991 to 1997 (Pomfret 2008:4). Right until 2009, the country was essentially ahead of

Azerbaijan and Kazakhstan in terms of its oil and gas production. After 2009, however, the production saw a sharp decline and eventually dropped, lagging behind Azerbaijan and Kazakhstan.

As for the non-resource tax data, if we again rely on the 13-year data, Turkmenistan's average rate is 8 (unearned income: 7) compared to Azerbaijan's 10 (unearned income:13), Kazakhstan's 13 (unearned income:7). However, the analysis of trends in non-resource taxes shows that it does not depend on the trend in TRR in the case of Azerbaijan and Kazakhstan. That is, in Azerbaijan, the average tax rate was 10 per cent before 2005, whereas it was 9 after the boom, in Kazakhstan the average score remains the same throughout the period before and after the boom. The only exception is Turkmenistan where the oil boom seems indeed to affect the tax rate. Thus, in the period of the dramatic decline, the tax rate was much higher compared to the boom period: 13 per cent in 1997 against 5 per cent in 2007.

Figure 6



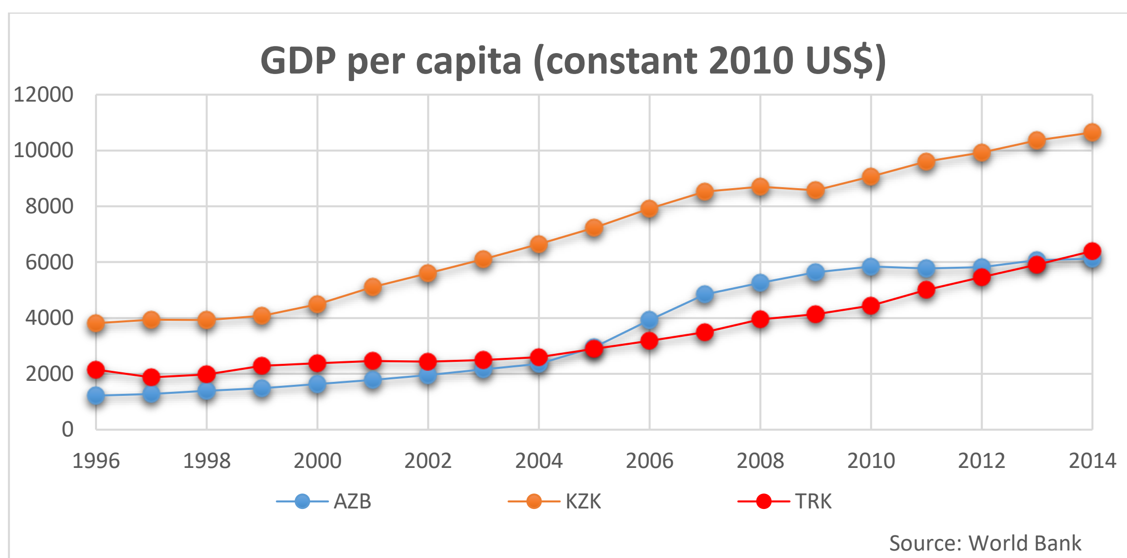
Hence the assumption of the first hypothesis/theory that reliance on resource revenues leads to a decrease in the tax rate cannot be verified with regard to Azerbaijan and Kazakhstan. Moreover, the trajectory of movement of the TRR data and that of governance score go in the opposite directions in these two countries. Increase in the TRR is accompanied by a gradual improvement in the QoG. Turkmenistan, however, is a

"deviant" from this pattern. Here, an increase of TRR leads to a decrease in both the tax rate and the QoG. All in all, the first hypothesis assuming that the reliance on the unearned income reduces reliance on the earned income, which, in turn, affects the QoG, does not seem to hold true. As we saw in Azerbaijan and Kazakhstan, a gradually increasing unearned income is accompanied by a gradually improving the QoG, without changing the "earned income" as such.

Several clarifications concerning the reliance on unearned income: although the TRR make up only 18%, 9% and 7% of the GDP on average in Azerbaijan, Kazakhstan and Turkmenistan respectively, it is worth mentioning that all three are "resource-based economies", in a sense that the share of oil in total exports regularly exceeds 40% (Kalyuzhnova and Patterson 2016:98). In 2014 that share for Azerbaijan was 92% (91% in 2001), for Kazakhstan, 77% (53% in 2001) and for Turkmenistan, 91% (89% in 2001) (ibid:99).

Also, the oil revenues constitute a significantly larger part of the state budget in each of the countries. In Kazakhstan in 2011, 46.5% of the state budget came from extraction and export of oil (Kostem and Sahin 2014:3), in Azerbaijan, 60.5% in 2012 (Ibadoglu et al 2013:21) and in Turkmenistan, 80% (World Bank (WB) 2015:3). Another piece of evidence of reliance is that oil has indeed affected the structure of economies: thus, in 2014, in Kazakhstan its share in industry (dominated by the oil) accounted for 35.9% of the GDP as opposed to agriculture (4.7%) (Malikov et al 2016:6). In Turkmenistan and Azerbaijan those figures were 48.4/14.5% (ibid) and 42.1/5.7% respectively (Gurbanov et al 2017:3). Last but not least, increased oil production in all three countries is correlated with the GDP growth, which also suggests reliance on natural resources: both Turkmenistan's low rate in the 1990's, and growth in Azerbaijan and Kazakhstan in the first decade of the 2000's, as well as Turkmenistan's slowdown compared to Azerbaijan in the latter half of the first decade of the 2000's, support this claim (Figure 7).

Figure 7

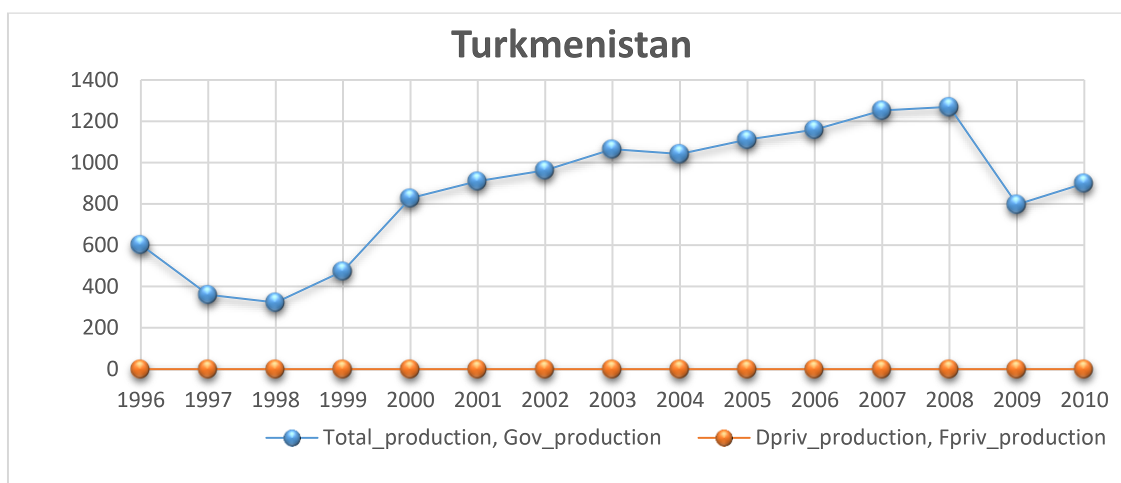


To sum up, all three countries appear to be reliant on oil revenues. But despite that reliance, Azerbaijan and Kazakhstan gradually and constantly improved the QoG, while Turkmenistan saw a gradual decline. So, what can account for that? The second IV-ownership structure seems to answer this question.

Figures 8-10 present data on the ownership structure. The data on Turkmenistan reveal a 0% share for private companies (both domestic and foreign ones) in total production. Thus, according to Wegenast's dataset, from 1996 to 2010 the NOCs, i.e. Government, produced all the oil in the country. As for Azerbaijan, while DP companies have 0% share, in production, the FP companies play a considerable role in it. Based on the observed data[13], from the outset of 2002 FP companies' share starts increasing gradually, reaching its peak in 2007, during the oil boom. Overall, in 2010 compared to 2002, the volume of production by FP companies increases more than threefold. Moreover, FP companies' share increases much faster than that of the state after 2002, implying that in the first decade of the 2000's they played a significant role in Azerbaijan's oil industry. However, overall the government's share exceeds that of FP companies (Figure 9).

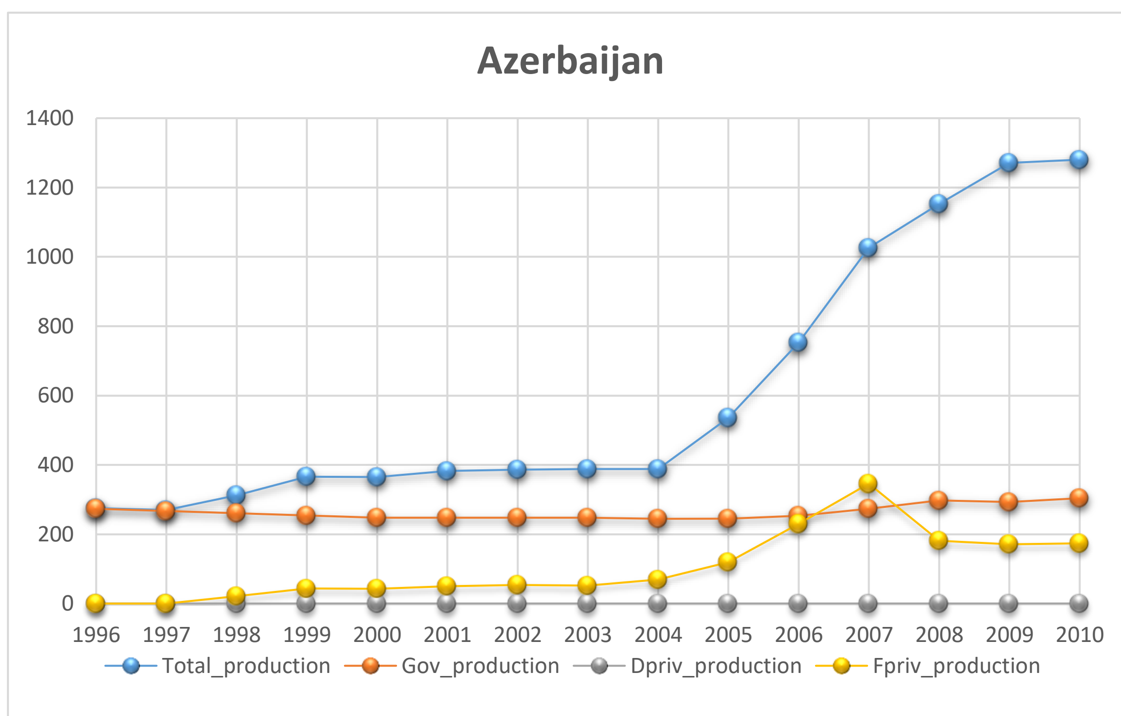
[13] There is a deviation between the total production output and different players' share. This accounts for lack of reliable information (Wegenast 2016:41).

Figure 8: Ownership Structure in Turkmenistan



* “Gov” = “Government”, “Dpriv” = “Domestic private”, “Fpriv” = “Foreign private”

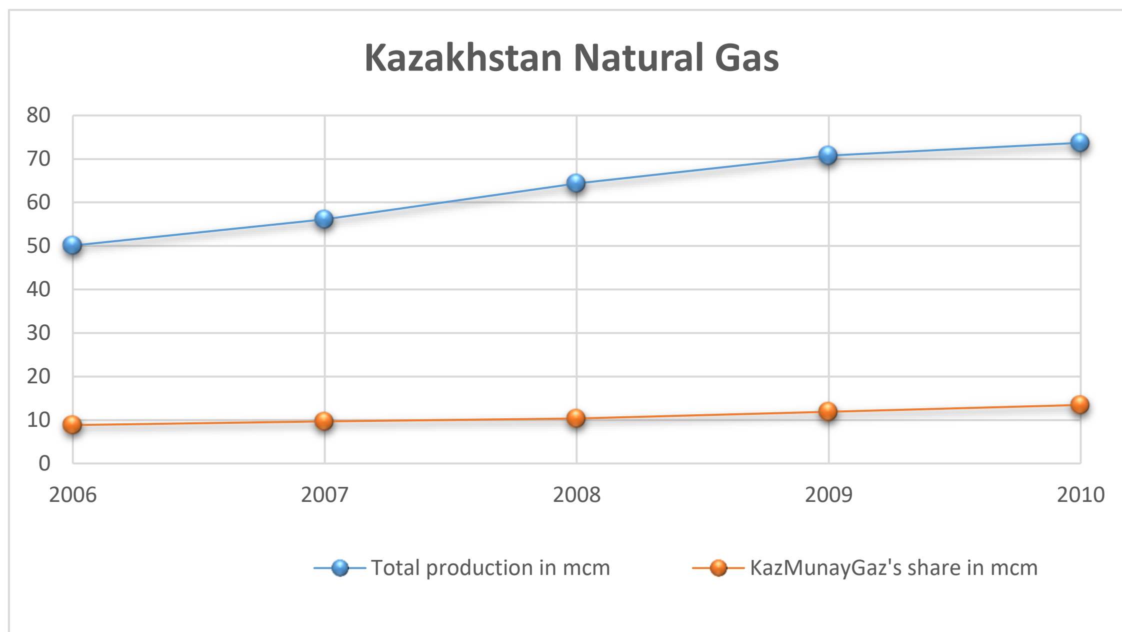
Figure 9: Ownership Structure in Azerbaijan

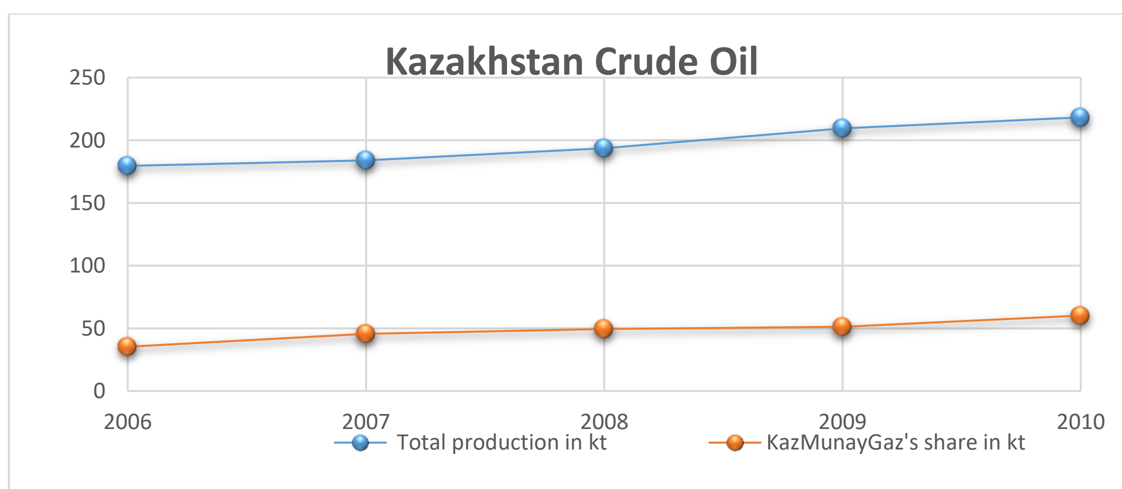


In the case of Kazakhstan, the absence of numerical data makes it impossible to follow the trends. Anyway, L-W’s dataset (2010:345-349) reveals that from 1995 to 2000 and 2000 to 2005 FOCs’ share in Kazakh oil production was + 51%. As for the years 2005 to 2010, according to the official statistics, the government's share in natural gas production was only 16% and that in crude oil production 24% on average. According to another

source (Pomfret 2011:16), as of 2010, the Kazmunaigas owned only about 30 per cent of oil production in Kazakhstan. The rest was presumably produced by private companies.

Figure 10: Ownership Structure in Kazakhstan





Note: Data are presented based on the estimated value per day[14].

[14] Data on total production come from International Energy Agency (http://www.iea.org).

In sum, throughout the period under review, in Azerbaijan and Kazakhstan, unlike Turkmenistan, privately owned companies played a significant role in the oil industry. The second hypothesis/theory thus seems to hold true: the state's total dominance of the oil industry in Turkmenistan disincentivized the country to improve the QoG, while significant engagement of the FP companies in the field incentivized both Kazakhstan and Azerbaijan to improve QoG. Moreover, private companies' oil output was much higher in Kazakhstan compared to Azerbaijan, and the QoG correspondingly. Azerbaijan's case also allows following the QoG and ownership structure development trends. QoG improvement and FOCs' engagement in production as a whole, seem to go hand in hand during the first decade of the 2000's. Two important facts, however, need to be taken into account: one should not expect an immediate impact of the IV on the DV the QoG cannot be improved within one year. In different studies causal relationship between the different IVs and QoG has a time lag of 3 to 5 years. At the same time, one should take into account that production in the oil industry normally follows several years of exploration, negotiations of agreements, etc. It is these very factors that present additional grounds to argue that the chosen ownership structure causes QoG improvement. The rest of this section discusses the ownership structure in each country.

After the Soviet Union's dissolution, in both Azerbaijan and Kazakhstan, the oil industry was perceived by the countries' leaders as the only economic sector capable of generating income and ensuring long-term economic growth (Hoffman 2000:27, L-W 2010:305). In Azerbaijan it was also perceived as a guarantee of re-establishment of Azerbaijan's control over the breakaway Nagorno-Karabakh region[15] (Hoffman, ibid:24-34), and in Kazakhstan as a reliable means to soothe different nationalist groups that raised their heads in the very final years of the Soviet era, demanding greater autonomy and succession (Ahmadov 2011:96-98). At the same time in both countries the sector was underdeveloped, requiring huge investments (Olsen 2006:127, Ahmadov 2011:98). In Turkmenistan, on the contrary, the transition to the independent state was smooth (Ahmadov 2011:88). Besides, the fertile cotton fields in the early 1990's (Pomfret 2008:4)[16] ensured substantial revenues for the country. While these two factors mitigated

[15]As a result of war with neighboring Armenia over Nagorno-Karabakh (1992-1994) Azerbaijan lost control over the region and several adjacent territories. In 1994 a ceasefire agreement was signed, no peace has been reached since then.

[16] Cotton rents became less important in the first decade of the 2000s (Pomfret 2008:4).

the pressure to develop the industry in Turkmenistan, the reverse factors in Kazakhstan and Azerbaijan made the attraction of investments and industrial development an imperative (Bayulgen 2010:93, Ahmadov, ibid).

In Azerbaijan, as early as 1994, following several rounds of negotiations, the "Contract of the Century" was signed with the British Petroleum (BP)-led consortium of major Western companies on joint development of Azerbaijan's largest deposits - Azeri, Chiraq and Guneshli (Olsen 2006:130). A simultaneous process was under way to lay down the legal framework for the regulation of oil and gas issues (Ciarreta and Nasirov 2010:23, Asadov 2013:25). Even though the "license regime" and the "contract regime" were put in place to engage investors in the industry (Asadov, ibid:27-29), Azerbaijan, throughout the period under review, used solely PSAs (starting from "Contract of the Century") with this end in view (Mustafayev 2015:364)[17]. As of 2014, in Azerbaijan more than 30 PSAs were signed for joint development and production of major oil and gas fields (Mustafayev, ibid:362). It is worth mentioning that Azerbaijani legislation sets a limitation on the FOCs' engagement in the industry, prescribing the control stocks to be held by state-owned enterprises (Asadov 2013:28). Interestingly, however, this limitation on ownership does not extend to the PSAs (ibid). At the same time, the Azeri government has not concluded a single PSA without a state share in it. Thus SOCAR, the state oil company in each PSA, acts in a dual capacity - as a government agent in signing the contract and a full party to a contract (Karayianni 2006:150). SOCAR's participating share in the PSAs ranges from 7.5% to 51% (Mustafayev, ibid:367)[18].

Kazakhstan as well soon after independence opened widely its oil fields to the investors. In 1993, the country concluded a "50-50" 40-year joint venture contract with US-based Chevron for operating the massive Tengiz oilfield; in 1996, it sold 25% of its share to Exxon Mobil (L-W 2010:263). In parallel with enacting laws and initiatives that would provide guarantees for foreign investors, Kazakh authorities launched a privatization program in the 1990's through competitive tenders, selling most of the shares of several enterprises (60-94.5%) to different small FOCs (ibid:263-264). In 1997, another major

[17] The PSA is a contractual agreement under which the state awards an investor the exclusive right to prospect for and extract mineral resources for a certain period of time. A foreign company instead receives a share of the production at rates specified in a contract to recoup its costs and make a profit (Karayianni 2006:149).

[18] In the Contract of the Century SOCAR's share is 10%.

western-led investment was signed, this time through the PSA (Partlett 2008:13), which awarded 100% of shares to FOCs (L-W 2010:265). From the late 1990's throughout the first decade of the 2000s, however, the country enacted several amendments to tighten government control over the oil industry (Pomfret 2011:6). Thus, the PSA Law (2005) mandated a minimum 50% participation of Kazmunaigas (Pomfret, ibid:16). In 2008 the PSA regime was eliminated, with only concession-type agreements for exploration or production circulated (Sarsenbayev 2011:373). As a result, from 2005 on the state, in the name of the Kazmunaigas, managed to acquire up to 50% assets in several important oil enterprises and facilities (ibid:374).

On the contrary, Turkmenistan, as will be discussed later, did not hurry up to create even minimal conditions for attracting investments up until 2008. Rather, by law the Nation of Turkmenistan was declared owner of all petroleum in its natural state (Dzardanova 2010:10), ruling out a possibility of foreign investors owning a controlling stake in any of the country's onshore fields (EIU, Turkmenistan, July 2008:19). Only in 2007 the Chinese National Petroleum Corporation (CNPS), present in Turkmenistan since 2002, became the first and, as of 2016, the only FOC to get permission to carry out onshore gas extraction in Turkmenistan's major fields under a PSA (Bohr 2016:76). That one, however, was not a private company. As of 2016, four more PSAs, signed with mostly non-western small government-owned companies, were in force in Turkmenistan. All of them were for offshore oil exploration and production (ibid:74).

In sum, throughout the period under review (1996-2010) as both the numerical data on and qualitative analysis of the ownership structure revealed, FP companies played a significant role in developing the oil industry in both Azerbaijan and Kazakhstan. Baku was cautious in ceding full control to FOCs in the industry, by reserving a share in each contract and, when possible, 51%, to SOCAR. Kazakhstan up until 2000 offered the majority of shares (51% +) in the industry to foreign firms; and it was not until after 2000 that it adopted an approach towards foreign ownership which is, in essence, similar to Azerbaijan's. However, as we have seen, FP companies *de facto* still held 51%+ shares of the industry during the period under review. Turkmenistan, on the contrary, was reluctant to involve private companies in the industry. Throughout the whole period under review it retained almost total control and ownership of the sector, by engaging only a few foreign companies.

The rest of this chapter deals with the QoG in Azerbaijan and Turkmenistan and the causal mechanism underlying the relationship between the ownership structure and the QoG. The Kazakh case is not discussed due to lack of space. The reason for preferring Azerbaijan to Kazakhstan is the incomparably limited data available in Azerbaijan in contrast to Kazakhstan.

4.2. Case Studies

4.2.1. Azerbaijan

As was mentioned in the previous section, FOCs played a significant role in developing Azerbaijan's oil industry (see also Pomfret 2011:5). According to the ownership structure theory, this would incentivize Azerbaijan's leaders to supply and the FOCs to demand a better QoG in the country, due to high TCs. The following section presents the QoG in Azerbaijan, which is followed by (a section on) a causal mechanism, explaining the reasons for partial improvement of the QoG, despite high TCs.

Political Regime (1996-2014): A Shift from Restricted Pluralism to Deep Authoritarianism

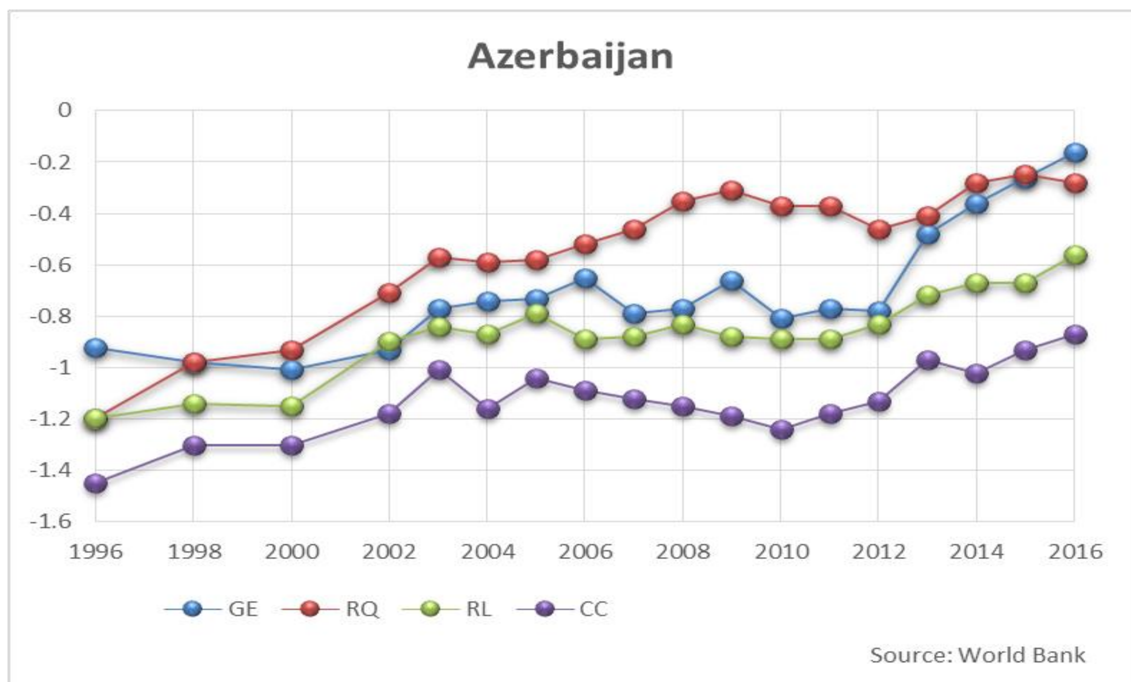
In mid-1993 the overthrow of the Popular Front government and then-president Elchibey brought Heydar Aliev to power[19] (Ahmadov 2011:110). He negotiated a ceasefire with the Armenian side; and "proceeded quickly to" consolidating his power through establishing a strong presidency, a legislature capable of exercising little to no legislative initiative independent of the executive and a judiciary extremely susceptible to the executive's influence (Hoffmann 2000:123-124). In 2003, after Heydar Aliev passed away, his son Ilham Aliev came to power to further consolidate the authoritarian rule in the country. All in all, the Aliev Jr. era is characterized by a clear shift from a system with restricted pluralism throughout the 1990's to extremely restricted political contestation and severe restrictions on freedoms of speech and assembly (Sadigov and Guliyev 2018:2). Unlike the gradual autocratization, the overall QoG saw a gradual and partial improvement in Azerbaijan. The rest of this section is to show that the latter was largely done for developing the oil industry and attraction of foreign investments in it.

[19] From 1991 to 1993 Azerbaijan was led by 4 presidents. For details, Ahmadov 2011:110-112.

Government Effectiveness and Regulatory Quality (1996-2014)

As can be seen from Figure 11, the RQ is the indicator that saw the greatest improvement in Azerbaijan throughout the period under study. The qualitative analysis of this indicator reveals several patterns: a) since independence, the Azerbaijani government has indeed formulated and implemented sound policies and regulations aimed at modernizing the economy and radically improving the country's business and investment climate; b) especially well-developed and implemented were the policies and regulations that had a certain bearing - direct or indirect - on the oil industry and oil-related activities; c) the indicators unrelated to investment/business activities as such saw little or no improvement.

Figure 11: WGI indicators



To begin with, Azerbaijani leaders enacted a significant number of laws and initiatives shortly after independence to facilitate foreign investments in the country. The Law on the Protection of Foreign Investments (1992), the Law on Investment Activity (1995), the Law on the Privatization of State Property (2000) and the Law on International Arbitration (2000) are only a few to mention. Under these laws, the legal regimes for foreign investors were equaled to that for Azerbaijani citizens (Janmammadova 2014): foreign investments became fully and unconditionally supported (ECS 2005:18), enjoying full legal guarantees in case of nationalization and requisition, compensation for

sums and profits at actual costs, payable in foreign currency and freely transferrable abroad (ECS 2011:36). The country managed, within a very short period, to also liberalize its trade and foreign exchange regime, with no backtracking (EBRD 2000:134). As a result, the currency market stabilized soon with a smoothly functioning foreign exchange market (EIU, Azerbaijan, August 1997:18). The state dominance over foreign trade was gradually reduced. All the government restrictions on imported goods were abolished (ibid:17). Under Aliyev Jr, along with the ongoing modernization of the Soviet laws and adoption of new ones (ECS 2011:28-38), more significant regulations were put in place (see EBRD 2007:102) to improve the business environment in the country. Due to those reforms, the country significantly improved its rating in different international rankings. In 2009, it was named a top reformer in the WB's 2007/08 Doing Business report (WB 2008:2). In 2014, the Heritage Foundation for the first time ever rated Azerbaijan as a "moderately free" economy (Heritage Foundation 2014:107).

Despite the significant reforms aimed to improve the country's investment/business climate (Heritage Foundation 2003:7), the value of the RQ indicator throughout the period under review was negative. The qualitative analysis shows that investment/business barriers in the non-oil sector were the main culprit. Prohibition of investments in areas related to national security and defense, and restriction of privatization and investments in some others, such as energy, communications (Heritage Foundation 2010:100, EIU, Azerbaijan, October 2003:4), access to finances (IFC 2013:4), which is explained by the financial sector's weakness (EBRD 2003:117, Heritage Foundation 2010:100), some monopolies in export and import (BTI 2016:27), as well as high tax rates (IFC, ibid) and corruption, were the ones identified by different rankings. The oil sector, as shown below, was fully secured against all these barriers due to the protective shell of the PSA.

As regards other WGI sub-indicators, the country made significant progress also in its efforts to lift control over domestic prices and subsidies. Due to the IMF's efforts, the preferential consumer tariffs for natural gas/heating and transportation were eliminated in 2002 (EIU, Azerbaijan, August 2002:18), and the domestic prices for natural gas, oil and oil products were brought in line with the estimated world market prices (except kerosene and diesel fuel) (EBRD 2003:116). As of 2011 energy subsidies were 3–5% of GDP in Azerbaijan (WB 2014:220). All in all, the analysis above reveals that the main factors which accounted for the partial improvement of RQ have to do with the successful

formulation of policies/laws and regulations dealing with the improvement of the country's business environment.

When it comes to the GE, it was the second best indicator (Figure 11). Several patterns can be observed in regard to this indicator as well: a) the country saw significant improvement in (oil) revenue/budget management, which, among other things, aimed to attract new investments, b) oil windfalls provided resources for implementing policies aimed to improve the living standards, c) tax system is characterized by duality: a specialized and stable tax regime for the oil sector and a stationary tax regime needing a further broadening and improvement.

Azerbaijan made considerable progress in improving the quality of revenue and budget management and making it relatively more transparent. Perhaps, the recent years' most significant development in Azerbaijan's public finance was the establishment of the Oil Fund (WB 2003:28) – SOFAZ - in 1999, "an oasis in Azerbaijan's opaque financial system" (Öge 2014:1490). The Oil Fund was established with the main declared goals to strengthen financial discipline in the country, avoid the excessively high misuse of the oil revenues and ensure a fair distribution of oil wealth across generations (Ibadoglu et al 2013:14, 18). It can also be argued that SOFAZ was created with the special purpose of improving the country's image among foreign investors and securing its better positions on the international rankings. For example, the Fitch, which raised Azerbaijan's rating to BB- in 2002, specifically attributed this upgrade to the creation of the Oil Fund (Bagirov et al 2003:108). The difference between SOFAZ, as the main recipient of the oil money provided by the FOCs, and SOCAR, when it comes to the transparency and accountability for managing the oil revenues, supports the latter point.

Azerbaijan's oil revenues are accumulated by SOFAZ and SOCAR. SOFAZ is the recipient of all oil revenues and bonuses provided by FOCs under the PSAs, except the oil taxes, which the companies pay to SOCAR[20] (Bagirov 2007:36). The Fund, perhaps for the aforecited reason, on a regular and transparent basis, shares the information on its income with the public through several channels, supplying details on the oil revenues received and on the annual transfers to the budget (Ibadoglu et al 2013:26). However,

[20] Taxes are not the only source securing SOCAR's income: before the revenues go to SOFAZ, SOCAR, as a contract participant, takes its share from the oil production (Bagirov et al 2003:109). It also independently operates about forty older oilfields (Pomfret 2011:7).

while the fund is quite transparent when it comes to disclosing its income received from the FOCs, it proved to be reluctant to provide detailed information on its expenditures, mainly on the financing of socio-strategic projects (Bagirov et al 2003:116)[21]. SOCAR, on the other hand, shares only some general information on its income, without providing details (Ibadoglu et al, 2013:27). Its expenditures are characterized by many unaccounted payments, as well as inconsistencies between the government and the company's reports (Öge 2014:1496).

In terms of overall budget as well, the main problem deals with transparency in the expenditures. While the overall level of unreported extra-budgetary expenditures is insignificant, transparency lacks in investment budget, defense budget and discretionary budget (Wescott et al 2011:7). It is also worth mentioning that in 2003 Azerbaijan joined the Extractive Industries Transparency Initiative (EITI); in 2009 it became the world's first EITI compliant member-country. The EITI serves as a channel for the authoritarian leaders to build up their countries' reputation as a stable destination for investments (Öge 2014:1493). Any resource-rich country agreeing to disclose their revenues from the sale of hydrocarbons, can become an EITI member (Öge 2017:816). However, the EITI failed to make Azerbaijan fully transparent either, as its function is to supervise the revenues; expenditures are off its agenda (Öge 2014:1496).

When it comes to the tax policies, the country currently has three different tax regimes: 1) the statutory tax regime; 2) PSA regime; and 3) Host Government Agreements (HGA), which are exclusively for the Baku-Tbilisi-Ceyhan (BTC) and South Caucasus pipelines.

Azerbaijan's PSA regime is considered to be a simplified and stable tax regime: foreign subcontractors are exempt from the value-added tax (VAT) and royalties and pay several taxes (see, Bagirov 2007:34), of which the largest is the profit tax - 25% -35% - of all contracts (Bagirov et al 2003:104). Once finalized, each PSA prescribes protection against any future increase in the profit tax rate (Mustafayev 2015:374). As for the statutory tax regime, it comprises the following: the VAT, the simplified tax, income taxes, social security contributions, excise taxes, and customs duties (Zermeno 2008:6). Two trends can be observed with regard to this tax regime. First, throughout the period under study, as discussed above, non-resource taxes did not change much, remaining

[21] Sofaz directly finances such projects on a regular basis (Bagirov 2007:50).

stable, around 10% of the GDP (see also Ibadoglu et al 2013:21). Second, the "governance friendly tax"[22] (see Moore 2007:25) - the VAT has been eroded through the special regimes and exemptions applied both to the hydrocarbon and other sectors of the economy (Aliyev and Gasimov 2016:89), thus making Azerbaijan a country that generates much less revenues compared to the countries that have the comparable VAT rates (IMF 2012:10). The main suggestion to the government concerning the statutory tax regime remained to broaden it, by reducing exemptions and preferential treatments, bringing the informal economy into the tax net (ibid:14).

And how effectively were these revenues used? Both the analysis of the secondary literature and the international rankings seem to lead to the conclusion that the oil wealth, especially during the oil boom, enabled the country to implement policies directed towards improvement of the public goods' quality over the course of time. According to the WB's Country Policy and Institutional Assessment (CPIA) database, for example, the country showed an improvement in the indicators dealing with the efforts to reduce the risk of becoming poor, links between revenue collection and poverty reduction and quality of health and education services.

Table 6. Country Policy and Institutional Assessment[23]

Azerbaijan						
Indicator	2005	2006	2007	2008	2009	2010
Social protection	3.5	4.0	4.0	4.0	4.0	4.0
Equity of public resources	3.5	4.0	4.0	4.0	4.0	4.0
Building human resources	3.0	3.0	3.5	4.0	4.0	4.0
Public administration	3.0	3.0	3.0	3.0	3.0	3.0

As for health and education proper, even though the relevant expenditures increased significantly in the period between 1991-2014 (Aliyev and Gasimov 2016:86), serious problems still remain as to their quality. Azerbaijani secondary schools and universities remain plagued by corruption, inefficient teaching and poor-quality secondary education (BTI 2016:30). And public health services continued to be less obtainable for the poor

[22] My own interpretation.
[23] 1=low to 6=high.

segments (WB 2013:2). Much more serious problems seem to exist with the quality of bureaucracies and public administration (Table 6). In short, the quality of state bureaucracy has not undergone structural reforms since Aliyev Sr.'s era, with low salaries, corruption, significant deficiency of meritocratic recruitment still remaining its main characteristics" (Hoffman 2000:144-149, BTI 2008:10, 2014:6).

Rule of Law and Control of Corruption in Azerbaijan (1996-2014)

In the pair of the RL and CC, Azerbaijan scores better in the former, making it the third best indicator (Figure 11). Corruption seems to be the root cause of all the evils. However, given that both the CC and the RL are linked to the quality of the political regime as such, the overall backtracking of these indicators seems to be logical. On the other hand, the 0.53-point progress in the RL indicates that the relatively strong regulations and laws discussed in the RQ are being partially implemented.

As a whole, the judiciary in Azerbaijan, despite certain reforms, remained highly inefficient (BTI 2010:9), with the judges often being inexperienced, easily bought off (U.S. Commercial Service 2010:42). This, consequently, raises doubts concerning the enforceability of contracts and protection of property rights. The business community (especially foreign businesses) seem to be at an advantage in this respect. Thus, most of Azerbaijani businesses surveyed by the European Bank for Reconstruction and Development (EBRD) and WB, for example, treated contract violation and the judiciary as the least of the constraints (among a couple of others) on their business (World Bank and EBRD 2005:3). As for the private property rights, their acquisition and enforcement are clearly defined by Azerbaijani law (BTI 2010:14). The implementation of the relevant laws, however, is occasionally violated, with the government-sanctioned demolitions among the factors (BTI 2014:16). The foreign businesses are, nevertheless, protected from such adverse outcomes given that Azerbaijan's legislation allows disputes or disagreements with foreign investors to be settled abroad as well (U.S. Commercial Service, ibid).

When it comes to corruption, the situation has worsened since Ilham's era. Although anti-corruption laws are in place, corrupt practices permeate all spheres of public life (Heritage Foundation 2014:108): from public administration to the police, which is widely believed to be among the most corrupted government agencies (Freedom House 2010), and courts

(BTI 2016:14). Pervasive corruption remains the biggest problem for doing business in sectors unrelated to the oil industry (BTI, ibid:27).

Causal Mechanism: Transaction Costs

The QoG analysis revealed that Azerbaijan, unlike FOCs' significant involvement in the oil industry, managed to partially improve its governance in the period under review. What can account for it? It is argued below that the PSA regime (with the content employed in Azerbaijan) helped both sides to considerably reduce the TCs, allowing Azerbaijan's leadership to improve the QoG only to that extent that would provide safeguards for foreign investments and for developing the oil industry. Most importantly, those improvement activities were supposed to be within certain boundaries not to pose any challenge to the Alievs' monopoly over power and over resources. The considerably high scores in the first cluster (RQ and GE) and the low score in the second one (RL and CC) – which are tied to the quality of political regime, as such - are indicators of it.

Now let us turn to the two main TCs discussed in the theoretical part - the costs of securing the property rights and the information/monitoring costs - and try to understand how the parties reduce them. When it comes to the first, it is worth mentioning that besides the direct expropriation (physical takeover of the property and/or changing the legal title of the property) there is also a risk of indirect expropriation, when the state by introducing new rules, adapting the current laws can reduce the commercial and economic values of an investment (Sahin 2013: 15-16). The analysis of these costs showed that Azerbaijan had much to offer to investors: the country not only put in place strong regulations and laws protecting foreign investments, but also provided stabilization clauses through the PSAs to them, thus reducing the costs that might derive from not very strong governance institutions.

As it was mentioned, each PSA in Azerbaijan is a separate law with a higher status than any other existing laws, except the Constitution (Mustafayev 2015:365). Before turning to the PSAs, let me first discuss what Azerbajjani PSAs are based on. In Azerbaijan foreign investments are unconditionally supported both by the national laws and by over 35 bilateral investment treaties. These legal instruments not only provide full legal guarantees (ECS 2011:88, Sahin 2013:106-107), but also stipulate that foreign investors may also be granted special privileges (in taxation and not only) and concessions

(Janmamadova 2014.). Foreign investments are also protected against adverse changes in the law for a 10-year period: if a law adopted by Azerbaijan's parliament adversely affects an investment, a 10- year moratorium is placed on that change (Sahin 2013:207).

The existence of laws is one thing, whereas their enforcement is another: the analysis of the second cluster, as have seen, revealed, serious problems on this front. This problem too is theoretically resolved in Azerbaijan through adoption of several laws allowing a dispute between a foreign company and a local entity to be settled by arbitration, including international courts (ECS 2005:26). Besides the laws, all Azerbaijani PSAs contain so-called stabilization clauses during the life of PSAs. The stabilization clauses are guarantees incorporated in a contract to ensure that the contract shall not be unilaterally altered or terminated by the host government (Sahin 2013:114). One of such clauses is the freezing clause, implying that the Azerbaijani government freezes the PSAs, and that the contractor's rights and interests shall by no means be amended or diminished without the contractor's prior consent (Mustafayev 2015:378-379, Sahin, ibid). Another clause is the so-called "economic balancing coupled with the indemnification". This implies that if any future legislative acts/regulations adversely or positively affect the PSA, it shall be adjusted to re-establish the economic equilibrium; and SOCAR is obliged to indemnify the contractor for the consequences of any adverse change (Mustafayev, ibid:378). One more clause worth mentioning is "the choice of law", stipulating that the international law is enforceable and applicable to the PSAs (ibid:379). All in all, the fact that no cases of official nationalization or requisition against foreign firms (U.S. Commercial Service 2015*a*:39) or contract renegotiation have been known in Azerbaijan (Partlett 2008) proves the guarantees to be quite effective.

When it comes to the second costs, the ex post monitoring ones, it is worth mentioning that the information asymmetries are indeed in place, and possible ex post opportunistic behavior by the FOCs is theoretically not ruled out, given that the PSA's fiscal regime in Azerbaijan is based on the principle of profitability. This fact implies that before sharing the oil profit, the parties should take into account such factors as costs and recovery of investments, oil price changes, etc. (Mustafayev, ibid:372). It seems that the two factors help reduce the monitoring costs. First, as was mentioned above, SOCAR, in each PSA, both represents the government and holds a share in it. This consequently narrows the information gap between the FOCs and the government. As regards to the government-

SOCAR relations, it suffices to mention that, from 1994 up until 2003, Ilham Aliev was SOCAR vice-president; later, the most loyal elites took over the SOCAR management (Sahin 2013:217-218). Secondly, under each PSA, there are several oversight mechanisms in place: a "managing committee" with functions of oversight over oil and gas operations, expenses, etc., which consists of equal numbers of representatives from SOCAR and from the contractors (Bagirov 2007:33); and "a joint operating company", managing day-to-day petroleum operations (Mustafayev, ibid:371). The contractor companies have their representatives in the company's council as well (Bagirov, ibid).

Given that the protective shell of PSAs safeguards FOCs against possible uncertainties, the demands for good governance by them in Azerbaijan are voiced as part of their corporate social responsibility agenda and, what is more important, in a very cautious manner. Of special importance from the perspective are BP's activities. Even though the PSAs are normally kept secret, in 2002, the "contract of the century" and several other documents related to the BP's activities in Azerbaijan's oil sector were made available online on BP's initiative. (Gulbrandsen 2007:821). Thus, the information on the bonuses paid to the government, amount of taxes the FOCs regularly pay to SOCAR, and on the oil revenues, was made available in the public domain. BP's activities on this front continued in the context of SOFAZ, mainly by helping with expert advice on the management of the Fund and oil revenues (Frynas 2009: 192). However, it was the only governance issue the BP dared to be engaged in (ibid). Overall, the company is careful to avoid upsetting the host government and undermining its business interests (Gulbrandsen, ibid:814).

To sum up, under conditions of the existing licensing and contracting regimes, the exclusive choice of the PSA allowed Azerbaijan's government to provide FOCs with all the necessary safeguards for safely doing business in an autocratic country thereby ensuring investment flow. On the other hand, it allowed the authorities to be selective in improving the QoG. Lorentzen (2014:404-405) cited above has identified partial censorship as the best strategy for dictators: on the one hand it incentivizes the bureaucrats, on the other it fuels the citizens' uncertainty about the true degree of discontent[24]. Here too Azerbaijan's leaders improved governance to the extent they found

[24] People would be willing to revolt against the dictator, if they know that a lot of people will join the revolt.

sufficient for laying the basis for signing the PSAs and developing the oil sector, but in such a way as not to pose any challenge to their monopoly over power/resources (Melville and Mironyuk 2015). The withdrawal from EITI in 2017 comes to support this claim: last year Azerbaijan decided to withdraw from the organization, following the suspension of its membership in 2015 over concerns about the enabling environment for civil society. The country was obliged to review several laws that substantially complicated NGOs activities and put them at the mercy of the government (Bagirov 2015).

4.2.2. Turkmenistan

The discussion on ownership structure in Turkmenistan revealed that the state retained, throughout 1996-2010, the oil industry under its tight control, by allowing several FOCs to play a very minimal role in it. As predicted by the theory, this would disincentivize an improvement of the QoG due to the very low level of TCs … Below the governance outcomes and causal mechanism are discussed in detail.

Political Regime 1996-2014: A Highly Personalist Autocracy that Remained Untouched

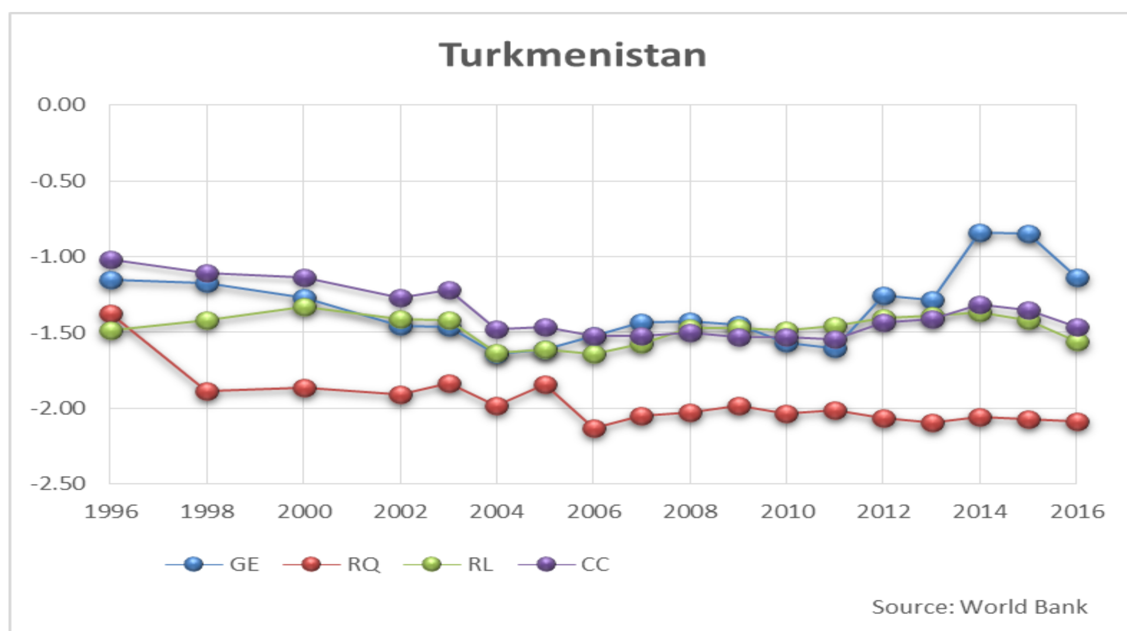
The Soviet Union's dissolution made Saparmurat Niyazov Head of State in Turkmenistan. The latter proceeded quickly to establishing a highly centralized regime, winning the 1992 uncontested presidential election, taking up also the post of prime minister and subordinating the legislature, judiciary, local councils as well as specialized bodies, including the Central Bank (Ahmadov 2011:93-94, 139, Pomfret 2008:3). Already by 1994, the country had become as highly personalist autocracy, with political participation severely restricted (Ahmadov, ibid:139). After Niyazov's death Gurbanguly Berdimuhamedov was appointed as acting Head of State. He, too, proceeded immediately to consolidating his power after the 2007 election (Pomfret 2008:15). Despite the official rhetoric about changes, the political regime under Berdimuhamedov remained almost untouched. The country thus experienced a near-total absence of liberalization since the Soviet Union's dissolution (Bohr 2016:13).

Regulatory Quality and Government Effectiveness (1996-2014)

Throughout the period under review, the Turkmen government's overall capacity to effectively formulate and implement sound policies was evaluated as very poor - as the

WGI assessments reveal - showing no sign of improvement, but rather gradually and steadily declining. As Figure 12 shows, the sharpest decline witnesses the RQ indicator (also among all 4 indicators), with the GE showing on average a 0.60-point better result compared with the former one. The qualitative analysis of these two indicators revealed that a) avoiding reforms with the exception of several cosmetic changes was the main characteristic of the economic dimension of governance under both Niyazov and Berdimuhamedov; b) no serious attempts were being made to create an investment/business friendly climate either in oil or in non-oil industry c) economically, the country clearly revealed rentier state features.

Figure 12: WGI indicators



Unlike in Azerbaijan, where the leaders soon after the ceasefire, proceeded to liberalize the trade and foreign exchange regime, in Turkmenistan the currency market, financial sector and the trade were under the state's tight control up until 2008. It was not until 2008 that currency convertibility was introduced and the dual exchange rate[25] was unified in the country (EBRD 2008:192). The government also modestly liberalized international trade after 2008 by reducing import duties and excise taxes (BTI 2014:14). The companies that had before struggled to secure enough foreign currency to carry out trade transactions were allowed to have foreign currency accounts to conduct import/export

[25] Under Niyazov, the official exchange rate was fixed artificially, with the street market exchange rates having the fourfold value of the fixed rates (BTI 2006:8).

operations without licenses or government permission (EBRD 2012:155). The freedom of trade, however, still remained limited and the exchange rate was kept stable (BTI 2014:15). As a whole, even two decades after independence the existing preconditions for establishing a market economy with a favorable investment climate in the country remained insufficient (IIPE 2011:11, 14). Throughout the whole period under review, the success of foreign businesses in any sector of the economy was strongly linked to the geopolitical priorities of the Turkmen authorities (IIPE 2011:11)[26]. A law on foreign investment was enforced only in 2008 theoretically improving the rights of foreign investors, by providing for repatriation of profits and long-term property leases (EBRD 2009:236). In practice, however, there are significant obstacles producing an adverse impact on the overall business environment and the foreign investments: from the administrative burden (denial of license extension, and a selective approach to investors) (ibid) to the low-quality relevant laws, the absence of antimonopoly institutions and of an independent judicial system (IIPE 2011:14), as well as to strictly limited access to the land (U.S. Commercial Service 2015*b*). Unhappy examples of investments for the period under review are numerous illustrating an overall fickle investment situation (IIPE, ibid:42-45).

Turkmenistan, unlike Azerbaijan, is notorious for a very poor quality of budget implementation and management. Much of the country's financial assets, especially those derived from oil revenues, remained in extra-budgetary funds up until 2006, operating separately from the official budget (EBRD 2006:50). According to the IMF estimates, the country's extra-budgetary operations were four times the scale of the budgeted activities (EBRD 2004:187). In the early months of his presidency, Berdimuhamedov promised to introduce greater transparency in budget implementation (EIU, Turkmenistan, October 2008:16). A stabilization fund was created in 2008 to accumulate the budget surpluses, including the export revenues (Bohr 2016:39). However, the overall amount of export revenues continued to be a closely guarded secret (Freedom House 2014:643).

When it comes to the efficiency of revenue mobilization, the tax system and social policies, the country exhibits features typical of a rentier state. The tax administration was reliant largely on the minerals rather than on broad taxation (L-W 2010:91). The oil

[26] The recent years have witnessed the vector of the preferential treatment from Russian and Israeli companies to swing to Chinese and Turkish ones (IIPE 2011:11).

sector, the state's main source of export and revenues (especially since the late 1990's) has been subjected to excessive taxes since independence (see details in L-W, ibid:88-95). The export tax, the value-added tax, the profit and property taxes, as well as the natural resource tax were the only explicit taxes imposed on the oil sector (ibid, 88-89). The taxation of the non-oil sectors, as Figure 6 also showed, was reduced over the years. The agricultural sector, for example, was exempted from taxation until 2010, once the oil boom started in the country (L-W, ibid:89). Moreover, the country, unlike Azerbaijan, throughout the period under review, retained many features of the Soviet welfare regime: public goods and services such as electricity, gas, and water were provided for free to the households; products like bread, salt, and flour were still subsidized, though the cheap foodstuffs were not always available to the public (BTI 2014:18, EIU, Turkmenistan, October 1998:14).

Berdimuhamedov's era is characterized by heavy investments in infrastructures, namely, in education and healthcare (Bohr 2016:4), and reversion of some of Niyazov's most destructive policies (see EBRD 2003:205, EBRD 2006:10-11) in those spheres. Hundreds of millions of dollars were allocated to building hospitals, pharmaceutical factories, etc. (Bohr 2016:45). However, the country's regions continued to lag seriously behind the capital in terms of quality and quantity of services provided, with many health facilities remaining inaccessible to the vast majority of the population (EBRD 2008:192). As for education reforms, the five-year university courses and the tenth year of schooling were reinstituted, foreign degrees became once again recognized (BTI 2014:13). However, the curriculum at schools remained essentially the same as that of the ninth (Freedom House 2010), with more restrictions on studying abroad being introduced from time to time (Bohr, ibid:43). At the same time, each year, some students were sponsored to study in foreign countries under official programs (ibid:44). As a whole, the above-mentioned policies - the better quality of healthcare in the capital and provision of stipends to some students - can also be viewed in the context of the necessity to provide particularistic benefits to the elite groups and the regime supporters (L-W 2010:103-104), which is typical of a rentier state.

Corruption Control and Rule of Law in Turkmenistan (1996-2014)

Both indicators of this cluster as well saw a gradual decline throughout the period under review. However, as the Figure 12 shows, the country scores slightly better in terms of

the CC, while the RL is the second worst indicator among all the 4 indicators after the RQ. The very poor quality of implementation of the rules and regulations can be linked to a very poor quality of their formulation. Slightly better scores both on the GE and CC, in turn, can be explained by the fact of the leaders trying to control the money being pocketed for private interests in order to ensure that a) none of the elites becomes too powerful on their posts to challenge their rule and b) the social policies meant to keep the people loyal are implemented.

Both Niyazov and Berdimuhamedov announced a national crackdown on corruption. The Turkmen government itself was, however, rife with corruption (Freedom House 2002:389). Thus, by 2006, some 60 deputy prime ministers had been dismissed in Turkmenistan, mostly on corruption charges and poor implementation of directives (Freedom House 2007). Through firings and reshuffles the Turkmen leaders were also pursuing a concrete goal to prevent the politicians from building a support base and thus challenge their authority (EIU, Turkmenistan, July 2005:16). The officials, in turn, knowing they were short on power, were using the opportunity to derive personal economic benefits (Freedom House, ibid), thus fueling corruption. Law enforcement continued to remain highly corrupt in Turkmenistan, with judges' decisions easily influenced by bribes, social and political connections (BTI 2014:9). The MTS is an illustrative example of the dismal condition of the country's judicial system: the Russian company, after being notified suddenly about suspension of its license, tried to argue its case in court. It requested invalidation of suspension and demanded that the Turkmen Ministry for Telecommunications provided the decrees for the suspension. The Turkmen Court refused to take both cases, claiming that "it was not in its judicial power to order such a document from the Ministry (IIPE 2011:23).

Overall, the announcements on attraction of investments as a priority by Berdimuhamedov remained mere rhetoric. The examples of unpaid debts, undelivered goods/services, and renegotiated contracts, reluctance to make all by-laws (regulations/norms other than legislative acts/statutes) publicly available; and poorly-defined property rights are indicators thereof (U.S. Commercial Service 2009:47).

Causal mechanism: Transaction costs

The following section aims to show that in Turkmenistan the incentives to improve the QoG were absent due to a very low level of TCs. It is shown below that it was in both the main claimants' interests (the NOCs on the one hand and, conventionally speaking, the state/Government/ Ministry of Energy on the other hand) to have bureaucracy, rules and regulations as weak as possible in order to secure the maximum possible discretionary power for themselves, as predicted by the theory. As for the several FOCs engaged in the oil industry, they were indeed operating under high TCs, relying solely on their close personal contacts with the authorities.

Throughout the entire period under study, Turkmenistan's energy industry was controlled by Presidents Niyazov and Berdimuhamedov, both of whom restructured it during their tenures to tighten their own oversight and narrow to the maximum the scope of the state agencies engaged in it in one way or another. This, in turn, reduced the amount of asymmetric information on other actors' interests and behavior, leading to TCs getting low.

Thus, under Niyazov, the main regulatory body of the oil industry – the Competent Body, which was responsible for distributing licenses and concluding agreements with contractors - was initially subordinate to the Cabinet of Ministers (Crude Accountability 2011:9). Niyazov, as head of the Competent Body and Chairman of the Cabinet, not only appointed the minsters, but also had the sole authority to appoint various bodies responsible for carrying out the NOCs' operations (L-W 2010:105). In 2005 the industry saw drastic reorganization: Niyazov subordinated the Competent body to the Ministry of Oil and Gas Industry and Mineral Resources directly. Under another decree, two other state concerns engaged in the oil industry were merged (Crude Accountability, ibid:14). In all the cases, the overall restructuring aimed not only for the declared target, setting the industry in order, but also at ousting the high-ranking bureaucrats who had been able to gain significant political authority (ibid). Thus, the Competent Body was informally reconstituted to act on a strict case-by-case basis under Niyazov's personal control (Denison 2007:7).

Berdimuhamedov replaced the Competent Body with the State Agency on Hydrocarbon (under the President of Turkmenistan) (Crude Accountability 2011:16-17). Formally, the

Agency was designed to manage only the FOCs active in Turkmenistan's hydrocarbon sector (Crude Accountability, ibid:25). In reality, however, it was managing also the NOCs' activities, which were directly subordinated to the Ministry of Oil and Gas (RWI INDEX 2012:17). Thus, the Ministry was subordinate to the deputy prime minister of oil and gas, with the head of the State Agency simultaneously ranked as a deputy prime minister (ibid). Moreover, Berdimuhamedov saw to it that the petrochemical sector be under his relatives' control (Fjæstad and Øverland 2011:11), with as few people as possible involved (ibid:23-25).

The aforesaid thus provides sufficient evidence of blurred relations between the two actors – the Cabinet of Ministers, the Ministry of Oil and Gas and the Agency on the one hand, and the NOCs on the other hand, with the last-named, as Figures 4, 5 showed, in total control of the production and development of the industry. The two actors were not "two different actors" as such to pursue different interests (as was the case with the private companies). Rather, they were the same actor that could be in one place today and in another place tomorrow. Also, within the governance structure established by both Niyazov and Berdimuhamedov, these actors were not faced with any tasks but that of being loyal to the presidents and abiding by their directives on the sector's development.

Moreover, the NOCs, unlike, for example, FP companies, did not need to feel concerned about favorable conditions for their activities, as well as the rules and regulations that would increase their profitability. They would only care about effective ways of using their short-time tenure to steal money and get richer, which was tolerated up to a certain degree on the official level (Denison 2007:6). To disclose the information about the oil exports, oil revenues as the BP did, was not in NOCs' interests, because that would only reduce their share in the sinecure. Furthermore, the law prohibited them from doing so, i.e. reporting on their operations (RWI INDEX 2012:15). While in Azerbaijan the destination of oil revenues was clear, in Turkmenistan it was a closely guarded secret. During Niyazov's era, three beneficiaries' names were leaked on various occasions: "Turkmenneftegaz" and two state funds (Crude Accountability 2011:15). The funds, held in Deutche Bank, were under the effective control of Niyazov himself, and were known as Niyazov's 'personal pocket money' (Global Witness 2006:17). Under Berdimuhamedov, according to several publications, most revenues were collected by Turkmengaz and Turkmenneft (Crude Accountability, ibid), but the destination of only

20% of that money was clear - the State Budget - with 80% remaining at the Agency's uncontrollable disposal (ibid:30).

Foreign Oil Companies and Demand Side Incentives: Absent due to Weak Bargaining Power

Despite the uneasy investment climate, weak and inefficient laws and regulations concerning the oil industry, examples of expropriation, vulnerability of investments to arbitrary rule, the Turkmen oil was still attractive to the foreign investors. It is argued below, that, unlike the "protective shell" of the PSA in the case of Azerbaijan, in Turkmenistan personal contacts with the Turkmen leadership and intergovernmental contacts were the only guarantee for those companies (IIPE 2011:34).

To begin with, FOCs operating in Turkmenistani oil industry, were vulnerable to arbitrary rule, the law itself being the cause. Thus, according to the "Law on Hydrocarbon Resources", the Agency had a sole authority to supervise foreign investors' activities in the industry, prohibiting any ministry or other state actors from conducting inspections in the FOCs without receiving approval from the Agency (Crude Accountability 2011:25-26). As a whole, such authority concentrated in one government body suggests that the Agency could treat the investors at will: to reward whenever and whomever it wants and to punish whomever and whenever, without anyone informed. FOCs, thus, in case of any conflict with the government will have two options either to obey the Turkmen authorities or to lose the investments and exit from the country (ibid:26). Besides, the Turkmen PSAs, compared to the Azerbaijani ones, were less favorable to foreign contractors both because of the government's retaining a majority interest in them and because of the scope of payments (FOCs pay also royalties depending on profitability) (Dzardanova 2010:8-9) and overall high production and exploration costs. In this situation the companies seriously interested in investments had no option but to play by the rules dictated by the Turkmen authorities and to rely on their promises to secure the investments.

A foreign investor demanding economic transparency, better governance institutions would be perceived as a threat to the Turkmen rule, with no choice but to leave the country. Just several examples: In 2015, the license of German DEA AG expired, and the company did not extend it, reportedly owing to excessive bureaucracy and corruption (Bohr 2016:74). The US based Chevron and Exxonmobil left the country, dissatisfied

with the offered contracts (IIPE 2011:35, Srinivasan 2018:468). In 1995, the Argentinian Bridas was accused of deliberately keeping the production low and was prohibited from export from and import to Turkmenistan, even after the International Chamber of Commerce's decision (EIU, Turkmenistan, October 1998:16).

The successful players in the field are non-western small companies which seem to have found common grounds with the Turkmen authorities. A cable released by Wikileaks revealed that in 2008 the Russian Itera bought a €60 million yacht as a gift for Berdymukhamedov in order to get a gas exploration contract (Global Witness 2010). In 2009, Itera signed an agreement with the Turkmen government. Two most remarkable success stories - ENI-Italian and Chinese CNPS – were government-owned companies and secured the investment due to intergovernmental negotiations and assurance of non-interference in the internal affairs (Srinivasan 2018:471-475).

Conclusion

Why do oil-rich post-soviet states differ in QoG? I investigated this research question by comparing three carefully selected cases - Azerbaijan, Kazakhstan and Turkmenistan. The results of the empirical analysis revealed that abundant resources and/or "government resource revenues" per se cannot explain the gradual but partial improvement of QoG in Azerbaijan and Kazakhstan (to a greater extent in the latter case) and gradual and steady decline of QoG in Turkmenistan. The "ownership structure" chosen by the states to manage their mineral wealth, instead, proved to be capable of explaining the differences among them. Thus, FP companies' significant involvement in the oil industry (measured in the degree of control over oil production) led to the improvement of QoG in Kazakhstan and Azerbaijan, while maintaining the tight control over the industry caused a decline of QoG in Turkmenistan.

The qualitative analysis of the three countries' ownership structures and theory-guided in-depth analysis of two of them - Turkmenistan and Azerbaijan – confirmed the aforementioned findings: after the Soviet Union's dissolution Azerbaijan and Kazakhstan opened widely their major oil-fields to foreign businesses, with Kazakhstan up until 2000 even engaging them through a privatization program. Turkmenistan, on the contrary, chose the "going it alone" approach, by keeping the major oil fields under its tight control. FP companies' significant engagement, as predicted by the theory, incentivized Azerbaijan to improve the QoG in order to regulate the private sector, secure foreign investments, and promote the oil sector's development and, as a result, increase its share of revenues. In Turkmenistan such incentives were largely absent, given that the oil sector's development was under state control and oil revenues - the main source of the income - were flowing directly to government coffers, without passing into private hands. The enormous difference between Azerbaijan/Kazakhstan and Turkmenistan in regard to the RQ indicator, which has to do with the private sector development provides additional support to this claim (Appendix 1).

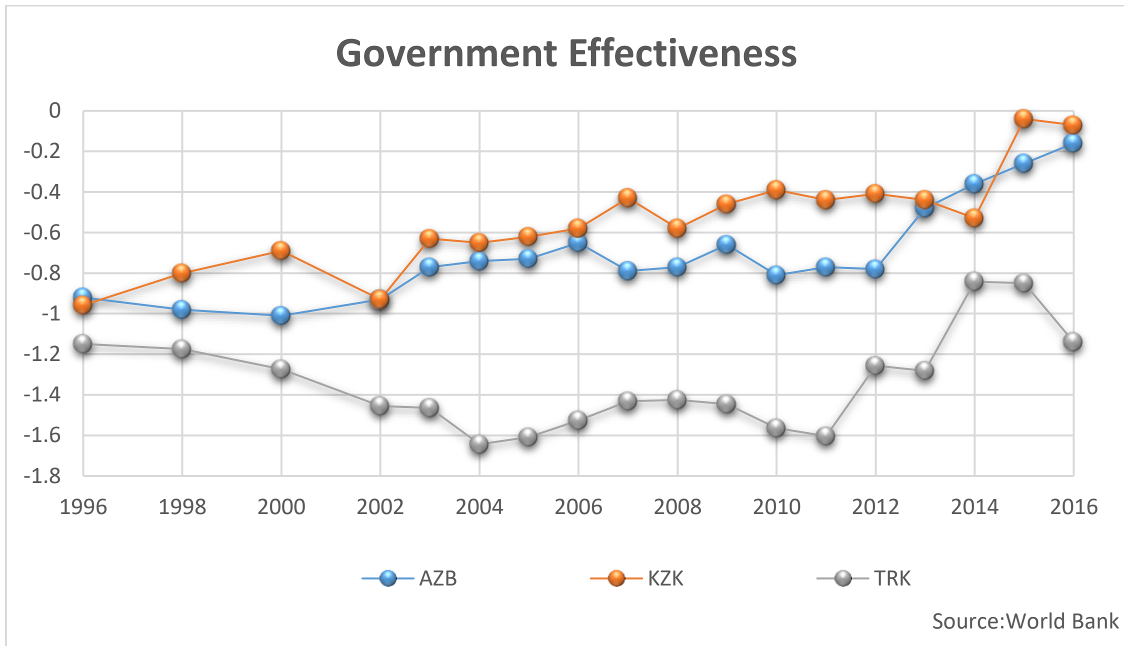
However, QoG improvements were only partial, as if calculated not to pose any challenge to the monopoly over power, which is the same as that over resources; a gradual decline of the VA indicator in Azerbaijan and Kazakhstan (Figure 2) as well as their relatively

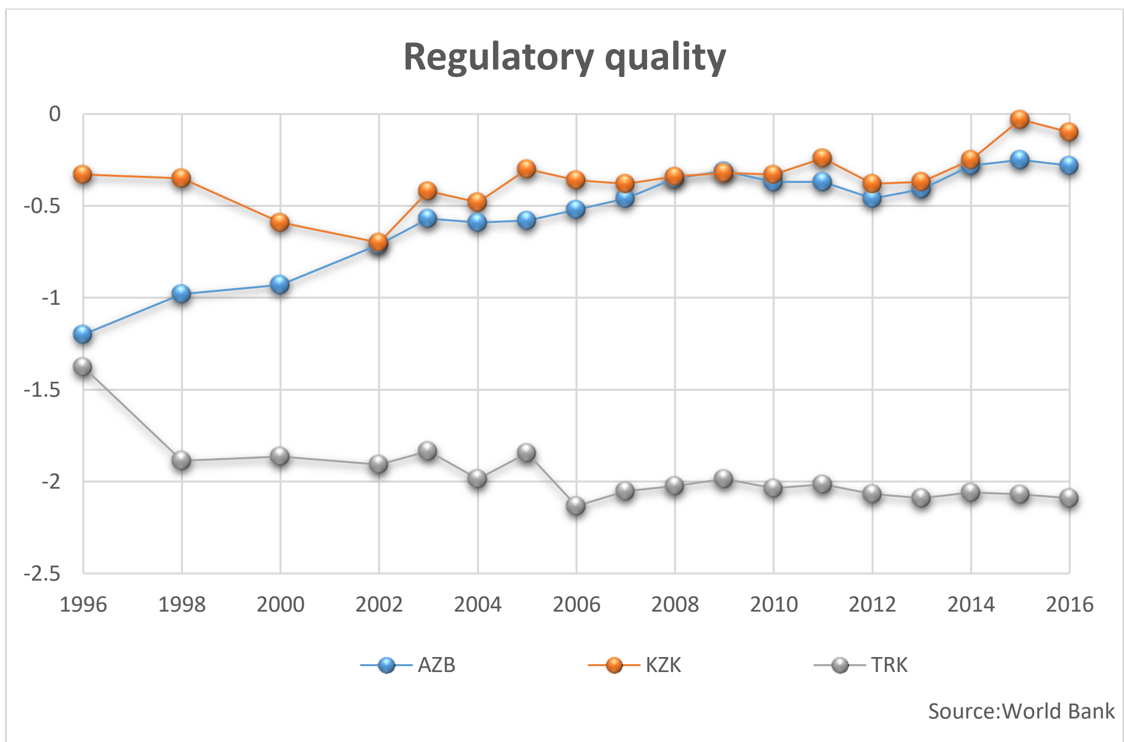
lower scores of RL and CC indicators (compared to RQ) (Appendix 2), which are linked to the quality of political regime support this point, in turn.

All in all, this study is in line with two sets of growing literature - studying differences among developing countries in relation to different political, economic and institutional outcomes, and investigating the effect of “ownership structure of minerals” on these outcomes. An important avenue for future research would be testing the findings of this study in larger cross-national settings.

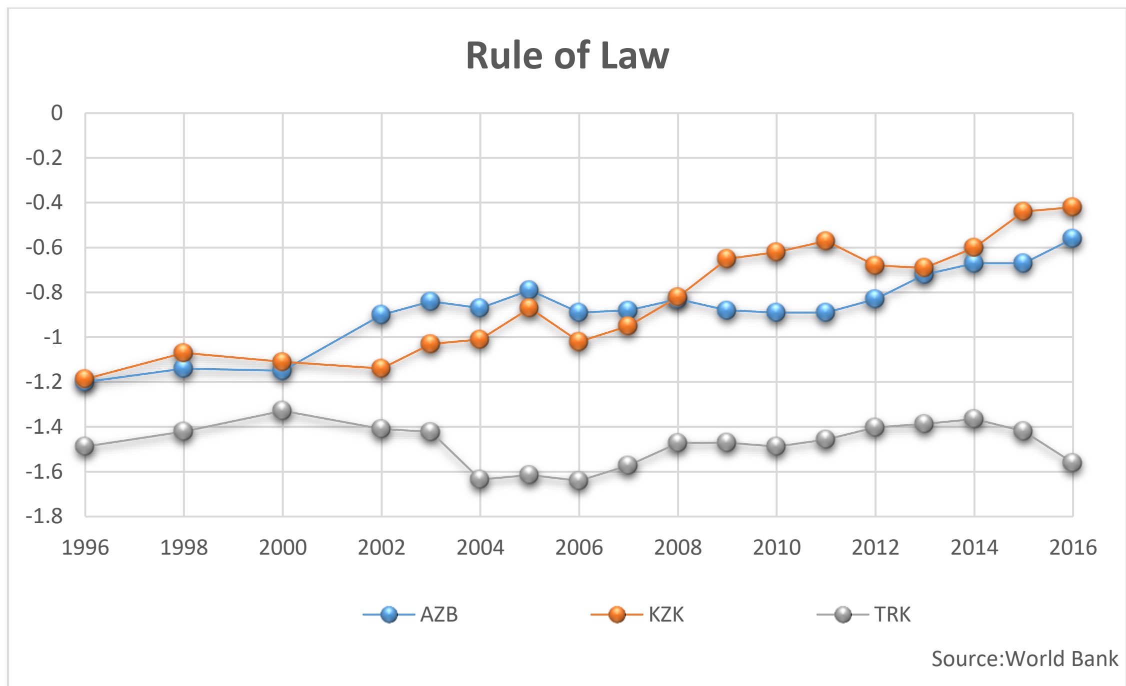
Appendix

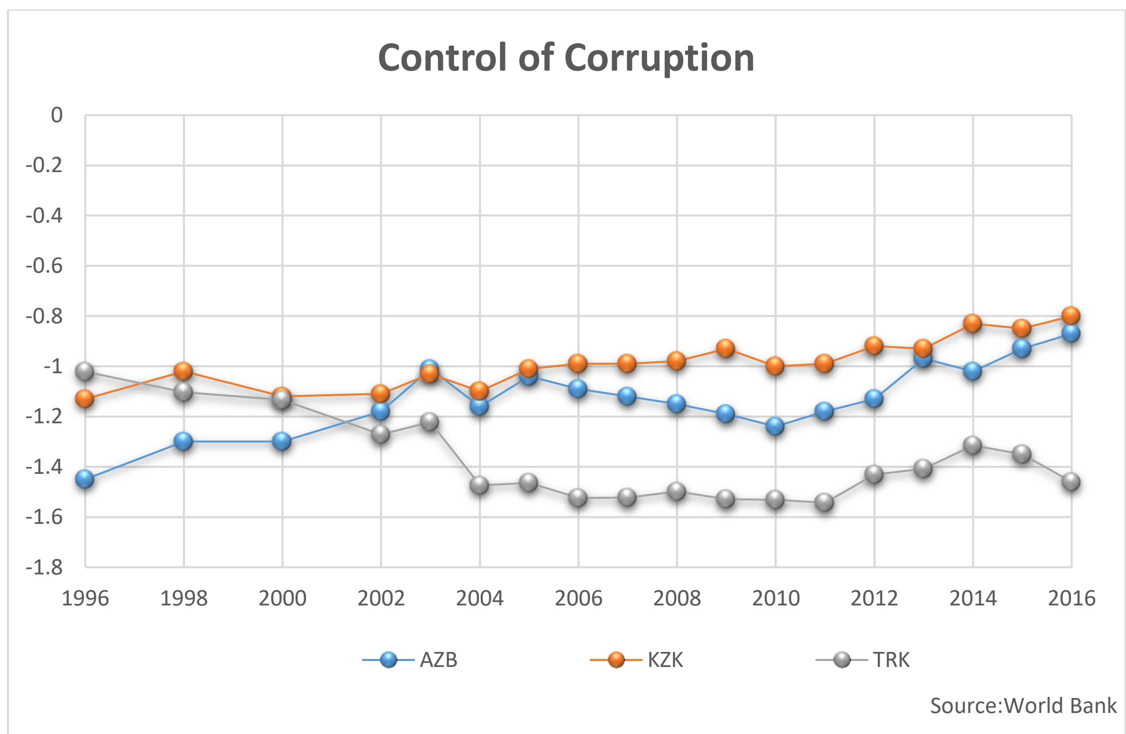
Appendix 1





Appendix 2





References

Ahmadov, Anar (2011): A Conditional Theory of the "Political Resource Curse:" Oil, Autocrats, and Strategic Contexts. PhD thesis. The London School of Economics and Political Science.

Aliyev, Khatai and Ilkin Gasimov (2016): Fiscal Policy Implementation in Azerbaijan Before, During and After the Oil Boom, file:///C:/Users/Hye/Downloads/527.pdf (10.07.18).

Allen, Douglas (2000): Transaction Costs. In: Bouckaert, Boudewijn and Gerrit De Geest (eds.): The Encyclopedia of Law and Economics Vol. 1. Chelthenham, England: Edward Elgar: 893-926.

Anckar, Carsten (2008): On the Applicability of the Most Similar Systems Design and the Most Different Systems Design in Comparative Research. In: International Journal of Social Research Methodology 11(5): 389-401.

Arndt, Christiane and Charles Oman (2006): Uses and Abuses of Governance Indicators. Organization for Economic Cooperation and Development Development Center Studies.

Asadov, Aykan (2013): Azerbaijan. The Oil and Gas Law Review, http://www.bmlawaz.com/upload/Azerbaijan%20in%20oil%20and%20gas%20edition.pdf (12.06.18).

Auty, Richard (1997): Sustainable Mineral-Driven Development in Turkmenistan. In: Environment Discussion Paper 36 (December).

Auty, Richard (2006): Optimistic and Pessimistic Energy Rent Deployment Scenarios for Azerbaijan and Kazakhstan. In: Auty, Richard M. (ed.): Energy, Wealth and Governance in the Caucasus and Central Asia: Lessons Not Learned. New York: Routledge: 57-77.

Auty, Richard and Indra de Soysa (2006): Incentives to Reforms in the Caucasus and Central Asian Political States. In: Auty, Richard M. (ed.): Energy, Wealth and Governance in the Caucasus and Central Asia: Lessons Not Learned. New York: Routledge: 135-153.

Bagirov, Sabit (2007): Azerbaijan's Oil Revenues: Ways of Reducing the Risk of Ineffective, http://www.policy.hu/bagirov/ResearchPaper.pdf (12. 05.18).

Bagirov, Sabit (2015): What Lies Ahead for Azerbaijan and EITI, http://www.publishwhatyoupay.org/what-lies-ahead-for-azerbaijan-and-eiti/ (12.03.18).

Bagirov, Sabit, Ingilab Akhmedov and Svetlana Tsalik (2003): State Oil Fund of the Azerbaijan Republic. In: Tsalik, Svetlana (ed.): Caspian Oil Windfalls: Who Will Benefit? New York: Open Society Institute; Caspian Revenue Watch: 89-125.

Baird, Ryan (2009): Governance Infrastructure and High Quality Democracy: A Theoretically Motivated Concept Construction and Necessary Condition Analysis. APSA 2009 Toronto Meeting Paper.

Baskaran, Thushyanthan and Arne Bigsten (2013): Fiscal Capacity and the Quality of Government in Sub-Saharan Africa. In: World Development 45 (C): 92-107.

Bates, Robert and Donald Lien (1985): A Note on Taxation, Development, and Representative Government. In: Politics and Society 14 (1): 53-70.

Bayulgen, Oksan (2010): Azerbaijan: One-Stop Shopping. In: Foreign Investment and Political Regimes: The Oil Sector in Azerbaijan, Russia, and Norway. Cambridge: Cambridge University Press: 87-121.

Beblawi, Hazem (1987): The Rentier State in the Arab World. In: Arab Studies Quarterly 9(4): 383-398.

Bevir, Mark (2011): Governance as Theory, Practice and Dilemma. In: Bevir, Mark: The SAGE Handbook of Governance. Los Angeles: SAGE Publications. 1-16.

Bohr, Annette (2016): Turkmenistan: Power, Politics and Petro-Authoritarianism, https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2016-03-08-turkmenistan-bohr.pdf (03.02.18).

Boix, Carles and Milan Svolik (2013): The Foundations of Limited Authoritarian Government: Institutions, Commitment, and Power-Sharing in Dictatorships. In: The Journal of Politics 75(2): 300-316.

Brautigam, Deborah (1992): Governance, Economy, and Foreign Aid. In: Studies in Comparative International Development 27(3): 3-25.

Brautigam, Deborah (2008): Introduction: Taxation and State-Building in Developing Countries. In: Brautigam, Deborah, Odd-Hellge Fjeldstad and Mick Moore (eds.): Taxation and State-Building in Developing Countries: Capacity and Consent. Cambridge: Cambridge University Press: 1-33.

Brunnschweiler, Christa and Simone Valente (2013): Property Rights, Oil and Income Levels: Over a Century of Evidence. Norway: Norwegian University of Science and Technology.

BTI (2006; 2014): Turkmenistan Country Report. Bertelsmann Stiftung, http://www.bti-project.org/en/reports/country-reports/detail/itc/tkm/ (05.07.18).

BTI (2008; 2010; 2012; 2014; 2016; 2018): Azerbaijan Country Report. Bertelsmann Stiftung, https://www.bti-project.org/en/reports/country-reports/detail/itc/AZE/ (05.07.18).

Bulte, Erwin, Richard Damania, and Robert Deacon (2005): Resource Intensity, Institutions, and Development. In: World Development 33(7): 1029-1044.

Busse, Matthias and Steffen Gröning (2013): The Resource Curse Revisited: Governance and Natural Resources. In: Public Choice 154(1): 1-20.

Chandra, Siddharth and Nita Rudra (2015): Reassessing the Links Between Regime Type and Economic Performance: Why Some Authoritarian Regimes Show Stable Growth and Others Do Not. In: British Journal of Political Science 45(2): 253-285.

Charron, Nicholas and Victor Lapuente (2011): Which Dictators Produce Quality of Government? In: Studies in Comparative International Development 46(4): 397-423.

Chaudhry, Kiren (1989): The Price of Wealth: Business and State in Labor Remittance and Oil Economies. In: International Organization 43(1): 101–145.

Ciarreta, Aitor and Shahriyar Nasirov (2010): Analysis of Azerbaijan Oil and Gas Sector, https://www.usaee.org/usaee2011/submissions/OnlineProceedings/Ciarreta_Nasirov-Article1.pdf (12.03.18).

Collier, David (1993): The Comparative Method. In: Finifter, Ada (ed.): Political Science: The State of Discipline II: 105-119.

Collier, David (1995): Translating Quantitative Methods for Qualitative Researchers: The Case of Selection Bias. In: American Political Science Review 89(2): 461-466.

Collier, David and James Mahoney (1996): Insights and Pitfalls: Selection Bias in Qualitative Research. In: World Politics 49(1): 56-91.

Crude Accountability (2011): The Private Pocket of the President (Berdymukhamedov): Oil, Gas and Law, http://crudeaccountability.org/wp-content/uploads/2012/04/20111016-PrivatePocketPresidentBerdymukhamedov.pdf (05.04.18).

de Melo, Martha, Cevdet Denizer, Alan Gelb, and Stoyan Tenev (2001): Circumstance and Choice: The Role of Initial Conditions and Policies in Transition Economies. In: The World Bank Economic Review 15(1): 1-31.

de Meur, Gisele, Peter Bursens and Alain Gottcheiner (2006): MSDO/MDSO Revisited for Public Policy Analysis. In: Rihoux, Benoit and Heike Grimm (eds.): Innovative Comparative Methods for Policy Analysis. Boston, MA: Springer: 67-94.

Denison, Michael (2007): Turkmenistan in Transition - A Window for EU Engagement? https://www.ceps.eu/system/files/book/1496.pdf (25.06.18).

Dietsche, Evelyn (2014): “Good Governance” of the Extractive Resources Sector: A Critical Analysis, https://discovery.dundee.ac.uk/ws/files/5473036/Dietsche_phd_2014.pdf (15.06.18).

Dzardanova, Svetlana (2010): Resource Nationalism Trends in Turkmenistan, 2004-2009, http://citeseerx.ist.psu.edu/viewdoc/download;jsessionid=E828B53ACD16A52C632801B050257C06?doi=10.1.1.626.8630&rep=rep1&type=pdf (25.06.18).

Easter, Gerald (2008): Capacity, Consent and Tax Collection in Post-Communist States. In: Brautigam, Deborah, Odd-Helge Fjeldstad and Mick Moore (eds.): Taxation and State-Building in Developing Countries: Capacity and Consent. Cambridge: Cambridge University Press: 64-89.

EBRD (2000; 2003; 2004; 2006; 2007; 2008; 2009; 2012): Transition Report. European Bank for Reconstruction and Development, https://www.ebrd.com/transition-report-2017-18 (15.07.18).

EBRD (2006): Country Strategy for Turkmenistan, https://www.ebrd.com/downloads/about/policies/2006-06-15,_Strategy_for_Turkmenistan-_English_web.pdf (14.06.18).

ECS (2005): Azerbaijan: In-Depth Review of the Investment Climate and Market Structure in the Energy Sector, https://energycharter.org/fileadmin/DocumentsMedia/ICMS/ICMS-Azerbaijan_2005_en.pdf (14.06.18).

ECS (2011). Azerbaijan: Follow-Up In-Depth Review of the Investment Climate and Market Structure in the Energy Sector, https://energycharter.org/fileadmin/DocumentsMedia/ICMS/ICMS-Azerbaijan_2011_en.pdf (14.06.18).

Egorov, Georgy, Sergei Guriev and Konstantin Sonin (2009): Why Resource-Poor Dictators Allow Freer Media: A Theory and Evidence from Panel Data. In: American Political Science Review 103(4): 645-668.

EIU (August 1997; August 2002, October 2003): Country Report: Azerbaijan, http://nationallizenzen.zbw.eu/handle/10836/208 (20.07.18).

EIU (October 1998; April 2002; October 2003; July 2005; October 2008; July 2008): Country Report Turkmenistan, http://nationallizenzen.zbw.eu/handle/10836/67/simple-search?query= (20.07.18).

Fjæstad, Kristin and Indra Øverland (2012): Energy Elites in Central Asia: Kazakhstan, Turkmenistan and Uzbekistan,

https://brage.bibsys.no/xmlui/bitstream/handle/11250/2441590/2012%2b-%2bEnergy%2bElites%2bin%2bCentral%2bAsia%2b-%2bFj%25C3%25A6stad%2band%2b%25C3%2598verland.pdf?sequence=1&isAllowed= (10.07.18).

Freedom House (2002; 2007; 2010; 2014): Nations in Transit: Turkmenistan.

Freedom House (2010): Nations in Transit 2010: Azerbaijan, https://freedomhouse.org/report/nations-transit/2010/azerbaijan (05.07.18).

Frynas, Jedrzej (2009): Corporate Social Responsibility in the Oil and Gas Sector. In: Journal of World Energy Law & Business 2(3): 178-195.

Fukuyama, Francis (2013a): What is Governance? In: Governance 26(3): 347-368.

Fukuyama, Francis (2013b): What is governance? Fukuyama replies. In: Governance, https://governancejournal.wordpress.com/2013/04/30/1492/ (15.12.17).

Fukuyama, Francis (2016): Governance: What Do We Know, and How Do We Know It? In: Annual Review of Political Science 19(1): 89–105.

Gandhi, Jennifer (2008): Dictatorial Institutions and Their Impact on Economic Growth. In: European Journal of Sociology 49(1): 3-30.

Gandhi, Jennifer and Adam Przeworski (2006): Cooperation, Cooptation, and Rebellion Under Dictatorships. In: Economics & Politics 18: 1-26.

Gawrich, Andrea, Inna Reinert and Rainer Schweckert (2010): More than Oil and Geography- Neopatrimonialism as an Explanation of Bad Governance and Autocratic Stability in Central Asia: In: Der Workshop: "Neopatrimonialism in Various World Regions." Hamburg: German Institute of Global and Area Studies.

Gelman, Vladimir (2017): Political Foundations of Bad Governance in Post-Soviet Eurasia: Towards a Research Agenda. In: East European Politics 33(4): 496-516.

Gerschewski, Johannes (2013): The Three Pillars of Stability: Legitimation, Repression, and Co-optation in Autocratic Regimes. In: Democratization 20(1): 13-38

Gervasoni, Carlos (2010): A Rentier Theory of Subnational Regimes: Fiscal Federalism, Democracy, and Authoritarianism in the Argentine Provinces. In: World Politics 62(2): 302–340.

Global Witness (2006): It's a Gas: Funny Business in the Turkmen-Ukraine Gas Trade; April, file:///C:/Users/Hye/Downloads/its_a_gas%20(6).pdf (05.07.18).

Global Witness (2010): Did Gas Company Buy Luxury Yacht for Turkmen Dictator? Press Release. Global Witness.

GRD: The Government Revenue Database, http://www.ictd.ac/dataset/grd (12.07.18).

Gulbrandsen, Lars and Arild Moe (2007): BP in Azerbaijan: A Test Case of the Potential and Limits of the CSR Agenda? In: Third World Quarterly 28(4): 813-830.

Gurbanov, Sarvar, Jeffrey Nugent and Jeyhun Mikayilov (2017): Management of Oil Revenues: Has That of Azerbaijan Been Prudent? In: Economies, Vol. 5(2): 1-20.

Hachemaoui, Mohammed (2012): Does Rent Really Hinder Democracy? A Critical Review of the “Rentier State” and “Resource Curse” Theories. In: Revue Francaise de Science Politique 62(2): 1-24.

Haggard, Stephan, Andrew MacIntyre and Lydia Tiede (2008): The Rule of Law and Economic Development. In: Annual Review of Political Science 11: 205-234.

Hajzler, Christopher (2014): Resource-Based FDI and Expropriation in Developing Economies. In: Journal of International Economics, Elsevier 92(1): 124-146.

He, Wenkai (2013): Paths Toward the Modern Fiscal State: England, Japan, and China. Cambridge, MA: Harvard University Press.

Heritage Foundation (2003; 2010; 2014): Index of Economic Freedom, https://www.heritage.org/index/download (20.07.18).

Hoffman, David (2000): Oil and State-Building in Post-Soviet Azerbaijan and Kazakhstan. ProQuest Dissertations and Theses Global, https://search.proquest.com/docview/304595644?accountid=11004 (05.01.18).

Ibadoglu, Gubad, Kamil Alasgarov and Garib Bayramov (2013): Oil and Gas Revenue Management in Azerbaijan, http://www.erc.az/files/neshrler/RM_Azerbaijan_ERC_2013_ENG.pdf (28.06.18).

IFC (2013): Azerbaijan Country Profile. International Finance Corporation: World Bank Group, file:///C:/Users/Hye/Downloads/Azerbaijan-2013.pdf (12.03.18).

IIPE (2011): Investment Opportunities in Turkmenistan: Political Risks Analysis, http://www.minchenko.ru/netcat_files/File/Print_eng_Preview.pdf (20.05.18).

IMF (2012): Republic of Azerbaijan: Selected Issues. IMF Country Report 12(6).

Janmammadova, Aygun (2014): Azerbaijan: Analysis of the Legal Framework for Foreign Investment in Azerbaijan, http://www.mondaq.com/x/301284/Inward+Foreign+Investment/Analysis+Of+The+Legal+Framework+For+Foreign+Investment+In+Azerbaijan (14.02.18).

Jones, J.R. (1994): Fiscal Policies, Liberties, and Representative Government During the Reign of the Last Stuarts. In: Hoffman, Philip and Kathryn Norberg (eds.): Fiscal Crisis, Liberty and Representative Government, 1450-1789. Stanford: Stanford University Press: 67-95.

Jose, Jim (2014): Theorizing “Governance” and the Problem of Conceptual Boundary Setting. British Journal of Interdisciplinary Studies 1(3): 1-19.

Kalyuzhnova, Yelena and Kerry Patterson (2016): Kazakhstan: Long-Term Economic Growth and the Role of the Oil Sector. In: Comparative Economic Studies 58(1): 93-118.

Karayianni, Marika (2006): Production Sharing Agreements and National Oil Funds. In: Akiner, Shirin (ed.): The Caspian Politics, Energy and Security. London: Routledge Curzon: 147-155.

Kaufmann, Daniel and Aart Kraay (2008): Governance Indicators: Where Are We, Where Should We Be Going? In: World Bank Research Observer 23(1): 1-30.

Kaufmann, Daniel, Aart Kraay and Massimo Mastruzzi (2005): Governance Matters IV: Governance Indicators for 1996-2004. World Bank Policy Research Working Paper WPS 3630.

Kaufmann, Daniel, Aart Kraay and Massimo Mastruzzi (2007): The Worldwide Governance Indicators: Answering the Critics (English). World Bank Policy Research Working Paper WPS 4149.

Kaufmann, Daniel, Aart Kraay and Massimo Mastruzzi (2009): Governance Matters VIII: Aggregate and Individual Governance Indicators for 1996-2008. World Bank Policy Research Working Paper WPS 4978.

Kaufmann, Daniel, Aart Kraay and Massimo Mastruzzi (2011): The Worldwide Governance Indicators: Methodology and Analytical Issues. In: Hague Journal on the Rule of Law 3(2): 220-246.

Kazmunaigas Exploration Production (2006; 2016). Godoviye otcheti [Annual Reports], https://kmgep.kz/rus/investor_relations/annual_reports/?cid=0&page=2 (15.05.18).

Khanna, Arpita (2017): Does Oil Ownership Affect Institutions? https://www.polver.uni-konstanz.de/gschneider/people/postdocs/khanna/ (12.06.18).

Knebelmann, Justine (2017): Natural Resources' Impact on Government Revenues. WIDER Working Paper. Helsinki: UNU-WIDER.

Knutsen, Carl and Hanne Fjelde (2013): Property Rights in Dictatorships: Kings Protect Property Better Than Generals or Party Bosses. In: Contemporary Politics 19(1): 94-114.

Kostem, Seckin and Mehmet Sahin (2014?): Rethinking the Post-Soviet Resource Curse: Are Azerbaijan, Kazakhstan and Turkmenistan Rentier States? http://paperroom.ipsa.org/papers/paper_34621.pdf (20.06.18).

Landman, Todd (2008): Issues and Methods in Comparative Politics: An Introduction (3rd edition). New York: Routledge.

Levi-Faur, David (2012): From Big Government to Big Governance? The Oxford Handbook of Governance, http://www.oxfordhandbooks.com/view/10.1093/oxfordhb/9780199560530.001.0001/oxfordhb-9780199560530-e-1?print=pdf (28.06.2018).

Lijphart, Arend (1971): Comparative Politics and the Comparative Method. In: The American Political Science Review 65(3): 682-693.

Lorentzen, Peter (2014): China's Strategic Censorship. In: American Journal of Political Science 58(2): 402-414.

Luong, Pauline and Erika Weinthal (2006*a*): Rethinking the Resource Curse: Ownership Structure, Institutional Capacity, and Domestic Constraints. In: Annual Review of Political Science 9(1): 241-263.

Luong, Pauline and Erika Weinthal (2006*b*): Combating the Resource Curse: An Alternative Solution to Managing Mineral Wealth. Perspectives on Politics 4(1): 35-53.

Luong, Pauline and Erika Weinthal (2010): Oil is Not a Curse: Ownership Structure and Institutions in Soviet Successor States. New York, NY: Cambridge University Press.

Mahdavy, Hussein (1970): The Patterns and Problems of Economic Development in Rentier States: The Case of Iran. In: Cook, M. (ed.): Studies in Economic History of the Middle East. London: Oxford University Press: 428-467.

Malikov, Numonjon, Artan Qineti and Alim Pulatov (2016): Development and Structural Changes in the Economies of Central Asian Countries, https://ssrn.com/abstract=2924339 (03.05.18).

Martin, Isaac, Ajay Mehrotra and Monica Prasad (2009): The New Fiscal Sociology: Taxation in Comparative and Historical Perspective. New York: Cambridge University Press.

Melville, Andrei and Mikhail Mironyuk (2015): “Bad Enough Governance”: State Capacity and Quality of Institutions in Post-Soviet Autocracies. In: Post-Soviet Affairs 32(2): 132-151.

Moore, Mick (2001): Political Underdevelopment: What Causes “Bad Governance”. In: Public Management Review 3(3): 385-418.

Moore, Mick (2004): Revenues, State Formation, and the Quality of Governance in Developing Countries. In: International Political Science Review 25(3): 297-319.

Moore, Mick (2007): How Does Taxation Affect the Quality of Governance? http://www.ids.ac.uk/files/dmfile/Wp280.pdf (14.09.17).

Moore, Mick (2008): Between Coercion and Contract: Competing Narratives Around Taxation and Governance. In: Brautigam, Deborah, Odd-Helge Fjeldstad and Mick Moore (eds.): Capacity and Consent: Taxation and State Building in Developing Countries. Cambridge: Cambridge University Press: 34-63.

Moore, Mick (2018): Taxation and Development. The Oxford Handbook of the Politics of Development. http://www.oxfordhandbooks.com/view/10.1093/oxfordhb/9780199845156.001.0001/oxfordhb-9780199845156-e-39 (14.05.18).

Mustafayev, Nurlan (2015): Production-Sharing Agreements in the Petroleum Industry of Azerbaijan. In: The Journal of World Energy Law & Business 8(4): 362-384.

North, Douglass (1990): Institutions, Institutional Change and Economic Performance. Cambridge: Cambridge University Press.

Öge, Kerem (2014): The Limits of Transparency Promotion in Azerbaijan: External Remedies to "Reverse the Curse." In: Europe-Asia Studies 66(9): 1482–1500.

Öge, Kerem (2017): Transparent Autocracies: The Extractive Industries Transparency Initiative (EITI) And Civil Cociety in Authoritarian States. In: Extractive Industries and Society 4(4): 816–824.

Olsen, Willy (2006): The Role of Oil in the Development of Azerbaijan in the Caspian: In: Akiner, Shirin (ed.): Politics, Energy and Security. London: Routledge Curzon: 126-146.

Papyrakis, Elissaios (2016): The Resource Curse - What Have We Learned from Two Decades of Intensive Research: Introduction to the Special Issue. In: The Journal of Development Studies 53(2): 175-185.

Partlett, William (2008): Understanding Post-Soviet Resource Nationalism and Contractual Renegotiation: The Demand for Foreign Capital and Contractual Stability, http://www.miamioh.edu/cas/_files/documents/havighurst/2008/partlett.pdf (26.06.18).

Plattner, Marc (2013): Reflections on "Governance". In: Journal of Democracy 24(4): 17-28.

Pomfret, Richard (2003): Economic Performance in Central Asia Since 1991: Macro and Micro Evidence. In: Comparative Economic Studies 45(4): 442–465.

Pomfret, Richard (2006): Resource Abundance, Governance and Economic Performance in Turkmenistan and Uzbekistan. In: Auty, Richard M. (Ed.): Energy, Wealth and Governance in the Caucasus and Central Asia: Lessons Not Learned. New York: Routledge: 77–93.

Pomfret, Richard (2008): Turkmenistan After Turkmenbashi, https://www.pfh.de/fileadmin/Content/PDF/forschungspapiere/pfh.for.078.0906_pomfret.pdf (15.02.18).

Pomfret, Richard (2011): Resource Management and Transition in Central Asia, Azerbaijan, and Mongolia. In: Working Paper Series WP 11(8). Washington, DC: Peterson Institute for International Economics.

Prichard, Wilson (2016): Reassessing Tax and Development Research: A New Dataset, New Findings, and Lessons for Research. In: World Development Vol. 80: 48-60.

Rhodes, R.A.W. (1996): The New Governance: Governing Without Government. In: Political Studies 44(4): 652–667.

Ross, Michael (2001): Does Oil Hinder Democracy? In: World Politics 53(3): 325-361.

Ross, Michael (2009): Oil and Democracy Revisited, https://www.sscnet.ucla.edu/polisci/faculty/ross/papers/working/Oil%20and%20Democracy%20Revisited.pdf (03.11.17).

Ross, Michael (2013): The Political Economy of Petroleum Wealth. In: Middle East Development Journal 5(2): 1-19.

Ross, Michael (2015): What Have We Learned About the Resource Curse? In: Annual Review of Political Science 18: 239-259.

Ross, Michael and Paasha Mahdavi (2015): Oil and Gas Data, 1932-2014, https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/ZTPW0Y (05.02.18).

Rothstein, Bo (2011): The Quality of Government: Corruption, Social Trust, and Inequality in International Perspective. Chicago: University of Chicago Press.

Rothstein, Bo (2012): Good Governance. The Oxford Handbook of Governance, http://www.oxfordhandbooks.com/view/10.1093/oxfordhb/9780199560530.001.0001/oxfordhb-9780199560530-e-10 (25.06.18).

Rothstein, Bo (2013): The Three Worlds of Governance: Arguments for a Parsimonious Theory of Quality of Government. In: Quality of Government Institute Working Papers (12): 1-33.

Rothstein, Bo and Marcus Tannenberg (2015): Making Development Work - The Quality of Government Approach, https://ssrn.com/abstract=3023883 (25.10.17).

RWI Index Questionnaire (2012) : Turkmenistan 2012, https://resourcegovernance.org/sites/default/files/documents/turkmenistan.pdf (12.09.17).

Sadigov, Turkhan and Farid Guliyev (2018): Eroding Support for Democracy in Azerbaijan? Context and Pitfalls in Survey Research. Caucasus Survey, https://ssrn.com/abstract=3096967 (06.04.18).

Sahin, Hakan (2013): Host Country Contracts in the Energy Sector: Azerbaijan-Turkey Case Study. Doctoral Thesis, https://arro.anglia.ac.uk/324036/ (05.04.18).

Sarbu, Bianca (2014): Ownership and Control of Oil: Explaining Policy Choices Across Producing Countries (1st ed.). London: Routledge.

Sarsenbayev, Kuanysh (2011): Kazakhstan Petroleum Industry 2008-2010: Trends of Resource Nationalism Policy? In: The Journal of World Energy Law & Business 4(4): 369-379.

Schumpeter, Joseph (1918/1991): The Crisis of the Tax State. In: Swedberg, Richard (ed.): Joseph A. Schumpeter: The Economics and Sociology of Capitalism. Princeton, NJ: Princeton University Press.

Srinivasan, Sophia (2018): Foreign Direct Investment in the Oil and Gas Sector of Turkmenistan: In: Burghart, Daniel and Theresa Sabonis-helf (eds.): Central Asia in the Era of Sovereignty: The Return of Tamerlane? Lexington Books: 453-486.

Tilly, Charles (1994): Coercion, Capital and European States: AD 990-1992 (Repr. ed.). Cambridge, Mass.: Blackwell.

U.S. Commercial Service (2009; 2015*b*): Doing Business in Turkmenistan: The Country Commercial Guide. USA: Department of Commerce.

U.S. Commercial Service (2010; 2015*a*): Doing Business in Azerbaijan: The Country Commercial Guide for U.S. Companies. USA: Department of Commerce.

Wegenast, Tim (2016): Oil, Natural Gas, and Intrastate Conflict: Does Ownership Matter? In: International Interactions 42(1): 31-55.

Wescott, Clay, Raj Desai and Antti Talvitie (2011): Azerbaijan: World Bank Country-Level Engagement on Governance and Anticorruption. Washington DC: World Bank.

WGI: Worldwide Governance Indicators, http://info.worldbank.org/governance/WGI/#home (10.07.18).

World Bank (2003): Azerbaijan: Public Expenditure Review. Report No. 25233-AZ. Washington DC. World Bank.

World Bank (2008): Doing Business 2009. Washington, D.C.: World Bank.

World Bank (2013): Country Partnership Strategy Progress Report for The Period FY2011-FY2014 for Azerbaijan, http://documents.worldbank.org/curated/en/964891468010249442/pdf/768260REV0CASP001401400R20130007601.pdf (12.04.18).

World Bank (2014): Diversified Development: Making the Most of Natural Resources in Eurasia. Washington DC: World Bank.

World Bank (2015): World Bank Group - Turkmenistan partnership program snapshot (English), http://documents.worldbank.org/curated/en/904321485161087742/World-Bank-Group-Turkmenistan-partnership-program-snapshot (10.02.18).

World Bank and EBRD (2005): Azerbaijan - BEEPS at a Glance (English), http://documents.worldbank.org/curated/en/114951468252914048/pdf/692140BRI0P09100300201200Azerbaijan.pdf (05.04.18).

World Bank Group, CPIA Database, https://data.worldbank.org/indicator/IQ.CPA.PROT.XQ?view=chart (12.07.18).

Wright, Joseph (2008): Do Authoritarian Institutions Constrain? How Legislatures Affect Economic Growth and Investment. In: American Journal of Political Science 52(2): 322-343.

Wright, Joseph (2009): How Foreign Aid Can Foster Democratization in Authoritarian Regimes. In: American Journal of Political Science 53(3): 552-571.

Zermeno, Mayra (2008): Current and Proposed Non-Oil Tax System in Azerbaijan. In: IMF WP 08(225).

Non-exclusive licence to reproduce thesis and make thesis public

I, Hayarpi Karapetyan,

1. herewith grant the University of Tartu a free permit (non-exclusive licence) to:

1.1. reproduce, for the purpose of preservation and making available to the public, including for addition to the DSpace digital archives until expiry of the term of validity of the copyright, and

1.2. make available to the public via the web environment of the University of Tartu, including via the DSpace digital archives until expiry of the term of validity of the copyright,

"Why Do Oil-Rich Countries of the Former Soviet Union Differ in Quality of Governance"?

supervised by Prof. Klaus Segbers, Prof. Vello Pettai

2. I am aware of the fact that the author retains these rights.

3. I certify that granting the non-exclusive licence does not infringe the intellectual property rights or rights arising from the Personal Data Protection Act.

Tartu,