

The Natural Resource Charter Decision Chain

Converting Resources into Development

KEY MESSAGES

- The *decision chain* illustrates the process of converting natural resources into long-term sustainable development, from exploration and discovery to spending the revenues.
- The decision chain differs from the industry value chain in that it focuses on the output of better development as opposed to a more valuable tradable good.
- The Natural Resource Governance Institute (NRGI) and other organizations use the Natural Resource Charter to describe good governance along the decision chain.

THE DECISION CHAIN

The extractive industry decision chain is the set of decisions countries face along the way when trying to convert natural resources under the ground into better development above the ground. In his book *The Bottom Billion*, Paul Collier popularized this approach to stress the key steps in ensuring that natural resource wealth transforms into citizen well-being. This framework has since become a reference for other organizations working on natural resource governance, such as the Natural Resource Governance Institute, the World Bank and the Extractive Industries Transparency Initiative (EITI). The process begins with the decision of whether to extract and includes the questions of how to allocate rights to extract, how to generate revenues and other benefits, and how to manage the revenue from extraction. The motivation for outlining these decisions is that many resource-rich countries have trouble realizing the full development potential of their resource wealth. Articulating the decisions helps governments and oversight actors understand where they can effect change.

“For countries to benefit from resource wealth, citizens and their governments must make a broad range of decisions. Each decision requires governments to consider complex options and trade-offs and devise strategies to implement these policy choices.”

-Natural Resource Charter,
Introduction

Decision chain and value chain

Many in the extractive industries refer to a value chain where each link represents value added to the commodity. The image below shows the example of petroleum on the way from the extraction site to the end user. The major difference between this value chain and the Natural Resource Charter decision-making chain is that the decision-making chain looks at natural resources as a national asset that is being transformed through these decisions into a better development outcome. The industry value chain looks at natural resources as commodities that are transformed into more valuable forms of tradable goods.

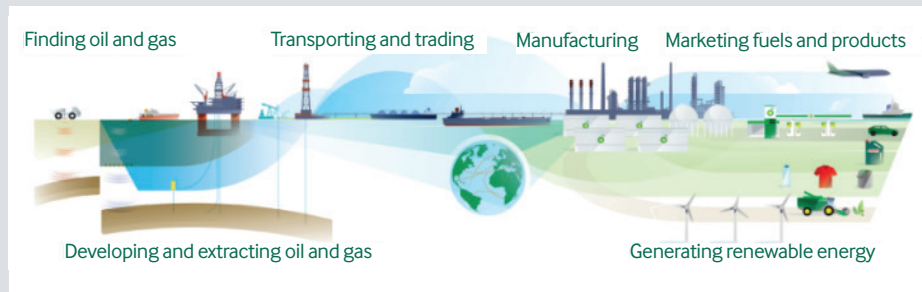


Figure 1. Oil value chain describing BP’s business model.

Source: BP value chain image, available at: <http://www.bp.com/en/global/corporate/about-bp/what-we-do/our-business-model.html>

THE NATURAL RESOURCE CHARTER PRECEPTS

The Natural Resource Charter, produced by NRGi, offers 12 steps (or precepts) of guidance along the decision chain at the national level. It provides norms or good practices for how to optimize these decision-making processes and decisions to have the best chance to foster better development.

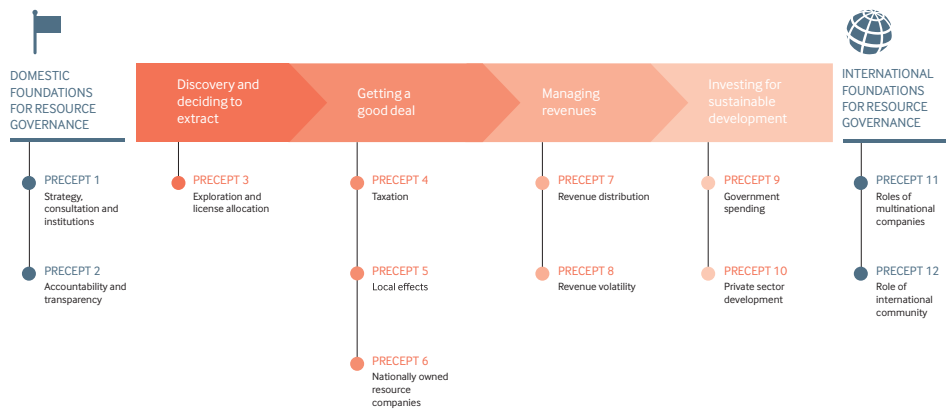


Figure 2. The Natural Resource Charter

Source: The Natural Resource Charter, available at: http://resourcegovernance.org/sites/default/files/NRC1193_natural_resource_charter_19.6.14.pdf

The precepts of the charter are separated into three groups: 1) domestic foundation for resource governance; 2) the chain of economic decisions required to manage resources for prosperity; and 3) the international foundations of good governance.

The charter emphasizes that a decision chain is only as strong as its weakest link. If a country has good systems in place for deciding to extract or for downstream revenue management but poor revenue collection systems, its ability to draw real benefit from extraction will be limited. Therefore, the chain should be viewed as a holistic system.

Some countries, such as Nigeria, Sierra Leone and Tanzania, are using the charter to evaluate their decision-making processes and learn where they can improve their governance. To assist in this endeavor, the Natural Resource Charter Benchmarking Framework is a tool created to provide stakeholders a practical way of measuring a country’s management of resources against global best practices. This benchmarking process is time-consuming and requires strong political will. Once it is completed, however, the government can create a relevant action plan for how to improve resource governance. For more information, see the reader on the measurement and assessment of natural resource governance.

NRC PRECEPTS

There are 12 charter precepts, with each precept covering key policy questions. These are captured in the table below.

Charter precept	Primary questions covered by the precept
<p>Precept 1. Resource management should secure the greatest benefit for citizens through an inclusive and comprehensive national strategy, clear legal framework and competent institutions.</p>	<p>1.1 Fundamentals of the resource endowment. Has the government clearly identified the country’s resource endowment, who owns it, and the positive and negative impacts of extraction?</p> <p>1.2 Resource strategy. Does the government have an inclusive and comprehensive national strategy for the management of resources?</p>
<p>Precept 2. Resource governance requires decision-makers to be accountable to an informed public.</p>	<p>2.1 Transparency. Does the government ensure that resource management is sufficiently transparent for all actors to effectively understand and scrutinize decision-making and its implications?</p> <p>2.2 Official oversight. Do government oversight bodies hold officials to account?</p> <p>2.3 Communications and public oversight. Is there a critical mass of informed citizens that holds the government to account?</p>
<p>Precept 3. The government should encourage efficient exploration and production operations, and allocate rights transparently.</p>	<p>3.1 License planning. Does the government adequately prepare before allocating licenses?</p> <p>3.2 Awarding resource licenses. Does the government allocate licenses to competent and law-abiding companies, and in a way that maximizes value for the country?</p> <p>3.3 Monitoring operations. Does the government adequately monitor operations across project life cycles?</p>

<p>Precept 4. Tax regimes and contractual terms should enable the government to realize the full value of its resources consistent with attracting necessary investment, and should be robust to changing circumstances.</p>	<p>4.1 Setting fiscal terms. Does the fiscal regime secure a reasonable return for the government while still attracting sufficient investment?</p> <p>4.2 Legal framework of fiscal terms. Does the legal framework of fiscal terms provide sufficient accountability to citizens, stability for investors and flexibility to respond to changing circumstances?</p> <p>4.3 Tax administration. Do government authorities collect the full value of taxes and other payments owed to the state?</p> <p>4.4 Accountability and transparency of fiscal regimes. Is the government held to account for setting and collecting taxes and other company payments?</p>
<p>Precept 5. The government should pursue opportunities for local benefits and account for, mitigate and offset the environmental and social costs of resource extraction projects.</p>	<p>5.1 Trust. Does the government ensure that there are good working relationships between all stakeholders within affected communities?</p> <p>5.2 Impact assessment. Does the government maintain an effective system for assessing the potential impacts of resource projects?</p> <p>5.3 Cost mitigation. Does the government mitigate the environmental, social and health costs of resource projects?</p> <p>5.4 Local benefits. Does the government help affected communities to benefit from resource projects?</p>
<p>Precept 6. Nationally owned companies should be accountable, with well-defined mandates and an objective of commercial efficiency.</p>	<p>6.1 SOE role and funding. Does the government clearly define the SOE's role and establish a working funding mechanism for the company?</p> <p>6.2 SOE corporate governance. Do the SOE's corporate governance systems limit political interference in the company's technical decisions, while ensuring effective oversight?</p> <p>6.3 SOE transparency and accountability. Are SOE decision-making and operations transparent and accountable?</p>
<p>Precept 7. The government should invest revenues to achieve optimal and equitable outcomes, for current and future generations.</p>	<p>7.1 Long-term fiscal sustainability. Is the government's spending and borrowing fiscally sustainable given that nonrenewable natural resources are finite?</p> <p>7.2 Absorptive capacity. Does the government adequately manage the rate of spending in the domestic economy?</p>
<p>Precept 8. The government should smooth domestic spending of revenues to account for revenue volatility.</p>	<p>8.1 Expenditure volatility. Is government spending independent of short-term changes in revenues?</p>
<p>Precept 9. The government should use revenues as an opportunity to increase the efficiency of public spending at the national and subnational levels.</p>	<p>9.1 Public spending planning. Does public spending align with national plans?</p> <p>9.2 Revenue distribution. Does the government distribute revenues in an accountable and transparent manner, and avoid off-budget transfers and spending?</p> <p>9.3 Budget and project execution. Does the government spend public revenues as intended?</p> <p>9.4 Accounting, reporting and oversight of public spending. Does the government account for and report on revenues and public spending, and is there strong oversight of public expenditure?</p>

<p>Precept 10. The government should facilitate private sector investments to diversify the economy and to engage in the extractive industry.</p>	<p>10.1 Private sector enabling environment. Does the government make general purpose investment and remove bottlenecks to non-resource sector growth?</p> <p>10.2 Local content. Does the government ensure that domestic businesses and workers have the opportunity and capacity to operate in the extractive sector?</p> <p>10.3 Sharing infrastructure. Does the government ensure that extractive industry infrastructure is open to third parties wherever economically feasible?</p> <p>10.4 Domestic value addition and consumption. Does the government take the opportunity to use oil, gas and mineral resources domestically, when the opportunity costs of doing so are less than the benefits?</p>
<p>Precept 11. Companies should commit to the highest environmental, social and human rights standards, and to sustainable development.</p>	<p>11.1 Trust. Does the company work transparently and seek to build trust with all stakeholders related to its activities?</p> <p>11.2 Sustainable development. Does the company work to maximize the potential benefits and minimize the social and environmental costs associated with resource extraction?</p> <p>11.3 Corporate integrity. Does the company act with honesty and integrity?</p>
<p>Precept 12. Governments and international organizations should promote an upward harmonization of standards to support sustainable development.</p>	<p>12.1 Transparency. Does the international community advance public disclosure requirements for the extractive industry?</p> <p>12.2 Environmental, social and health protection. Does the international community ensure that resource projects comply with internationally recognized standards of human rights, and environmental, social and health protection?</p> <p>12.3 Corruption and illicit financial flows. Does the international community tackle corruption and illicit financial flows?</p>

QUESTIONS TO ASK

- Does the decision chain reflect how resources are managed in my country?
- Where is my government strongest? Where is the government weakest?
- Are reforms underway to address management areas where the government is weak?

ADDITIONAL RESOURCES

Natural Resource Charter, <http://naturalresourcecharter.org>

Natural Resource Charter Benchmarking framework, https://resourcegovernance.org/sites/default/files/documents/natural-resource-charter-benchmarking-framework-report-2017-web_0.pdf

World Bank, Extractive Industries Value Chain (2009), available at: http://siteresources.worldbank.org/INTOGMC/Resources/ei_for_development_3.pdf

The Natural Resource Governance Institute, an independent, non-profit organization, helps people to realize the benefits of their countries' oil, gas and mineral wealth through applied research, and innovative approaches to capacity development, technical advice and advocacy.
Learn more at www.resourcegovernance.org

