

Natural Resource Charter



DOMESTIC
FOUNDATIONS
FOR RESOURCE
GOVERNANCE



INTERNATIONAL
FOUNDATIONS
FOR RESOURCE
GOVERNANCE

Exploring for
resources and
deciding whether
to extract

Getting a
good deal

Managing
revenues

Investing for
sustainable
development

- PRECEPT 1
Strategy,
consultation and
institutions
- PRECEPT 2
Accountability and
transparency

- PRECEPT 3
Exploration and
license allocation

- PRECEPT 4
Taxation
- PRECEPT 5
Local effects
- PRECEPT 6
State-owned
enterprise

- PRECEPT 7
Revenue distribution
- PRECEPT 8
Revenue volatility

- PRECEPT 9
Government
spending
- PRECEPT 10
Private sector
development

- PRECEPT 11
Roles of
international
companies
- PRECEPT 12
Roles of
international actors

ECONOMIC DECISION CHAIN

FOUNDATIONS OF GOVERNANCE

		State-owned companies	Taxation	Working with the locals	Linking to the national economy	Managing revenues	Investing
Rules							
Institutions							
Informed citizens and expectations							

Domestic Foundation of Good Governance

- **Precept 1. “Building comprehensive strategy and institutional framework”**
 - An overarching body representing each ministry may be useful in coordination and implementation of strategy
- **Precept 2. “Be transparent and accountable”**
 - *Accountability measure* - Disclose contracts, avoid confidentiality clauses.
 - *Accountability measure* - Mitigate against “zombie data”

EITI – contract disclosure suggested

Discovery & decision to extract

- **Precept 3. “Award licenses transparently to efficient companies”**
 - Use auctions to award licenses, unless there is insufficient competitive interest.
 - Consider whether the environmental costs are worth the reward
 - *Accountability measure* - government should disclose information on the procedures for allocation, the contracts themselves, the identity of the recipients, and the tax regime under which firms will be operating

Charter position accommodates the Mining industry view

Getting a good deal

- **Precept 4. “Secure the full value of the resource while attracting just enough investment”**
 - Avoid state equity as a means of directly earning income.
 - Use a royalty
 - Avoid tax incentives
 - Limit provisions in stability clauses
 - **Accountability measure** – disclose tax terms
- **Precept 5. “Pursue opportunities for local benefits and mitigate the costs of extraction”**
 - No explicit mention of FPIC (except in P11), instead outlines core principles of: Involve local communities from the outset, reduce costs where possible, compensate for costs that are not reduced, and compensation is for costs not for a share of the wealth.
 - **In total the government should balance the needs of local communities with people elsewhere in the country.**
 - **Transparency measure** – disclose / publish ESIA's
- **Precept 6. “Make any NOCs accountable with a well defined role”**
 - Balance creating regulatory agencies that avoid conflicts of interests with the need to resource agencies with sufficient capacity and finances.
 - If you do choose to have a regulator role for the NOC, make an exit plan before hand.
 - If you have one, use a NOC as a window into the industry (but remember the opportunity costs of state investment)
 - **Accountability measure** - The national company should face at least the same standards of disclosure that private companies face.

IMF & 1st ed. of Charter –
avoid NOCs

Managing revenues

- **Precept 7. “Balance the rights of current and future generations to revenues ”**

- Ensure fairness for future generations, but consider that poverty now might be more extreme than in the future.
- If you are poor, invest revenues domestically in the long-run.
- Direct cash transfers can help avoid certain constraints, but they are difficult to administer, reduces policy space and can cause inflation.
- Don't succumb to perceptions of resource ownership, avoid fuel subsidies.
- **Accountability measure** – disclose the savings rule and corresponding data.

IMF/WB – views
have shifted towards
the Charter position

- **Precept 8. “Accommodate revenue volatility to smooth expenditures”**

- **Accountability measure** – If you use a stabilisation fund, integrate it with the national budget process to assist governance.
- In the long-run, the most reliable method of risk management is diversification.

Investing for sustainable development

- **Precept 9. “Use revenues to invest in investment”**

IMF – invest overviews to avoid capacity constraint

- Economic absorptive capacity can be a concern, but use revenues as an opportunity to increase absorptive capacity.
- **Accountability measure** - Public, independent audits of spending projects for both oversight and to help government improve its spending processes.

- **Precept 10. “Diversify the economy and engage domestic business”**

- Large scale, sustainable returns from extraction require the complementary investment by businesses in other sectors.
- Domestic content obligations need to be backed up with reforms to help domestic businesses respond to demand.
- First use general reforms, before considering targeted help to companies
- Carefully consider the costs as well as the benefits when supporting downstream activities.

International foundations of good governance

- **Precept 11. “Companies should commit to the highest standards of behavior”**
 - If FPIC is law, companies should adhere to it.
 - *Accountability measure* - Support disclosure requirements, including contract disclosure.
 - *Accountability measure* - Only justification for confidentiality is for proprietary information which directly affects positions of parts in negotiations, and such confidentiality should be time-bound.
- **Precept 12. “Governments and international organizations should support an upward harmonization of standards”**
 - *Accountability measure* - Governments and international organizations should do more to reduce illicit financial transactions and support confirmation of ownership in all banking and securities accounting and require and facilitate the freezing and return of stolen assets.