

# Political parties and natural resource governance

A practical guide for developing resource policy positions



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# Foreword

Between 2003 and 2006 the price of copper quadrupled. Chile, the world's biggest producer, saw a windfall of revenues from copper during those years. But as everybody knows by now, the *bonanza* experienced by copper and other commodities has not lasted and prices have decreased since then. In general, commodity prices fluctuate rapidly and in an unpredictable way. Therefore, the economy of a country cannot rely upon the price of a natural resource, given its effect on fiscal health. How then, can a country navigate such a changing environment?

Any government of a resource-rich country might be tempted to spend liberally during an unexpected bonanza of income coming from natural resources. It will most likely give the government a short term increase in support and might help them perform well in the next election. But in the long term, we have seen how risky those policies can be.

The case of Chile is fortunately different. Amid a significant increase in revenues from copper during the 2000s, our main export and resource, the main political actors of the country reached a set of democratic agreements to ensure that revenues were managed responsibly and used to tackle economic uncertainty and fluctuations.

With that end in mind, Chile approved, in 2006 and 2007, through a process of political consensus building, a set of reforms that included approval of the Fiscal Responsibility Bill and the subsequent creation of the Economic and Social Stabilization Fund. These instruments place the country in a safer position to navigate the unexpected global economic turbulences and fluctuations in commodities prices. In addition, they provide the country with fiscal stability that allows the implementation of long-term policies aimed at creating sustainable improvements in the lives of all Chileans.

In parallel, we are making progress, although more slowly than we would like, towards reaching consensus regarding another issue: how to change our economic model from one based on the extraction and export of primary goods to one based on knowledge. Like all countries today, we

face the challenge of creating the best conditions for achieving sustainable development.

This political set up that allows Chile to transform our resources into sustainable, inclusive development would not be possible without a strong party system based on platforms, programs and debates. This is precisely where the fundamental key for creating an adequate political environment can be found. Only when parties overcome patronage politics and appeal to citizens through real policies, is it possible to create consensus around the central elements of governance. In addition, programmed policies place an extra layer of accountability on parties.

For these reasons, I believe this publication is not only timely, but also addresses a fundamental issue which impacts on the way that a country manages its natural resources. As stated in the Agenda 2030 for Sustainable Development, social and economic development depends on the sustainable management of our planet's natural resources. By supporting the process of developing political positions, International IDEA and the Natural Resource Governance Institute are supporting a democratization of natural resources, giving true meaning to national ownership and contributing notably to their transformation into sustainable, inclusive development.

**Michelle Bachelet**

**President of Chile (2006–2010, 2014–2018)**



# Preface

There is a strong positive link between the strength of political representation in a country and the quality of its resource governance systems. According to two flagship research projects—International IDEA’s Global State of Democracy Indices and NREGI’s Resource Governance Index (RGI)—where there is free and equal access to political power, there are stronger laws, institutions and practices in place to help realize the full value of resource extraction and to manage the resulting revenues. This matters: good governance, supported by strong and informed political parties, has the potential to bring sustainable and equitable economic development to the more than 1.8 billion people who currently live in poverty in resource-rich countries.

Unfortunately, as illustrated by large corruption scandals in recent times in different parts of the world, political parties, sometimes driven by the spiralling cost of election campaigns, can also have a negative impact on resource governance outcomes when accountability systems are weak, resources are mismanaged and money siphoned off for corruption.

Good practices for responsible economic management are not always in place. In Ghana, during the lead-up to the 2008 elections, just after the discovery of oil, the major political parties competed to outdo each other’s promises about the prosperity that extraction would bring to the country. This resulted in high public expectations and, after the election, unsustainable spending while oil prices were high, and a significant budget shortfall and high levels of borrowing when prices were low.

Nonetheless, political parties are also well positioned to address some of the biggest challenges associated with resource wealth, such as inflated citizen expectations, political short-termism and conflict. Whether in power or opposition, parties can also help tackle major sector reforms and policy implementation. As highlighted by the 2017 RGI, there is a pervasive gap between what is adopted as law and what is carried out in practice, driven not just by limited capacity but also by poor control of corruption.

Our organizations have responded by supporting political parties to develop and follow through on evidence-based resource policy positions. We began by jointly supporting a multiparty policy dialogue on oil, gas and mining governance in Ghana ahead of the 2016 elections. The four political parties we worked with developed detailed positions that included thoughtful stances on several of the major issues facing the country. Instead of inflating public expectations, as was the case during the 2008 elections, the new positions contributed to more informed public debate on issues such as transparency, beneficial ownership, savings and borrowing. The momentum from the dialogue has continued since, and the government is now moving ahead with several of the proposed reforms.

This report builds on the successes of and lessons learned from the position development process in Ghana, and is informed by six country case studies as well as the broader body of good practice in party engagement and resource governance. It emerges clearly that political parties can significantly affect the quality of resource governance in their countries, for better or worse. This report makes the case that political parties ought to develop clear and evidence-based policy positions on resource governance. It also provides advice on how they might do so, including by bringing in expert support and facilitators, and using the practical worksheets at the heart of this report.

It is our hope that the knowledge and guidance contained herein will help political parties to navigate the complex challenges of resource governance, and to take a more active role in ensuring that extraction contributes to long-term, sustainable development that benefits all citizens.

**Daniel Kaufmann**  
President and Chief Executive Officer  
Natural Resource Governance Institute

**Yves Leterme**  
Secretary-General  
International IDEA

# Executive summary

Political parties have an important role to play in ensuring that natural resources are managed transparently, accountably and in the long-term best interests of their countries. Research conducted by NRGi and International IDEA has identified a strong positive correlation between political representation—that is, the degree to which citizens have free and equal access to political power—and the strength of the laws, institutions and practices in place to manage natural resources.

This correlation has important global implications. Oil, gas and mineral extraction can finance sustainable and equitable economic development for the more than 1.8 billion people who live in poverty in resource-rich countries. However, resource wealth also brings a unique set of challenges often known collectively as the ‘resource curse’—challenges which *programmatic political parties* with informed and comprehensive policy positions are well positioned to help to address.

**Programmatic political parties** are those that predominantly generate policy, mobilize support through elections and govern on the basis of consistent and coherent ideological positions.

- **Authoritarian tendencies and limited civic space:** According to International IDEA’s Global State of Democracy Index, resource-rich developing countries on average score much worse in key areas such as political representation than their non-resource rich counterparts.<sup>1</sup> This is a major economic challenge because, as noted in the 2017 RGI, countries with limited civic space typically have weaker systems for managing resource revenues and maximizing the value of extraction.<sup>2</sup> However, active and informed opposition parties and ruling party members can increase the opportunity for debate, challenge problematic policies and push for greater protections for civic space.

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<sup>1</sup> See International IDEA’s Global State of Democracy Indices, available at <<https://www.idea.int/gsod-indices/#/indices/world-map>>.

<sup>2</sup> See NRGi’s 2017 Resource Governance Index, available at <<http://resourcegovernanceindex.org/>>.

- **Implementation gap between law and practice:** The 2017 Resource Governance Index found that most countries struggle to implement resource policies and laws. By taking the time to better understand the existing legal framework and the opportunities and trade-offs around the most pressing resource governance issues, political parties are well placed to identify gaps and push for better implementation across government.
- **Real and perceived corruption:** The very high rents and relative secrecy associated with the extractive sector can attract nefarious actors seeking personal gain over the best interests of citizens. By developing thoughtful and clear resource positions that explain policy choices and include strong transparency and oversight commitments, parties can reduce the risk of corruption and prepare to respond swiftly should corruption occur.
- **Conflict and local concerns:** Resource wealth is often concentrated in a small area of a country and those who live closest typically absorb more of the negative impacts. This can lead to conflict, parallel governance structures and demands for a greater share in the benefits. Through consultations and inclusive representation, political parties can help to elevate the voices of local communities, respond to local concerns and help build regional and national consensus.
- **Information asymmetry:** Extractive sector companies often have a significant advantage over governments in terms of their internal expertise, funds and access to information. This affects not only contract negotiations but also regulatory oversight, the fiscal regime, and environmental and social obligations. When developing resource positions, parties can increase their internal understanding of key technical issues to help close this information gap.
- **High citizen expectations and short-term thinking:** The economic promise associated with natural resource wealth can raise citizens' expectations of sudden and dramatic economic development. These expectations can encourage excessive spending and borrowing, and make it hard for governments to make longer-term decisions such as establishing savings funds. The process of developing a resource policy position is an opportunity for a party to consider the costs and trade-offs of different policy options, consult with key stakeholders, and communicate the party's overall vision to constituents and other parties to help build consensus.
- **Sector volatility:** Commodity prices fluctuate, which can restrict governments' ability to spend resources efficiently. With an informed and comprehensive resource policy position in place, parties are better equipped to respond to changing dynamics.

There are numerous examples, both positive and negative, of political parties playing a role in resource governance:

- **Norway:** Political parties have played an important role in building consensus on oil sector policies, including an overall sector strategy, management of the national oil fund and environmental sustainability.
- **Israel:** Between 2014 and 2016, the opposition party leveraged its knowledge of the country's resource governance framework and checks on executive power to reverse unilateral government action that violated licencing rules.
- **South Africa:** Discussions on the nationalization of the mining sector featured heavily in the ruling alliance's policy formation process, and disagreements eventually led one faction to break away and form its own political party in 2013.
- **Ghana:** After the discovery of oil in 2007, political rivalry between the two main parties led to over-promising ahead of elections and over-spending of oil revenues afterwards, in contravention of established fiscal rules.
- **Malaysia:** Heightened debate around subnational revenue sharing exposed key differences between the ruling and opposition coalitions' policy formation processes, but also increased interparty dialogue.
- **Peru:** Political parties turned the renegotiation of a gas deal into a major 2016 election issue, but also highlighted the way populism and personal politics can inhibit evidence-based policymaking.

By developing informed and comprehensive resource policy positions, parties can help to ensure that their country gets the best deal for the extraction of its resources, manages revenues for the long-term best interests of citizens and avoids the resource curse.

The process for developing a natural resource policy position requires:

- A clear objective and scope
- Serious commitment from the highest levels of the party and from those tasked with drafting the position
- Proper planning on drafting and approval

- Detailed analysis of the different issue areas, with support from sector experts and informed by wide consultations

The **natural resource governance decision chain** is the series of decisions that governments make in the process of transforming resource wealth into long-term sustainable development, from exploration and discovery to spending the revenues.

The development process is generally split across three equally important phases: initiation, design and implementation. The most time-intensive of these phases is the implementation phase, which requires the participants in the process working group to spend time carefully considering all the issue areas in the *natural resource governance decision chain*. In order to develop meaningful stances on the key issues facing the country, the working group must evaluate the public's current stance, the existing legal and institutional framework, and the costs and trade-offs associated with different policy

choices. Because of the highly technical nature of the sector, parties will benefit considerably from expert support and facilitation.<sup>3</sup>

This report finds that political parties have a critical role to play in addressing the unique political and economic challenges of resource wealth. Chapter 1 sets out why programmatic parties in resource-rich countries are particularly important players in resource governance, and addresses the ways that other stakeholders interface with party positions and the benefits of cross-party dialogue. Chapter 2 describes six country case studies—referenced throughout the report—on the roles that some political parties have played in resource governance. The final chapter and its accompanying worksheets offer a practical guide to help political parties develop their own resource policy positions, drawing on the Natural Resource Charter Benchmarking Framework and the RGI. The full collection is based on the experience of NRGi and International IDEA, as well as new research and analysis.

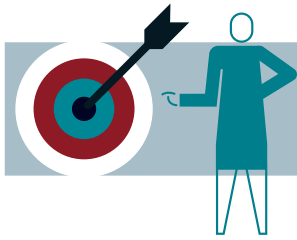
In 2015–2016, NRGi and International IDEA worked closely with four of Ghana's political parties to develop detailed resource policy positions on some of the most important issues facing the country. These positions were then reflected in the parties' 2016 campaign platforms and contributed to better informed public debate on topics such as transparency, beneficial ownership and revenue management. This represented a significant shift away from the problematic rhetoric of previous campaigns, which had raised public expectations about the size of revenues and the development they would bring. There is now a road map for the parties to have a realistic view of available resources and not to over-promise in election campaigns.

<sup>3</sup> In addition to International IDEA and NRGi, organizations like the Fundacion RAP in Argentina have done some great work in this area. For more information see <<https://fundacionrap.org/>>.

## The policy position development process

### PROCESS INITIATION

Determine the objective and scope



Identify the most relevant issue areas

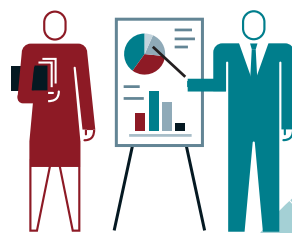


Secure the mandate and resources



Worksheet A

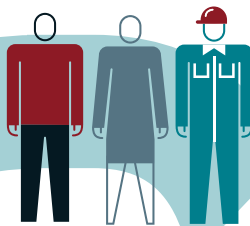
### PROCESS DESIGN



Develop an implementation plan for the process

Worksheet D  
Worksheet E

Identify stakeholders to consult



Worksheet C

Agree the governance of the process



Worksheet B

Identify sector experts to involve



Draft and discuss the position

Worksheet F  
Worksheet G  
Worksheet H  
Worksheet I

### PROCESS IMPLEMENTATION

Hold consultations and finalize the position



Disseminate the position







## Why political parties are key actors in resource governance

Countries rich in natural resources have an opportunity to transform this wealth into long-term sustainable development. Unfortunately, many find that they have weaker institutions, a greater likelihood of conflict, a distorted economy, and often less development after they have exhausted their mineral wealth. This phenomenon, commonly referred to as the *resource curse*, relates to the special characteristics of resource wealth: that the revenues are finite, exhaustible, large and limited to a specific geographic location. The curse is not a given, however, and policymakers and the general public in resource-rich countries can make choices that improve the chances that the extraction of these resources will result in sustainable wealth. For the past decade, practitioners and academics have worked to identify the decisions governments can make throughout the lifecycle of extraction that will make long-term development more likely.<sup>4</sup>

Political parties can play a key role in helping resource-rich countries adopt policies that promote long-term sustainable development. The strength of political representation, as measured by International IDEA's Global State of Democracy Indices, strongly correlates with aspects of resource governance, such as realizing the value of natural resources and managing revenues effectively, as measured by NRG's Resource Governance Index.<sup>5</sup> This means that when parties have the freedom to organize and express views, and people can freely and fairly vote for candidates, we see evidence of better resource governance.

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<sup>4</sup> This is commonly referred to as 'the resource governance decision chain'. For more information, see the Natural Resource Charter available at <<https://resourcegovernance.org/approach/natural-resource-charter>>.

<sup>5</sup> Using the data sets from the 2017 Global State of Democracy Indices and the 2017 Resource Governance Index, the Representative Government has a .7 correlation with Value Realization and a .64 correlation with Revenue Management.

**Programmatic political parties**

are those that predominantly generate policy, mobilize support through elections and govern on the basis of consistent and coherent ideological positions.

In addition to these factors, we argue that *programmatic political parties*—parties that have a coherent collection of policy positions that are used to compete in elections, inform policymaking and communicate with constituents—are particularly well suited to improving resource governance. Political scientists have found that such parties are better placed to foster inclusive, accountable governance that can contribute to long-term development policies. Countries where parties compete primarily on the basis of policies are more likely to have stronger institutions and greater socio-economic achievement.<sup>6</sup>

## Political challenges of resource wealth: Fostering democracy in the face of elite capture

Political parties are uniquely placed to address many of the political challenges that arise with natural resource wealth, from authoritarian tendencies to local grievances and impacts. This section examines some of these challenges and the role that parties can play in mitigating risks and advantage of opportunities.

### Parties can contribute to a more informed public debate and minimize authoritarian tendencies

Countries rich in natural resources have a higher risk of authoritarian leadership.<sup>7</sup> This long-studied factor is reinforced by recent data from International IDEA's Global State of Democracy Index. The index shows that resource-rich developing countries scored significantly worse on political representation on average than their non-resource rich counterparts.<sup>8</sup> One explanation for this tendency is that when governments receive large revenues from a few companies, they rely less on taxes paid by citizens, and in turn are less responsive to them (see Figure 1.1).

However, active and informed political parties can increase the opportunity for debate and, when in opposition, challenge problematic policies and governance decisions. In Israel, for example, the opposition party leveraged its knowledge of licence allocation and anti-trust rules to bring a case to the High Court

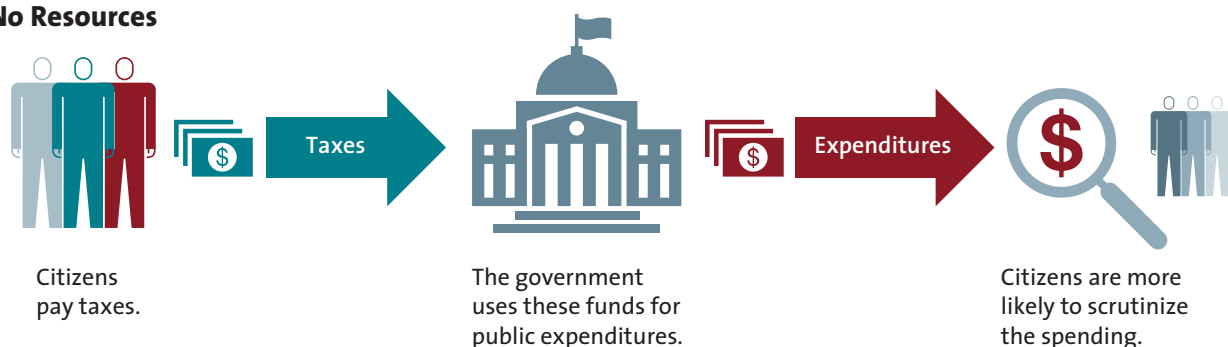
<sup>6</sup> Cheeseman, N. et al., *Politics Meets Policies: The Emergence of Programmatic Political Parties* (Stockholm: International IDEA, 2014), XIV available at <<https://www.idea.int/sites/default/files/publications/politics-meets-policies.pdf>>.

<sup>7</sup> Ross, M., *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations* (Princeton University Press, 2012), p. 63.

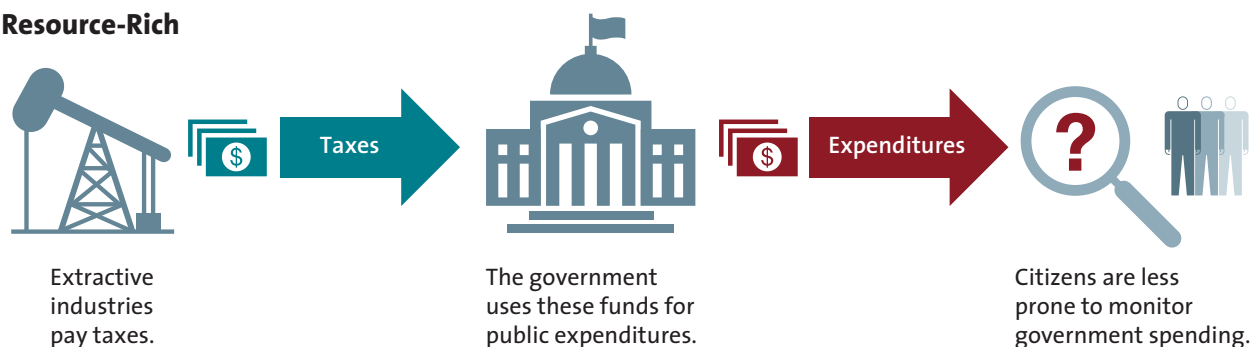
<sup>8</sup> Resource-rich countries (as defined by the International Monetary Fund) scored an average .48 in the Representative Government category of the Global State of Democracy Indices, available at <<https://www.idea.int/gsod-indices/#/indices/world-map>>. Non-resource rich countries scored an average .57. This analysis excludes Organisation for Economic Co-operation and Development countries.

**Figure 1.1**  
**Taxation and accountability**

**No Resources**



**Resource-Rich**



that ultimately reversed a production deal pushed through by Prime Minister Benjamin Netanyahu.<sup>9</sup>

Malaysia has been ruled by the Barisan Nasional coalition since 1957. Saifuddin Abdullah, a former member of the party's governing body explained, 'In all of the five years I was there, no meeting ever discussed [oil] policy adequately or thoroughly. Discussions were very general, with no position paper.' In addition, the general public and media faced strong restrictions if they tried to raise debates about the government's policies. Despite these challenges, coalition members in Sarawak state have started to try to use the party as a forum for debate that is not possible elsewhere. They created clearly outlined policy positions on subnational revenue sharing that contrast with the written and actual policy of the national government. In this case, the process of national party platform formulation has been one of the few opportunities for dissenting ideas to gain national attention.<sup>10</sup> In Uganda, President Museveni has ruled for over 20 years. In the lead-up to the 2016 election, the Forum for Democratic Change opposition party included

<sup>9</sup> See the Israel case study in Chapter 2.

<sup>10</sup> See the Malaysia case study in Chapter 2.

**Box 1.1*****Political parties and civic space***

The 2017 Resource Governance Index found that poor resource governance correlates with limited civic space. This means that in countries with worse resource governance policy, civil society and the media are more likely to be limited—legally or physically—in the degree to which they can question the government or corporations.<sup>12</sup> Increasingly, civil society groups and journalists working for better resource governance are facing threats to their life, digital security, freedom of speech and ability to organize. The result is that in countries that most need accountability and policy change, there is little room for discussion.

Constrained civic space can affect political parties as well. Many opposition parties are closely linked to civil society and the media, so a lack of space for these informal oversight actors can affect the resources and space available for opposition parties to interact with constituents, represent alternative viewpoints and criticize the government. For example, in Malaysia, the opposition party faced challenges finding the resources to fully engage all stakeholders in the definition of its position.<sup>13</sup>

Political parties also have an opportunity to foster more civic space by including protection of civic space in their party platforms and conducting consultations that bring forward ideas and voices that would otherwise be restricted by the lack of civic space.

discussion of oil revenue management and anti-corruption in its campaign platform.<sup>11</sup> Although the party was not successful in the election, the issues it raised gained traction across party lines in parliament.

### **Parties can help strengthen institutions and close the gap between policies and implementation**

The 2017 Resource Governance Index found a wide gap between resource governance policies and the extent to which those policies are implemented or monitored. The index found that the gap got wider for countries that showed worse governance performance.<sup>14</sup> Among the explanations are: (a) the capacity challenges institutions face in resource-rich countries; (b) the institutional

<sup>11</sup> 'Uganda: We are rebranding the party, FDC president Mugisha Muntu', The Africa Report, 18 July 2013, <<http://www.theafricareport.com/East-Horn-Africa/uganda-we-are-rebranding-the-party-fdc-president-mugisha-muntu.html>>.

<sup>12</sup> For more information, see the 2017 Resource Governance Index, available at <[www.resourcegovernanceindex.org](http://www.resourcegovernanceindex.org)>.

<sup>13</sup> See the Malaysia case study in Chapter 2.

<sup>14</sup> For more information, see the 2017 Resource Governance Index, available at <[www.resourcegovernanceindex.org](http://www.resourcegovernanceindex.org)>.

buy-in required for implementation; and (c) external incentives for passing laws (for more details on these factors see Box 1.2).<sup>15</sup>

**Box 1.2**  
**More on the implementation gap**

***Institutional capacity***

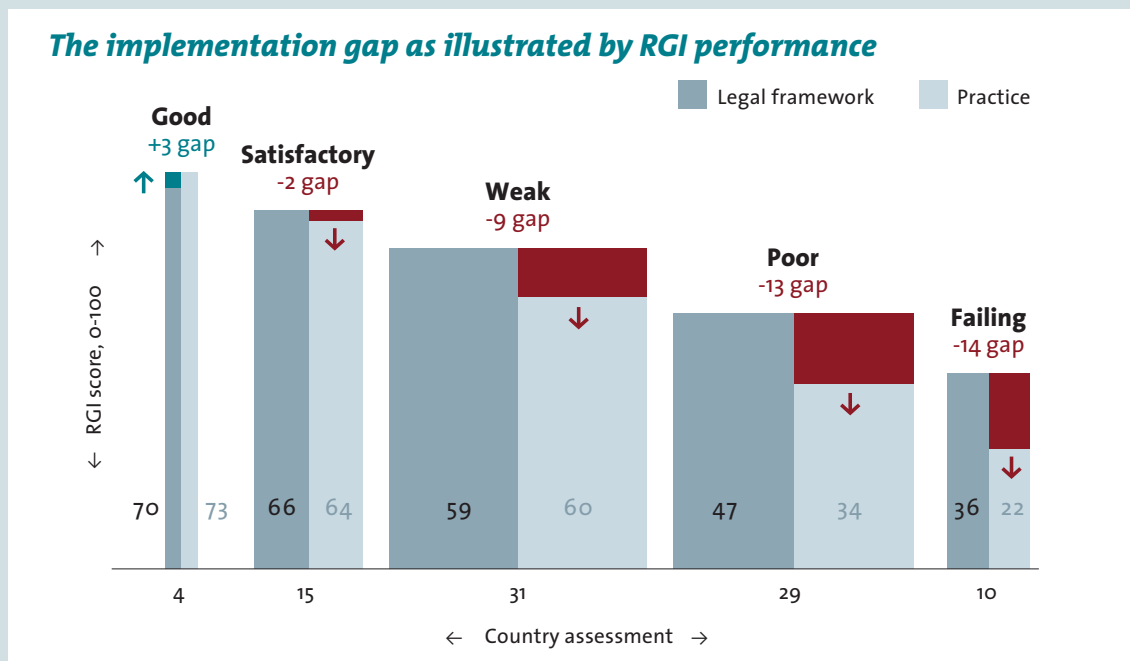
Researchers have found that the large rents from resource revenues create incentives for elites to engage in rent-seeking behaviour that enables them to access or control revenues for their own personal gain. These actions often undermine the power of government institutions, and sometimes include intentionally weakening key institutions’ financial and human resources.

***Numerous actors necessary for implementation***

The technical nature of resource governance challenges can silo responses into many institutions, moving decision-making further away from a shared national vision or public debate. While a national vision for resource governance may be translated into laws or policy by relatively few actors, it requires many more actors across many institutions to ensure that policies are implemented.

***External incentives***

Lastly, it could also be that there have been external incentives, particularly from international institutions and donors, for countries to pass legislation on resource governance that may not have the strong local ownership required for follow through.



<sup>15</sup> Ross (note 7), p. 214.

Informed political parties armed with detailed resource platforms can provide much needed scrutiny to ensure that existing policies are implemented. In Israel, the opposition party was able to monitor the ruling party's governance choices and ultimately use oversight institutions, in this case the High Court, to put a check on behaviour that was outside of the licencing and anti-trust rules.<sup>16</sup>

Malaysia is an example of parties both creating and addressing this gap. In the late 1990s, the ruling party was reluctant to grant petroleum royalties to opposition-controlled states. As the opposition gained ground at both national and state level, one such state eventually filed a lawsuit demanding the outstanding payments.<sup>17</sup>

The process of developing political party platforms is also an important opportunity for politicians to identify evidence-based priorities that can then be reinforced across various institutions and branches of government. Because party membership can include cross sections of parliamentary and executive institutions, and party loyalty often supersedes individual policy analysis, parties are particularly well-placed to address the implementation gap by fostering consistency and the monitoring of party stances across government.<sup>18</sup> They can also advocate for the necessary financial and human resources to be allocated to key institutions, including those mandated to monitor implementation.

### **Strong parties can help respond to real and perceived corruption**

Natural resource governance is a field at high risk of corruption. Very high rents and relative secrecy can attract nefarious actors that seek personal gain over the best interests of the country. When a few individuals take part in corruption, it can taint an entire party—and potentially a whole government system. In Brazil, a \$5 billion corruption scandal involving the state-owned oil company led to the ousting of the ruling party and to ongoing popular discontent and protest.<sup>19</sup> A strong resource policy position, particularly one that includes requirements for transparency and anti-corruption checks, can reduce the risk of corruption and increase the opportunity for others in the party to respond when a corrupt act takes place. The Democratic Action Party, an opposition party in Malaysia, included transparency measures, such

<sup>16</sup> See the Israel case study in Chapter 2.

<sup>17</sup> See the Malaysia case study in Chapter 2.

<sup>18</sup> Bryan, S. and Hofmann, B. (eds) *Transparency and Accountability in Africa's Extractive Industries: The Role of the Legislature* (National Democratic Institute for International Affairs 2007)

<sup>19</sup> Watts, J., 'Operation Car Wash: Is this the biggest corruption scandal in history?', *The Guardian*, 1 June 2017, <<https://www.theguardian.com/world/2017/jun/01/brazil-operation-car-wash-is-this-the-biggest-corruption-scandal-in-history>>.

as signing on to the Extractive Industries Transparency Initiative (EITI), in its party platform. The party adopted these measures in part to distinguish itself from the leading party's opacity and perceived tendency for corruption.<sup>20</sup> In a broader context, it is precisely the perception of corruption rather than hard evidence that corruption has taken place that can inform decisions made by development partners, among others.

Recent experience in Israel demonstrates the potential political risks of not having a clear governance strategy. A disagreement about good practice within the ruling party left the Prime Minister and key members of his cabinet in public disagreement over the process and outcome of a licencing agreement. The disagreement within the party and the lack of proactive party measures against corruption made the Prime Minister's deal easy to attack, weakening the party's political position and potentially the country's negotiating stance.<sup>21</sup>

### **Inclusive platforms can build consensus, respond to local concerns and reduce conflict**

One challenge particular to natural resources is that wealth is often concentrated in a small portion of the country. Those who live closest to the extraction site typically absorb more of the negative impacts of extraction than the rest of the country, and consequently feel a strong entitlement to the benefits. Accounting for voices from resource-rich areas can be a challenge in policy decision-making. In some cases, not doing so can even result in conflict. The two most common mechanisms for building inclusivity are top-down, whereby the government invests in communications across regions, and bottom-up, whereby the views of local communities are actively incorporated into party positions.

In Norway and Malaysia, the formation of party positions is a way for local voices to be included in national policy discussions. Norway is known for its multiparty consensus around developing a savings fund. However, there has been disagreement in the country about whether to open up new areas for extraction in the Arctic and whether to channel some oil funds towards infrastructure development, with different views driven by proximity to extraction sites. The Progress Party, which is strong in the south-western oil producing areas, has brought its position on the importance of domestic investment of oil revenues into negotiations as part of a coalition

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<sup>20</sup> See the Malaysia case study in Chapter 2 and Transparency International Malaysia, *Malaysia Corruption Barometer, 2014*, available at <<http://transparency.org.my/media-and-publications/press-release/ti-m-2014-malaysia-corruption-barometer-mcb-results/>> (finding political parties to be perceived as the most corrupt actor in the country).

<sup>21</sup> See the Israel case study in Chapter 2.

government.<sup>22</sup> As discussed above, Barisan Nasional party members in Sarawak have worked to bring issues around subnational revenue sharing into the national party discussion.

### **Box 1.3**

#### ***The interaction between political parties and formal and informal oversight actors***

Formal and informal oversight actors—parliaments, courts, supreme audit institutions, civil society groups, journalists and academia—can play an important role in helping political parties to inform and communicate their resource policy positions to constituents, and facilitating policy implementation.

#### ***Informing policy positions***

Because resource governance is such a technical topic, many parties have found it useful to use information gathered by formal and informal oversight actors to inform their resource policy positions. In Norway, for example, both parties and governments frequently consult academia and non-profit organizations to understand the technical intricacies behind various stances.<sup>23</sup> Civil society organizations in Colombia conducted extensive research analysing the links between subnational revenue sharing and development to inform party debates about how best to share mining royalties with subnational areas.<sup>24</sup> Similarly, political parties in Ghana invited civil society actors to make presentations about resource governance while they were trying to formulate positions on the issues.<sup>25</sup> South Africa's ruling party, the ANC, even has its own think tank and commissions a lot of research.

#### ***Communicating with constituents***

Resource governance issues are complex. The expectations and opacity created by the sector can make it hard for political parties to make clear, strong arguments for resource governance policies by themselves. In many countries, coalitions of civil society organizations work to advocate for good resource governance practice and explain the importance of the issues to broader audiences. In Timor-Leste, for example, the NGO Luta Hammutuk travelled to villages throughout the country to explain the prospects for new oil finds and the arguments related to setting up an oil fund.<sup>26</sup> By building the population's general knowledge about resource governance issues, Luta Hammutuk helped both political parties frame discussions about how best to manage the country's oil wealth as an opportunity for development.

<sup>22</sup> See the Norway case study in Chapter 2.

<sup>23</sup> See the Norway case study in Chapter 2.

<sup>24</sup> For more information, see the website of Foro Nacional por Colombia, available at <<https://www.foronacional.org/formulario>>.

<sup>25</sup> See the Ghana case study in Chapter 2.

<sup>26</sup> For more information, see the Luta Hammutuk Institute website, available at <<http://www.lutahammutukinstitute.org/>>.



### *Supporting implementation*

Oversight actors can also help parties achieve their resource governance goals by supporting implementation. During the controversial licencing round in Israel, the Israeli High Court suspended a gas deal at the behest of the opposition parties.<sup>27</sup> In Brazil, the Supreme Audit Court was integral to clarifying which and how different party actors were involved in corruption related to the national oil company. Increasingly, civil society organizations are improving their ability to provide politicians with practical knowledge and data that support implementation and monitoring. While gaining the capacity necessary to properly oversee extraction projects can be a daunting prospect for political parties, civil society reports on the use of revenues and the impacts of extraction can help a party identify where to concentrate its monitoring efforts.

## **Economic challenges of resource wealth: Securing lasting benefits amid secrecy and volatility**

Political parties are rarely well-equipped to engage with the economic complexity of natural resource governance issues such as information asymmetry, high citizen expectations, revenue volatility and resource exhaustibility in a thoughtful, sustainable way. However, having a clear and informed policy position in place as early as possible can help to address these challenges, maximize the benefits of extraction, and provide for citizens for generations to come. This section outlines the major economic risks associated with natural resources and the unique role that political parties can play in mitigating them.

### **Technically informed party platforms can help countries get a good deal for extraction**

Another classic challenge of resource governance is that extractive sector companies tend to be more knowledgeable and better advised than resource-rich governments. This applies not just to contract negotiations but also to the design of licencing systems, the fiscal regime and environmental, social and local content obligations.

This information gap stems from the technical nature of the industry, intentional secrecy by the private sector and companies' physical proximity to the resource. This asymmetry and the mistrust that follows can result in governments not receiving the full value of their resources. In Tanzania, for example, the government recently accused Barrick Gold of understating gold shipments from 2000–2017 in order to pay less tax. The government ended up temporarily halting exports and the subsequent

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<sup>27</sup> See the Israel case study in Chapter 2.

debate was complex, highly contentious and costly.<sup>28</sup> Resource-rich countries often need to make numerous complex decisions quickly, and governments with an incomplete understanding of the issues can advantage companies.

When parties develop detailed positions on resource governance, they create a requirement to increase the understanding of technical issues throughout the party and improve their chances of responding to challenges from a position of knowledge and strength. Faith Bikani, a former member of parliament and Chair of South Africa's Parliamentary Committee on Mineral Resources, explains: 'It is important to debate all issues thoroughly within the ruling party and organizational platforms, with the necessary support from people who specialize in the field of mining and mineral policy, so that by the time the portfolio committee [has a vote] I will be in a position to take a staunch decision'. This is particularly important when government officials need to be trusted to make quick decisions in the midst of contract negotiations. Clear party positions can also help a ministry of finance and a ministry of mining, for example, avoid siloed practice and ensure that their engagement with companies comes from a consistent position.

### **Parties can help manage expectations support long-term planning**

The large influx of revenues associated with natural resources often creates very high expectations among the population of sudden and dramatic change.<sup>29</sup> These expectations can make it hard for governments to make long-term decisions—such as setting up savings funds—that could protect the economy from the volatile and distorting impacts of resource revenues.<sup>30</sup>

In Ghana, where oil was discovered in 2008, the major political parties lacked clear and informed resource governance positions and were more susceptible to these popular expectations. During the lead up to the 2008 elections, President John Atta-Mills, then an opposition party candidate, told a crowd of supporters: 'This country has a lot of resources. [...] We will use our resources so that you will be able to do whatever you want'.<sup>31</sup> When oil prices crashed two years later, it quickly became apparent that the parties had done little to protect the country from the well-known fiscal pitfalls of short-term resource governance policy, and had significantly overspent the budget while prices were high only to face a huge budget shortfall later on.<sup>32</sup>

<sup>28</sup> 'Barrick Gold's Tanzania deal may set expensive precedent: shareholders,' Reuters, 25 October 2017, <<http://www.reuters.com/article/barrick-gold-acacia-shareholders/barrick-golds-tanzania-deal-may-set-expensive-precedent-shareholders-idUSL2N1MZ1F4>>.

<sup>29</sup> Ross (note 7).

<sup>30</sup> Collier, P., *Natural Resources and Conflict in Africa* (The Beacon, November 2009), <<http://the-beacon.info/countries/africa/natural-resources-and-conflict-in-africa/>>.

<sup>31</sup> *Big Men*, Documentary Film directed by Rachel Boynton (2013: Boynton Films), 35:30.

<sup>32</sup> See the Ghana case study in Chapter 2.

### Parties can enable quick responses to sector changes and volatility

Commodity prices fluctuate constantly, resulting in large impacts on a country's ability to spend resources efficiently.<sup>33</sup> The lifecycle of a mine changes the policy options available for a country, as does the overall production cycle of a set of resources. Investors tend to be more risk-averse with new producers but have less to gain when resources are mostly exploited inside a country. Government policies need to be able to respond to these changing dynamics.

In Peru, for example, the government discovered a gas field in 1984, but it took more than 20 years for extraction to begin. In 2016, just after a dramatic fall in gas prices, the country learned that one of the fields was smaller than expected, changing the economics of extraction. In order to ensure that the country was still getting a good price for its gas, parties needed to create new positions on the deal that were adapted to the new information.<sup>34</sup> In this context, political parties must be flexible and adaptable to changing circumstances while also creating policy recommendations that can weather such fluctuations and plan for the long-term from the beginning. Similarly, in Ghana, parties found that an over focus on one piece of legislation left them vulnerable to other policy challenges when oil prices dropped dramatically. The parties used the oil price crisis—and a very high level of national debt that coincided with the price drop—to create more detailed policy positions that can better foster development in a low-price environment.

#### **Box 1.4** ***The unique value of cross-party dialogue***

Cross-party dialogue and consensus building are generally very challenging and politically risky work. However, the long-term nature of resource wealth and the need for resource governance solutions to be dependable make cross-party dialogue particularly important, and sometimes essential. This box outlines two examples of why, in the context of resource wealth, policies that can cut across party lines are beneficial for the country as a whole.

#### ***Revenue management: spending over the long term as the country is able to absorb***

Good resource revenue management requires consideration of the short-term challenges of volatility and the long-term challenges of absorptive capacity and exhaustibility. If



<sup>33</sup> For more information see *Falling Prices, Rising Risks: A Series on Low Commodity Prices*, Natural Resource Governance Institute, <<https://resourcegovernance.org/analysis-tools/collection/falling-prices-rising-risks-series-low-commodity-prices>>.

<sup>34</sup> See the Peru case study in Chapter 2.



the response to these challenges changes with each election cycle, this can have dire consequences for the economy. As noted in the foreword, Chile is a great example of the benefits of investing in political consensus. The country was able to weather commodity price fluctuations far better than most because of the forward-looking fiscal reforms and instruments born out of its strong party system based on concrete positions and public debates. Norway is another strongly positive example, where fiscal rules have been underpinned by wide political buy-in on the importance of long-term sustainability and the limits of the domestic economy's absorptive capacity.

The political parties in Timor-Leste have worked hard—with many setbacks—to create a strong oil revenue management system. When the country first found oil, the two major parties, the Revolutionary Front for an Independent East Timor (Fretilin) and the National Congress for Timorese Reconstruction (CNRT), worked together to pass laws creating a petroleum fund with the intention of saving the revenues for future generations.<sup>35</sup> After a few years of collecting revenues, the politicians were convinced that the needs of the country in the short term outweighed the potential long-term benefits for future generations. As a result, the country tried to start spending the money in the fund. Quickly, both parties came to understand that the absorptive capacity of the government and the economy was so low that they could not spend large sums of revenue efficiently right away. As a result, the two major parties worked together to create a 20-year strategic plan for the country that prioritized spending in a manner that will increase the economy's absorptive capacity, including by investing in building the skills of the domestic workforce, complementary infrastructure and government processing systems.<sup>36</sup>

### *Fiscal terms and negotiating with companies*

Another aspect of resource governance that can benefit from cross-party dialogue is setting the fiscal terms for extraction companies. Countries tend to be able to attract the strongest and most reliable extraction companies when they can offer assurances of a stable and dependable fiscal framework. If companies think there is a significant risk that terms will change with each election cycle, it can make investors less likely to choose to operate in that country or more likely to demand unreasonable terms initially.

In Zambia, after 2008, the mining tax regime changed with each change in political leadership. The result was that one of the biggest mining companies suspended operations until after a national election in 2015, when it could assess the actual terms for extraction. A tax expert analysing the cycle in Zambia explains: 'This situation

<sup>35</sup> For more information see Triwibowo, D. and Seixas Miranda, N. A., *Investing for the Future: Timor-Leste's Petroleum Fund* (Natural Resource Governance Institute, 2016), <<https://resourcegovernance.org/sites/default/files/documents/investing-for-the-future-timor-lestes-petroleum-fund.pdf>>.

<sup>36</sup> Democratic Republic of Timor-Leste, *Strategic Development Plan, 2011-2013*, version submitted to the National Parliament, <<http://timor-leste.gov.tl/wp-content/uploads/2011/07/Timor-Leste-Strategic-Plan-2011-20301.pdf>>.

raises the potential for honest taxpayers to exploit the legal ambiguity for their benefit, for dishonest taxpayers to evade taxation, [and] for corruption within the tax administration'.<sup>37</sup> In Argentina, the authority for issuing licences has shifted between national and subnational governments with transitions between different parties.<sup>38</sup> Private sector participation in extraction swings heavily on the results of these election cycles. As a result, extraction projects are often paused or new fields go unexplored until the party changes. Cross-party dialogue that creates consensus on these issues could help create a framework that attracts consistent investment and provides good opportunities for the government to maximize revenue capture.

## Next steps

For far too long, the challenges and risks associated with the so-called resource curse have prevented the citizens of resource-rich countries from benefiting from their natural wealth. Extraction has distorted economies, left country budgets susceptible to commodity price volatility, caused long-lasting social and environmental impacts and benefited only an elite few at home and abroad. Political parties have played and can play an active and well-informed role in ensuring that natural resources contribute to meaningful and sustainable development.

Because of their reach across government, influence on policy decisions and proximity to citizens, political parties are well-placed to address the unique political and economic challenges of natural resource governance. The six case studies in Chapter 2 highlight the impact that political parties can have on resource governance, both positive and negative, in power or in opposition.

The best way for parties to ensure that they are contributing positively is to have a clear, informed and context-specific policy position on the key issues facing the country. The process alone of developing such positions, as addressed in Chapter 3, can help put the party and the country on the path to strong resource governance. Perhaps more than anything, having a policy position in place gives party members and constituents something they can reference and get behind as they develop, implement and monitor policies on natural resources.

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<sup>37</sup> Hinfelaar, M. and Jessica Achberger, J., *The Politics of Natural Resource Extraction in Zambia* (Effective States and Inclusive Development Research Centre, 2017).

<sup>38</sup> Bauer, A. et al., *Subnational Governance of Extractives: Fostering National Prosperity by Addressing Local Challenges* (Natural Resource Governance Institute, August 2016), <<https://resourcegovernance.org/sites/default/files/documents/subnational-governance-extractives-fostering.pdf>>.



## How political parties in six countries have influenced resource governance

This chapter builds on Chapter 1 to further examine the ways in which political parties have influenced resource governance outcomes, for better or worse. It contains six country case studies developed for and referenced throughout this report. Each one is a detailed examination of policymaking processes within and between political parties in a given country. They also generally focus on a specific policy issue along the resource decision chain.

- The *Norway* case study analyses the role of political parties in building consensus on oil sector governance, covering overall sector strategy and management of the oil fund, as well as recent trends reflecting shifts in the public debate.
- The *Israel* case study reviews how the opposition used institutional recourse mechanisms to scrutinize and reverse unilateral government action around a deal between the government and companies seeking to develop the country's largest gas field.
- The *South Africa* case study examines the policy formation process within the ruling alliance and between other parties related to the countrywide debate on nationalization of the mining sector, which culminated in the breakaway of a ruling party faction to form a new political party.
- The *Ghana* case study analyses the creation of the country's petroleum revenue management rules and the subsequent implementation challenges stemming from political rivalry.
- The *Malaysia* case study examines the ruling and opposition coalitions' policymaking processes, with a focus on the dynamics between political parties in Sarawak and the federal government concerning the sharing of oil revenues with oil-producing states.
- The *Peru* case study focuses on the positions taken by candidates in the 2016 presidential elections and their parties, and the processes through which the positions were formed, particularly in relation to domestic use versus the export of gas.

These case studies are informed by a literature review of academic, policy and journalistic texts, as well as interviews with party representatives and other stakeholders. All the major parties were contacted with an interview request. The research questions examined across the cases related to: policy position development processes within parties; the processes and content of negotiations and dialogue with other parties, with a view to understanding the dynamics that enabled a decision or compromise to be reached; the role of interest groups, civil society, constituencies, experts and international actors; and lessons for future political processes.

The countries were selected based on geographical diversity and the prominence of natural resource governance questions in the political debates around elections and/or as a response to other crises, such as major sector decisions or changes in the external environment like a drop in oil prices.



# Case study: Norway

Political consensus-building  
on extractives



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Kaisa Toroskainen and Laury Haytayan

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## NORWAY, KEY INDICATORS 2015

### POPULATION

5.2 million<sup>i</sup>

### GDP PER CAPITA (PPP)

\$61,200<sup>ii</sup>

### MAIN NATURAL RESOURCES

Oil, Gas

### RESOURCE RENTS AS % OF GDP

9<sup>iii</sup>

### POLITICAL SYSTEM

Parliamentary democracy

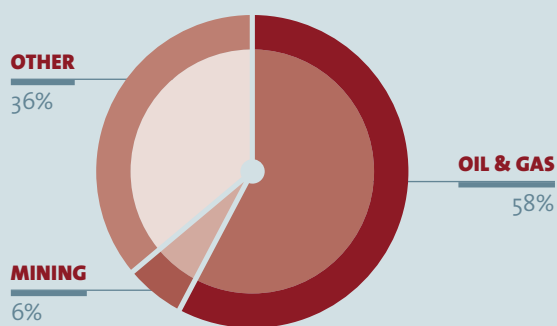
### RULING PARTIES

Conservative Party,  
Progress Party

### OPPOSITION PARTIES

Labour Party,  
Centre Party,  
Christian Democratic Party,  
Liberal Party,  
Green Party,  
Socialist Left<sup>iv</sup>

### EXPORT SHARES, 2015<sup>v</sup>



<sup>i</sup> "DataBank 2015: Population, total," World Bank (2015), accessed on 5 September 2016, <http://data.worldbank.org/indicator/SP.POPTOTL>.

<sup>ii</sup> "DataBank 2015: GDP per capita (current US\$)," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>.

<sup>iii</sup> "DataBank 2015: Total natural resource rents (% of GDP)," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.TOTL.RT.ZS>.

<sup>iv</sup> Parliament of Norway (Stortinget), <https://www.stortinget.no/en/In-English/Members-of-the-Storting/Parliamentary-Party-Groups>.

<sup>v</sup> "DataBank 2015: Fuel exports as % of merchandise exports," World Bank (2015), <http://data.worldbank.org/indicator/TX.VAL.FUEL.ZS.UN> and "DataBank 2015: Ores and metals exports as % of merchandise exports," World Bank (2015) <http://data.worldbank.org/indicator/TX.VAL.MMTL.ZS.UN>.



## Case study: Norway

# Political consensus-building on extractives

### Political system

Norway's political system is a representative parliamentary democracy with a constitutional monarchy. Under the leadership of the prime minister, the cabinet exercises executive power. Legislative power is vested in both the government and parliament (Storting), elected within a multiparty system. During the past decades, coalition governments mainly led by Conservative and Labour parties have ruled the country. Specific features of the Norwegian political system include fixed parliamentary terms, meaning elections cannot be called during the parliamentary term, and a tradition of minority governments.

### Natural resource endowments and governance

Norway discovered oil in the 1960s and has since become one of the world's major oil producers. Extractive industries as a whole accounted for 15 percent of GDP and 20 percent of government revenues in 2015.<sup>39</sup> The roles of the main institutions in the sector, including the Petroleum and Energy Ministry, the Petroleum Directorate and Statoil, are defined in legislation and policy, as are the rules for managing petroleum income.<sup>40</sup> Oil revenues are deposited in the Pension Fund (previously called the oil fund), which is governed by the central bank under the guidance of the Ministry of Finance, ultimately reporting to the Storting. The central bank manages the funds' day-to-day investment decisions.<sup>41</sup> Norway's governance of its oil revenues via the Pension Fund and the budgetary rule<sup>42</sup> has been widely recognized as stable, transparent and democratic.

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<sup>39</sup> Figures reported by Norsk Petroleum and the World Bank may differ. See <http://www.norskpetroleum.no/en/economy/governments-revenues>.

<sup>40</sup> *Resource Governance Index* (Natural Resource Governance Institute, 2013), [http://www.resourcegovernance.org/sites/default/files/country\\_pdfs/norwayRGI2013.pdf](http://www.resourcegovernance.org/sites/default/files/country_pdfs/norwayRGI2013.pdf).

<sup>41</sup> Norges Bank Investment Management, <https://www.nbim.no/en/the-fund/governance-model>.

<sup>42</sup> "A fundamental principle of Norwegian fiscal policy is the so-called budgetary rule. It states that over the course of a business cycle, the government may only spend the expected real return on the fund, estimated at 4 percent per year." See <https://www.nbim.no/en/the-fund>.

This case study analyzes the role of political parties and consensus building in creating such a governance environment, as well as some of the recent trends reflecting shifts in Norway’s political landscape.

### Dialogue and consensus building: The oil fund

The oil fund, subsequently named the Government Pension Fund of Norway, was created in 1990. Before fund’s establishment, revenues flowed directly into the national budget, causing concern among Norwegians about “Dutch disease” effects such as currency appreciation and a consequent decline of non-extractive export sectors. Against this backdrop, “it was not difficult to reach consensus on the fund, as both Conservative and Labour parties agreed that it is impossible to introduce all the oil money into the Norwegian economy at once,” said Per-Kristian Foss, MP and former finance minister of the Conservative Party and current auditor general.

***“The political culture is not always that of agreeing, but that of negotiating and then committing to the negotiated result, which is necessary to achieve broad agreement.”***

***MP Marit Arnstad***

The Ministry of Finance made its original proposal to set up the fund already in 1983, when the Conservatives, Christian Democrats and the Centre Party were in government. They initially drafted the fund’s structure, management and governance principles, as well as the fiscal rule stipulating that no more than the average return on the assets should be transferred into the annual budget. Subsequently, the Labour Party came into power and finalized the rules and institutions on the basis of the existing agreement on guarding the economy from Dutch disease. Hence, all major political parties were involved in reaching an agreement on the design of the fund’s principles and the fiscal rule.

Another factor contributing to political consensus was that when the fund’s rules were drafted in the mid-1980s, oil revenues were fairly modest, and hence the creation of the rules did not spark intense political debate, and it was easy for politicians to agree to the detailed principles drafted by the Ministry of Finance. During the following years, successive governments have remained committed to these principles. The opposition has also broadly supported occasional larger withdrawals from the fund after the financial crisis in 2009–2010 and the oil price drop in 2015.

Only the Socialist Left and Progress parties were not involved in the original consensus on the oil fund. Subsequently both have been critical of the fund and advocated for greater spending of oil revenues. The main parties “used a lot of pedagogical skills,” as described by Marit Arnstad, MP and former minister for petroleum and energy of the Centre Party, to convince the critical parties and voters on the risks of overspending oil revenues. It is interesting to note that when the Progress Party formed a coalition government with the Conservatives in 2013, their position on the oil fund became more moderate, reflecting the need to negotiate and compromise when in government.

Despite the broad consensus on the oil fund’s basic principles and the fiscal rule, there has been a lively debate on the fund’s investment strategy, and

### **Box 2.1** ***Party policy position development in Norway***

Norwegian parties follow the four-year electoral cycle in their political program development. The programs are adopted at party congress meetings, typically one to two years before the next general election. Wide and frequent consultations with academia, constituencies and the industry are commonplace during program development.

Most parties have broadly agreed upon the overall revenue management system, but the oil fund's investment strategy and the opening of Arctic areas for exploration have divided parties internally, and votes have been won by close margins. Party positions are determined through voting, after which party members commit to the majority's decision.

The established parties have developed their understanding and research capacity on the oil sector over the decades. Rasmus Hansson, spokesperson and MP of the Green Party, which obtained representation in the Storting for the first time in 2013, reflects on the capacity of a small party when developing the proposal to phase out oil activities within the next 20 years: "Compared to a big party, we had a limited amount of research capacity to calculate the exact financial effects of such a move. Most of our expertise comes from NGOs. But we relied on the logic and argued that phasing out oil is not a question of 'if,' but 'when and how.' Increasingly, the other parties are taking this position seriously."

parties as well as the parliament have played a crucial role in this discussion. The proposal to exclude fossil fuel industry companies from the fund's investments was first introduced in parliament in 2013 by the Green Party, a new entrant in parliament. In the beginning, it was voted down with crushing numbers. However, within months, the Socialist Left party introduced a proposal on the same topic. The Conservative-led government initially opposed these proposals and favored purely economic investment criteria with only few industries such as tobacco companies to be excluded on ethical grounds. After negotiations, a proposal to exclude coal but not other fossil fuel intensive companies was passed to the Ministry of Finance for more detailed planning, which was finally adopted by parliament in 2014.<sup>43</sup>

The processes of agreement on the oil fund's establishment and its investment criteria reflect Norway's political culture: compromising and negotiating. Arnstad of the Centre Party highlights that the political culture is "not always that of agreeing, but that of negotiating and then committing to the negotiated

<sup>43</sup> See <https://www.nbim.no/en/the-fund/governance-model/guidelines-for-observation-and-exclusion-from-the-fund>.

result, which is necessary to achieve broad agreement.” Foss describes it as “striking a balance between agreeing and disagreeing. For example, you can agree on a tax system but still from time to time disagree on the level of taxes.”

Minority and coalition governments force even the largest parties to reach compromises for two reasons: First, when any party could be part of the next government after elections, it encourages them to be constructive even in opposition. Second, parties are discouraged from making unrealistic promises before elections, as they probably have to negotiate on a government program with another coalition partner.

### **Box 2.2**

#### ***The importance of inter-party dialogue in consensus building: A personal experience***

by Einar Steensnæs, former minister for petroleum and energy,  
Christian Democratic Party

*As the minister for petroleum and energy in a minority coalition government (2001–2004), I was responsible for the preparation of a proposal on the further development of petroleum activities in the Arctic part of Norway. Among the parties in the coalition government, there was strong disagreement about which areas could be opened for new petroleum activity.*

*To ensure a balanced proposal that would be acceptable to both the government and a broad majority in parliament, I facilitated an extensive round of consultations and invited the oil industry, environmental organizations, research institutes and representatives of local governments to submit their views. In the written statements I received, most of the bodies consulted upheld their primary positions, which were well known to me and did not bring any new insights to my work.*

*I then invited some of them for confidential conversations in my office and explained that I was going to suggest a balanced position between the extremes of the debate, giving them an opportunity to influence where the point of compromise should be positioned. Some of them realized that they had a chance to influence the profile of the government’s proposal and gave me some oral, subsidiary views to feed into the final decision. These consultations gave me valuable insight into the opportunities for a politically achievable solution that was close to my assessment and priorities as a minister. With an adjusted rough draft, I then conducted inter-party dialogue meetings with government parties, as well as the opposition in parliament.*

*Only after all these meetings and hearings, I went to the government with my suggestion on the way forward. Although parties had initially disagreed, it was not particularly difficult to obtain the ruling coalition’s support for my proposal, as all parties in government realized that a compromise between different viewpoints was necessary to get a majority behind it in parliament. With a few notes the proposal was then unanimously endorsed in the Storting.*

“An informed electorate also holds parties accountable on what kind of compromises they enter into,” says Foss. Even though a survey conducted in 2011 said 73 percent of Norwegians were not familiar with the fiscal rule, then-finance minister Sigbjørn Johnsen of the Labour Party was not worried: “I think our message has gotten through, that we shall use the fund’s returns and not the fund itself, and that we can use less in good economic times and more in bad times... As long as we get support for the main purpose of the rule, I’m not worried.”<sup>44</sup>

### **The oil sector’s sustainability: Opening of new exploration areas versus environmental concerns**

Parliament can best influence decisions along the value chain when deciding about opening an oil block for exploration.<sup>45</sup> At later stages, e.g., when granting a production licence after a discovery has been made, decisions are mainly made in negotiations between the Ministry of Petroleum and Energy and the company. Hence, political parties have played a crucial role also in the debate of opening new areas for oil exploration and drilling. Overall, it has been more difficult to reach consensus on this topic than on revenue management issues, as fundamental values and specific interests come into play. For example, the Lofoten Islands area has been kept closed off from oil activities because smaller coalition parties representing interests of communities dependent on fisheries and other livelihoods threatened by oil activities have blocked initiatives to open these areas.

Until recently, exploration decisions have been made by balancing environmental conservation objectives with economic interests. Concerns about climate change and the more fundamental question of oil’s sustainability as the basis of the Norwegian economy in the future was brought into the debate by the Green Party in 2013, with a proposal to phase down oil activities within 20 years; the position has subsequently been adopted by the Socialist Left Party. Concern for climate change and the willingness to consider a Norwegian society without oil is more prominent among Norwegians living in Oslo and central parts of the country, with less immediate benefits from job creation and other direct positive effects of the oil industry. Although both Green Party MP Rasmus Hansson and representatives of other parties conclude that the “4 percent support for the Green Party reflects that a large majority of the

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<sup>44</sup> “Few aware of oil revenue rule,” *News in English*, 22 April 2011, <http://www.newsinenglish.no/2011/04/22/few-aware-of-oil-revenue-rule>.

<sup>45</sup> On the role of the Storting regarding proposals to open new areas for petroleum licencing: While parliamentary approval is not legally required for this, in practice the Ministry of Petroleum and Energy presents its plans to the Storting, which reviews the proposal and expresses its views. In line with Norway’s overall parliamentary system, the government typically follows the parliamentary view when taking the formal decision. A similar practice has evolved around the approval of new field development plans. While these plans are formally approved by the ministry, in practice investments above a certain level are always presented to the Storting, in line with a general constitutional requirement to present matters of great importance to the parliament. Through these informal powers the Storting can have a say on where and how exploration can proceed as well as ensure that the executive has adhered to due process on consultations and impact assessment.

population is not yet ready to give up the oil sector,” larger parties are also increasingly adopting similar rhetoric.

### Changes ahead in the foundations for consensus

The broad consensus on Norway’s principles for oil sector management was created during an era when the Labour Party and the Conservatives dominated the political arena and agreed upon expanding oil production, keeping the fund’s investments abroad and setting the fiscal rule. Some researchers have suggested that this consensus may now be changing, as the parliamentary majority of these parties is narrowing and new parties that are willing to question the consensus gain electoral support.<sup>46</sup>

The critical voices are becoming stronger due to the drop in oil prices and the resulting economic crisis as well as the climate challenge. The Progress Party’s recent surge in support partly stems from the south-western oil producing areas, where voters are demanding the channeling of oil funds to infrastructure development, as compensation for job losses.<sup>47</sup> Consequently, the Progress Party advocates for investing oil revenue domestically and splitting the fund into smaller special purpose funds to boost the domestic private sector. At the same time, the Green Party has proposed using the fund to create global markets for green-economy technologies. While some politicians now say they are concerned with the questioning of longstanding principles, the majority of parties in both government and parliament is still supportive of the existing consensus and guards against major shifts in policy. In spite of the changing political landscape, politicians believe that even those critical of the fund’s investments and mandate are committed to the institutions governing the fund, and especially the principle that politicians should maintain an arm’s-length relationship to its day-to-day management.

The entrance of new parties into the debate also impacts conduct in politics. Traditionally, issues were informally discussed and negotiated before being brought into a committee meeting or the parliamentary plenary. This is highlighted in how Einar Steensnæs, former minister of petroleum and energy from the Christian Democratic Party, explains the process of parties and stakeholders’ consultations on Arctic drilling (see Box 2.1). Parties that are smaller, less established or newer to the political arena do not have the same capacity or networks to influence decisions behind the scenes. Hence, they use parliamentary debates and the media to make bold proposals and also, in the words of MP Rasmus Hansson, to push other parties to “voice their opinions by voting and debating, which will be remembered”.

<sup>46</sup> Dag Dyrdal, “Tverrpolitisk pensjonskasse eller aktivt politisk verktøy?” *Internasjonal Politikk* 74 (2016): 1–11.

<sup>47</sup> See, for example, “Norway’s Progress Party seeks big changes in new government,” *Reuters*, 15 August 2013, <http://www.reuters.com/article/us-norway-election-idUSBRE97E0SC20130815>.



## Case study: Israel

Leveraging the state's checks and balances to achieve optimal conditions for gas licences



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Laury Haytayan and Kaisa Toroskainen

## ISRAEL, KEY INDICATORS 2015

### POPULATION

8.4 million<sup>i</sup>

### GDP PER CAPITA (PPP)

\$35,800<sup>ii</sup>

### MAIN MINERAL RESOURCES

Oil, natural gas, magnesium, bromides, phosphates, potassium, calcium, sodium

### RULING PARTIES

Likud, The Jewish Home, Kulanu, Shas, United Torah Judaism, Yisrael Beiteinu

### RESOURCE RENTS AS % OF GDP

0.3<sup>iii</sup>

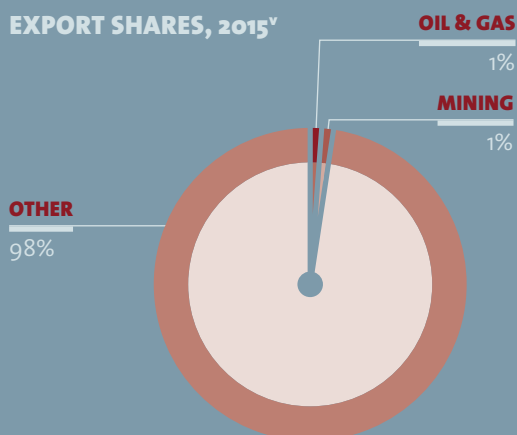
### OPPOSITION PARTIES

Meretz, Hadash, Raam, Balad, Taal, Yesh Atid, Zionist Camp, Habayit Hayehudi<sup>iv</sup>

### POLITICAL SYSTEM

Parliamentary democracy

### EXPORT SHARES, 2015<sup>v</sup>



<sup>i</sup> "DataBank 2015," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/SP.POP.TOTL>.

<sup>ii</sup> "DataBank 2015," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>.

<sup>iii</sup> "DataBank 2015," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.TOTL.RT.ZS>.

<sup>iv</sup> Parliament of Israel, [https://knesset.gov.il/faction/eng/FactionCurrent\\_eng.asp](https://knesset.gov.il/faction/eng/FactionCurrent_eng.asp).

<sup>v</sup> "DataBank 2015: Fuel exports as % of merchandise exports," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/TX.VAL.FUEL.ZS.UN> and "DataBank 2015: Ores and metals exports as % of merchandise exports," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/TX.VAL.MMTL.ZS.UN>.

# Case study: Israel

## Leveraging the state's checks and balances to achieve optimal conditions for gas licences

### Political system

The head of government and leader of a multiparty system in Israel is the prime minister, whose government exercises executive power. Legislative power is vested in the parliament (the Knesset). Since the country's independence, Israeli governments have been led by coalitions of Zionist parties. Today, Prime Minister Benjamin Netanyahu heads a coalition government comprising his party, Likud, Jewish Home, Kulanu, Shas, United Torah Judaism and Yisrael Beiteinu, which represent a wide range of interests from ultra-orthodox Zionism to greater economic equality. The Labor party leads the opposition.

### Natural resource endowments and governance

Israel is not a resource-rich country according to the IMF definition.<sup>48</sup> However, in recent years, both gas and mineral discoveries have become increasingly important for its political economy and broader geopolitical interests. In 2009, Israel discovered the 10 trillion cubic feet (tcf) Tamar gas field off the north coast of the country. The discovery was followed by another major find in the same area the following year: the Leviathan field, estimated to contain 22 tcf of gas. This would make it the second largest offshore gas field in the Eastern Mediterranean, with the potential to turn Israel from a net energy importer to a net exporter.

Israel's legal framework is set by the 1952 Petroleum Law, which provides for a publicly announced licence allocation process but also assigns discretionary authority in decisions concerning petroleum rights to the minister.<sup>49</sup> This

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<sup>48</sup> The authoritative *Guide on Resource Revenue Transparency* (IMF, 2007) defines mineral- and hydrocarbon-rich countries as follows: "A country is considered rich in hydrocarbons and/or mineral resources, if it meets either of the following criteria: (i) an average share of hydrocarbon and/or mineral fiscal revenues in total fiscal revenue of at least 25 percent during the period 2000–2005 or (ii) an average share of hydrocarbon and/or mineral export proceeds in total export proceeds of at least 25 percent." See <http://www.imf.org/external/np/fad/trans/guide.htm>, 2.

<sup>49</sup> Government of Israel, <http://energy.gov.il/English/Subjects/OilAndGasExploration/Pages/GxmsMniOilAndGasExplorationLobby.aspx>.

case study reviews how the Israeli opposition used institutional recourse mechanisms to scrutinize and reverse government action around the Leviathan field's export deal.

### **A battle between private and consumer interests in the parliamentary committee**

At the time of their discovery, both the Tamar and Leviathan gas fields, in addition to the smaller Tanin and Karish fields, were owned by Noble Energy, a U.S. company, together with its Israeli partner Delek.<sup>50</sup> After Leviathan's discovery, the two companies, already producing gas from Tamar, sought to strike a production deal with the Israeli government, in order to exploit Leviathan. The proposed deal caused concern amongst opposition and the public, as it would grant a *de facto* monopoly to the two companies over Israel's gas resources. Initially, the Antitrust Authority moved to propose a deal whereby Noble and Delek would sell stakes in the smaller Tanin and Karish fields. However in December 2014, after public consultation and ahead of the 2015 general elections, with public opinion still against the deal, the Antitrust Authority objected to the proposed deal, due to the risk of higher gas prices for Israelis.<sup>51</sup>

Despite the antitrust commissioner's view, Prime Minister Benjamin Netanyahu sided with the companies, which argued that the decision significantly decreased Israel's attractiveness as an investment destination. Citing Israel's national interest with regard to security of energy supply and exports to neighboring countries, Netanyahu said, "This plan is vital to our security, because we don't want to be left with one power plant that's under fire; we need multiple gas fields."<sup>52</sup>

On these grounds, the prime minister initiated the process of invoking the exemption clause (Article 52<sup>53</sup>) of the Restrictive Trade Practices Law to circumvent the antitrust commissioner's objections. The required consultations with the parliament's economic affairs committee, headed by the Zionist Union MP Eitan Cabel (opposition), involved 11 committee sessions on the proposed circumvention, with testimonies and interventions from politicians and professionals from the sector. In heated committee debates, the ruling coalition appealed to national security as a justification for using Article 52, whereas the opposition focused on the deal's economic repercussions, arguing

<sup>50</sup> "Leviathan gas field targeted by Israeli regulator," *Financial Times*, 23 December 2014, <https://www.ft.com/content/40474f4a-8aaf-11e4-8e24-00144feabdc0>.

<sup>51</sup> "Leviathan gas partners, Israeli government seek to break impasse," *ICIS*, 4 February 2015, <http://www.icis.com/resources/news/2015/02/04/9858480/leviathan-gas-partners-israeli-government-seek-to-break-impasse>.

<sup>52</sup> "Meretz petitions High Court to block gas deal," *Times of Israel*, 17 December 2015, <http://www.timesofisrael.com/meretz-party-petitions-high-court-to-block-gas-deal>.

<sup>53</sup> Government of Israel, *Restrictive Trade Practices Law, 5748-1988*, <http://www.antitrust.gov.il/eng/Antitrustlaw.aspx>.

that increased competition would lead to a reduction of the electricity price for consumers. The opposition also argued that the prime minister had failed to convince the Knesset to use the exemption clause. After the 11 sessions, the committee voted by a narrow majority against the use of Article 52. Right-wing and religious parties aligned with the prime minister, as expected. The finance minister's Kulanu Party—whose agenda is focused on economic issues,<sup>54</sup> and hence it was expected to defend the interests of Israeli consumers concerned over an increase of prices of electricity—voted for the use of Article 52, facing fierce criticism from the opposition.<sup>55</sup> The opposition united against the use of the exemption clause, but despite their winning vote in the committee, Netanyahu ignored the nonbinding result of the committee vote and proceeded to sign the deal with Noble and Delek.

### **Coordination between opposition parties and the public to challenge the deal in the supreme court**

Subsequently, the government was widely criticized for pressing ahead with the deal without having informed the public and taken their opinion into account.

“One can argue about the deal itself, the environmental and economic implications and the protections it guarantees or does not guarantee the public in the face of the huge monopoly of [Delek Group owner Yitzhak] Tshuva and Noble Energy...But one cannot argue about the bizarre and despicable behavior, and the anti-democratic and doubtfully legal actions of the prime minister, who promoted this deal as if he were possessed,” the opposition party Mertez wrote.<sup>56</sup>

Support for the deal also steadily eroded within the Likud party. For example, the economy minister refused to use his right to invoke Article 52, thereby forcing the prime minister to take action.<sup>57</sup>

Before the prime minister signed the final deal, opposition parties and civil society organizations, including the Mertez Party, Movement for the Quality of Government, and Israel Union for Environmental Defense joined forces and sent a petition to the High Court requesting it to intervene and block the deal, which they considered to favor the companies instead of citizens and the State of Israel. In March 2016, the Israeli High Court suspended the gas

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<sup>54</sup> The party's economic agenda emphasizes the reduction of social disparities by proposing policies on housing, banking and finance, and other economic issues.

<sup>55</sup> The votes were as follows: 7 members (Zionist Union, Joint List, Meretz and Yesh Atid) against versus 6 members (Likud, Kulanu, United Torah Judaism and Shas) for. Unsurprisingly, all opposition members voted against the use of Article 52 by the prime minister.

<sup>56</sup> “Meretz petitions High Court to block gas deal,” *Times of Israel*.

<sup>57</sup> Haviv Rettig Gur. “Drilling into Netanyahu's gas deal and why some might oppose it,” *Times of Israel*, 1 July 2015, <http://www.timesofisrael.com/drilling-into-netanyahus-gas-deal-and-why-some-might-oppose-it>.

deal considering it to be unconstitutional. The court specifically opposed a clause in the deal that would have locked the conditions of gas production and exportation for 10 years, which has been introduced to reassure investors that considered Israel's regulatory uncertainty as a growing risk since the objection to the deal by the antitrust commissioner.<sup>58</sup>

### **Debate over role of the government and other institutions continues**

Following the high court's decision, the government was forced to renegotiate the terms of the deal. In May 2016, the government approved a new modified deal with a lower gas price and the obligation for the companies to sell other assets to reduce their overall control over gas deposits in Israel.

In a response to the high court's decision, a Likud MP declared that he would submit a draft law to prevent members of parliament from going to the high court if they lost a vote in the plenum, citing the gas deal case.<sup>59</sup> Opposition MPs have criticized this suggested action for threatening democracy.

Overall, the Leviathan case shows the importance of cooperation and coordination between opposition parties and civil society actors and the role that an independent judiciary such as the high court can play as a check against executive action.

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<sup>58</sup> "Leviathan gas field targeted by Israeli regulator," *Financial Times*.

<sup>59</sup> "MK Seeks to Curb High Court Petitions," *Hamodia*, 23 June 2016, <http://hamodia.com/2016/06/23/mk-seeks-curb-high-court-petitions>.

# Case study: South Africa

Mine nationalization  
debating mineral policy



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Kaisa Toroskainen

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## SOUTH AFRICA, KEY INDICATORS 2015

### POPULATION

55.0 million<sup>i</sup>

### GDP PER CAPITA (PPP)

\$13,200<sup>ii</sup>

### MAIN NATURAL RESOURCES

Gold, platinum, coal

### RESOURCE RENTS AS % OF GDP

8<sup>iii</sup>

### POLITICAL SYSTEM

Parliamentary democracy

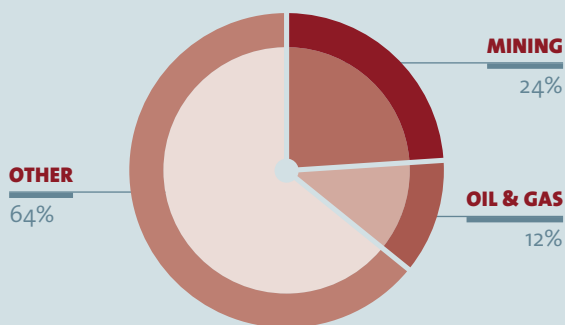
### RULING PARTY

African National Congress (ANC)

### OPPOSITION PARTIES

Democratic Alliance (DA),  
Economic Freedom Fighters (EFF),  
several small parties<sup>iv</sup>

### EXPORT SHARES, 2015<sup>v</sup>



<sup>i</sup> "DataBank 2015: Population, total," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/SP.POP.TOTL>.

<sup>ii</sup> "DataBank 2015: GDP per capita (current US\$)," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>.

<sup>iii</sup> "DataBank 2015: Total natural resource rents (% of GDP)," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.TOTL.RT.ZS>.

<sup>iv</sup> Parliament of South Africa, [http://www.parliament.gov.za/live/content.php?Category\\_ID=107](http://www.parliament.gov.za/live/content.php?Category_ID=107).

<sup>v</sup> "DataBank 2015: Fuel exports as % of merchandise exports," World Bank (2015), accessed on 5 September 2016, <http://data.worldbank.org/indicator/TX.VAL.FUEL.ZS.UN> and "DataBank 2015: Ores and metals exports as % of merchandise exports," World Bank (2015), accessed on 5 September 2016, <http://data.worldbank.org/indicator/TX.VAL.MMTL.ZS.UN>.





## Case study: South Africa

# Mine nationalization debating mineral policy

### Political system

South Africa is a parliamentary republic. The African National Congress (ANC) has governed the country since the first democratic elections in 1994, after leading the fight against the apartheid regime. The ANC-led government is based on a coalition called the Tripartite Alliance, including the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU). The largest opposition party is the liberal Democratic Alliance (DA).<sup>60</sup> The second major opposition party, the Economic Freedom Fighters (EFF), was founded in 2013 on the rationale that the political freedom achieved in 1994 continues to be undermined by lack of economic equality.<sup>61</sup> While neither the EFF nor the DA have yet neared the support of the ANC at the national level, their strong performance in the municipal elections in August 2016 threatens the ANC's previously unchallenged majority and shapes the political landscape in which mineral policy debates occur.

### Natural resource endowments and governance

South Africa is the world's richest nation in non-oil mineral wealth, with reserves estimated at USD 2.5 trillion.<sup>62</sup> Mining played a central role in South Africa's history as key features of the discriminatory apartheid system of rule (1948–1994), such as the migrant labor system, land appropriation and pass laws, aimed to secure cheap labor for the country's mines. Therefore, correcting historical injustices in the mineral sector has been central to the ruling party ANC's mandate to build a democratic, developmental state. Against this historical backdrop, the mining sector continues to play an important role in South Africa's economic policy debates, despite its declining contribution to GDP and the recent commodity price slump.<sup>63</sup> The sector

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<sup>60</sup> Democratic Alliance, <https://www.da.org.za/why-the-da/history>.

<sup>61</sup> Economic Freedom Fighters, <http://effighters.org.za/about-us>.

<sup>62</sup> Government of the U.K., *South Africa – mining sector – an update*, 29 January 2015, <https://www.gov.uk/government/publications/south-africa-mining-sector-an-update/south-africa-mining-sector-an-update>.

<sup>63</sup> "South Africa Foreign Exchange Reserves," *Trading Economics*, <http://www.tradingeconomics.com/south-africa/foreign-exchange-reserves>; "Mining royalties: Minerals revenue plummets, more pain ahead," *Business*

is governed by the 2002 Mineral and Petroleum Resources Development Act (MPRDA), amended in 2008, with new amendments currently before parliament. The Department of Mineral Resources oversees the law's implementation.

This case study analyzes the policy formation process and related debates within the ruling alliance and between other parties. The main example used for analysis is the countrywide debate on nationalization of mines, which took place from 2007 to 2013, and culminated in the breaking away of an ANC faction to form a new party, the EFF.

### Origins of the nationalization debate

The ANC's policy positions on the mineral sector are derived from the party's founding document, the Freedom Charter (1955), which states: "Mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole."<sup>64</sup> In the ANC's first draft mineral policy (1994),<sup>65</sup> this objective was translated into transferring subsoil mineral assets from private landowners to state ownership. Interpreted as such, this objective was achieved with the adoption of the 2002 MPRDA, which states: "Mineral and petroleum resources are the common heritage of all the people of South Africa and the state is the custodian thereof for the benefit of all South Africans."<sup>66</sup> In addition, the 2004 Mining Charter,<sup>67</sup> negotiated between the ANC government and the Chamber of Mines, set targets for the empowerment of black South Africans and other disadvantaged groups, including, most importantly, a 26 percent ownership share of assets to be transferred primarily to the black population.

Since the completion of this first legal and policy framework for mining under democratic rule, several factors have led to a resurgence of policy debate on whether successive ANC governments have effectively delivered the promised benefits to all South Africans.

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*Live*, 25 February 2016, <http://www.bdlive.co.za/business/mining/2016/02/25/mining-royalties-minerals-revenue-plummet-more-pain-ahead>.

<sup>64</sup> The Freedom Charter outlined principles for the struggle against the apartheid regime. See <http://www.anc.org.za/content/first-national-consultative-conference-freedom-charter-revolutionary-programme-anc>.

<sup>65</sup> African National Congress, *Draft Mineral and Energy Policy*, <http://www.anc.org.za/content/draft-mineral-and-energy-policy>.

<sup>66</sup> Article 3 (1) of the Mineral and Petroleum Resources Development Act. See [http://cer.org.za/wp-content/uploads/2010/08/28-OF-2002-MINERAL-AND-PETROLEUM-RESOURCES-DEVELOPMENT-ACT\\_7-Dec-2014-to-date-1.pdf](http://cer.org.za/wp-content/uploads/2010/08/28-OF-2002-MINERAL-AND-PETROLEUM-RESOURCES-DEVELOPMENT-ACT_7-Dec-2014-to-date-1.pdf).

<sup>67</sup> Government of South Africa, *Scorecard for the Broad Based Socio-Economic Empowerment Charter for the South African Mining Industry*, Government Gazette, 13 August 2004, <http://www.mqa.org.za/sites/default/files/Mining%20Charter%20August%202004.pdf>.

**Box 2.3****Resources for policy position development in South Africa's ANC**

The ANC's main arenas for policy development and debate are its internal policy conference and sectoral committees. The Economic Transformation Committee (ETC) is responsible for the formation of mineral policy within the party. The ETC has mineral policy advisors and utilizes external research in the form of expert reports for policy development. Policy positions are debated in a policy conference, with the participation of all the alliance partners and also the provinces and regions, before decisions are taken in the national congress, which takes place every five years.

Access to policy analysis and research is all the more important at all stages of policy-making in the party, government and parliamentary committee, because very few MPs have a specialized experience or education in the mining industry, making a technical area of work in terms of policy adjustments and legislative amendments difficult to comprehend at a detailed level for sound decision-making or necessary change. "It is important to debate all issues thoroughly within the ruling party and organizational platforms, with the necessary support from people who specialize in the field of mining and mineral policy, so that by the time the portfolio committee makes a decision on what changes to make, it will be well informed with the relevant decision-making skills for legislative amendments. I will thus be in a position to take a staunch decision to ensure policy and/or legislative change and amendments as a member of the Portfolio Committee," says Faith Bikani, former MP and chair of the Parliamentary Committee on Mineral Resources.

First, commentators both inside and outside the ANC argued that other development objectives than those of black economic empowerment, outlined in early policy documents of the ANC, had been overlooked. This particularly concerned the creation of a developmental state<sup>68</sup> aimed at value addition and job creation, an objective stated in the *Ready to Govern* (1992) policy guidelines and *Reconstruction and Development Plan* (RDP, 1994)<sup>69</sup>—documents that were widely debated and supported by the whole Tripartite Alliance. The former reads: "Policies will be developed to integrate the mining industry with other sectors of the economy by encouraging mineral beneficiation and the creation

<sup>68</sup> Referring to state-led planning of industrial and macroeconomic policies to support industrialization such as in the Nordic and East Asian countries. On the concept of "developmental state," see, for example, Thandika Mkandawire, "Thinking About Developmental States in Africa," United Nations University, [http://archive.unu.edu/hq/academic/Pg\\_area4/Mkandawire.html](http://archive.unu.edu/hq/academic/Pg_area4/Mkandawire.html).

<sup>69</sup> "ANC 1992: Ready to Govern," <http://www.anc.org.za/docs/pol/1992/readyto.html>.

of a world-class mining and mineral processing capital goods industry.” At policy conferences in 2007 and 2012, the ANC party acknowledged that progress on these objectives had not been satisfactory.<sup>70</sup>

Second, implementation of Broad-Based Black Economic Empowerment (BB-BEE) policies set out in the Mining Charter aimed at ensuring fair participation of the black population in employment, management and ownership of the sector, has come under debate. A 2010 report commissioned by the South African Mining Development Association states: “There has been too much emphasis on transformational rents and too little on developmental rents,”<sup>71</sup> pointing out that affirmative action especially regarding ownership had drawn attention away from the developmental impacts of the sector, which could be better achieved through state rather than private quota ownership. The report further showed that black ownership in the mining industry was concentrated in a few companies controlled by a limited number of persons and had not created broad benefits for the wider population. The ANC’s Tripartite Alliance partners<sup>72</sup> and others increasingly criticized this concentration of wealth, and ANC membership divided along these lines. Indeed, one reason why the nationalization debate in South Africa became so powerful was that thus far much debate had focused on empowering the black population through ownership rather than debating an optimal “government take system,” including taxation and government participation in the sector.

Finally, Tripartite Alliance partners have contested the ANC’s interpretation of the Freedom Charter on the ownership of mineral resources, accusing it of conceding to industry demands. Specifically, they have advocated for a more literal interpretation of the Freedom Charter by which the state should control not only subsoil assets and licencing decisions, but also mining operations.<sup>73</sup> From 2010, the ANC’s Youth League became increasingly vocal in its criticism of the ANC leadership, attacking it over lack of progress in delivering promised development.<sup>74</sup> Thus, by the end of the first decade of the 2000s, a “national debate about the need for more aggressive transformation of the economy after 16 years of democracy” had emerged.<sup>75</sup>

<sup>70</sup> ANC policy discussion document on SIMS report (2012).

<sup>71</sup> “Harnessing South Africa’s Mineral Resources for Economic Growth and Development” (2009), [http://us-cdn.creamermedia.co.za/assets/articles/attachments/29809\\_harnessing\\_sas\\_mineral\\_resources-executive\\_summary.pdf](http://us-cdn.creamermedia.co.za/assets/articles/attachments/29809_harnessing_sas_mineral_resources-executive_summary.pdf).

<sup>72</sup> COSATU policy document (2012).

<sup>73</sup> COSATU’s responses to the ANC discussion papers for its National Policy Conference (2012), <http://www.anc.org.za/docs/discus/2012/consolidatedr.pdf>.

<sup>74</sup> “ANCYL policy document 2012: Towards the transfer of Mineral wealth to the ownership of the people as a whole: A Perspective on Nationalization of Mines,” <http://www.ancyl.org.za/show.php?id=5502>.

<sup>75</sup> *Harnessing South Africa’s Mineral Resources for Economic Growth and Development* (2009), 1.

## The ANC's rejection of nationalization of mines divides the ruling alliance

As a response to the intense debate, in 2010 the ANC's National General Council mandated its Economic Transformation Committee to conduct further "research, study tours and discussions, and to report to the policy conference for a decision" on increased state control of strategic sectors of the economy, including mining.<sup>76</sup> In the following ANC policy conference, recommendations of the commissioned *State Intervention in the Mining Sector (SIMS)* report were presented to the ANC membership, including regional and provincial branches and all the alliance partners. The report did not recommend nationalization, arguing that "nationalization would be a disaster for the South African economy" due to associated costs, investor responses and constitutional limits. Instead, it recommended targeted state interventions with more focus on the developmental state aspects of mineral policy, thus aligning itself with the developmental approach of early ANC policy.<sup>77</sup>

Subsequently, the national congress debated the matter and voted against the proposal to further increase the state's control over the sector in its elective conference in 2012.<sup>78</sup> However, from the submissions given during the consultations on the SIMS report, it is clear that although the ANC party majority rejected broader state ownership, groups within the party and the alliance remained dissatisfied with the outcome. Julius Malema, then leader of the ANC Youth League, continued to criticize the ANC on the topic, which led the party to expel him. Malema responded by founding a new party, the Economic Freedom Fighters, which continues to assert that the state should control mineral wealth. The ANCYL/EFF campaign coincided with the escalation of labor disputes such as the Marikana tragedy in 2012. Calls for increased state control and recovery of lost jobs resonated particularly well with rural miners who lost their jobs as mines were shut down in the commodity slump.<sup>79</sup> The vote by these constituencies in the 2014 general elections shook South Africa's electoral landscape, with the EFF emerging as the third largest party.

While the nationalization debate has lost its prominence, as South Africa's political landscape shifts and support for the ruling party falls, the emerged policy positions and lessons for dialogue from this debate continue to impact mineral policy.

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<sup>76</sup> National Union of Mineworkers (NUM), *Nationalization Of Mines- Final Document* (2011), <http://www.num.org.za/News-Reports-Speeches/Reports/token/download/ItemId/2>.

<sup>77</sup> *State Intervention in the Mining Sector* (2012).

<sup>78</sup> Anine Kilian. "State takeover of mines would be beneficial to South Africans – panellists," *Mining Weekly*, 28 March 2014, [http://www.miningweekly.com/article/nationalisation-debate-2014-03-28/rep\\_id:3650](http://www.miningweekly.com/article/nationalisation-debate-2014-03-28/rep_id:3650).

<sup>79</sup> Noor Nieftagodien. "New Political Directions? Reconstituting and re-imagining the left after Marikana," *New South African review* 5, ed. Gilbert M. Khadiagala (Johannesburg: Wits University Press, 2015).

## Policy-making process highlights ruling party's established position

The policy development process on nationalization highlights the dynamics of both power and dialogue within the ANC. While the ANC frequently conducts policy dialogue with alliance partners, and this dialogue occurs at least partly in the public arena in the form of policy statements and consultations, ultimately the ANC's view as the party with a parliamentary majority prevails. Over the years, a degree of fusing between the party and the executive has created opposition to the ANC leadership within the alliance.

**“In a way  
[policy dialogue]  
is a no-go  
area unless it's  
electioneering  
time in the  
country.”**

**MP Faith Bikani**

Although there are fault lines between camps inside the ANC related to the party leadership, MPs are careful to be seen as following the leadership's command. Party discipline controls the extent of public discussion of differing views after a formal party position has been adopted. Against this background, the dissenting Youth League leader Julius Malema offers a stark contrast.

While debate has been heated, political dialogue on mineral policy between the ruling alliance and opposition parties has been limited. The primary opposing stakeholder in mining questions seems to be the industry association, the Chamber of Mines, which has been the counterpart in negotiating the Mining Charter and in general is vocal about economic and policy development of the sector. The chamber has vast analytical and advocacy resources, which provide much of the research behind the debate on the mining sector's role in South Africa. The chamber has unsurprisingly rejected proposals on further nationalization and has equally opposed developmental interventions to foster value chain linkages.<sup>80</sup>

With regard to responses from other parties, the ANC has found its mineral policies simultaneously being accused of socialism by the DA and neoliberalism by the EFF. For example, the DA's deputy shadow minister for mineral resources, Henrik Schmidt, called the ideas put forward in the SIMS report “socialist, if not communist.”<sup>81</sup> However, the DA itself does not have a clearly stated mineral policy and often echoes the communiqués and positions of the Chamber of Mines. Its challenge to the ruling party has focused on governance issues of the ANC government.<sup>82</sup> Meanwhile, the EFF has criticized the ANC for shifting to the right in following the recommendations not to nationalize mines and has accused the South African Communist Party of being “compromised

<sup>80</sup> Ben Turok. “Problems in the mining industry in South Africa,” *Great Insights*, February 2013, <http://ecdpm.org/great-insights/growth-to-transformation-role-extractive-sector/problems-mining-industry-south-africa>.

<sup>81</sup> See DA response to SIMS report, “State intervention in the mining sector is doomed to fail,” *DA*, 7 May 2015, <https://www.da.org.za/2015/05/state-intervention-in-the-mining-sector-is-doomed-to-fail>.

<sup>82</sup> See, for example, “New Mining Charter is the ANC's suicide note for the industry,” *DA*, 19 April 2016, <https://www.da.org.za/2016/04/new-mining-charter-is-the-ancs-suicide-note-for-the-industry>.

by their collaboration with the ANC in government.”<sup>83</sup> The ANC itself has responded by firmly painting the DA’s following as representatives of white capital and the EFF’s views as populist.

This reflects the identity-based politics and historical injustices still present in South African politics. Inter-party dialogue on mineral resources policies between opposition parties and the ruling party and its alliance structures has not thus far taken place in South Africa. According to Faith Bikani, MP and former portfolio chairperson of the Parliamentary Committee on Mineral Resources, informal negotiation and discussion channels do not exist between parties. “In a way [policy dialogue] is a no-go area unless it’s electioneering time in the country. What we debate, we bring publicly into the multiparty portfolio committee meetings or in plenary. I otherwise prefer to stick to what we have as an agreement and what my party would have concluded in preparation for the multiparty engagements,” she says.

The nationalization of mines debate reveals ideological and policy position differences within the ruling alliance and a lack of dialogue across the parliamentary spectrum at a time when the ANC’s rule is being challenged on multiple fronts. The nationalization debate has been ideological but is also informed by research. Policy options have been thoroughly debated within the ruling alliance, in parliament and in public, and have significantly contributed to reshaping the political landscape. Although the debate has been heated, mechanisms of policy-making, consultation and responding to voters’ demands have been strongly present in the process of forming the position on nationalization. Given the shifting political landscape, the dire economic situation in the mining sector and resulting turmoil in the labor unions, deeper dialogue between opposing views might emerge going forward.

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<sup>83</sup> *South Africa’s Opposition – Meeting Summary* (Chatham House, 2015).





# Case study: Ghana

Political rivalry threatens  
fiscal sustainability



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Kaisa Toroskainen, Adams Fusheini and Femke Brouwer

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## GHANA, KEY INDICATORS 2015

### POPULATION

27.4 million<sup>i</sup>

### GDP PER CAPITA (PPP)

\$4,200<sup>ii</sup>

### MAIN NATURAL RESOURCES

Oil, natural gas, gold

### RESOURCE RENTS AS % OF GDP

21<sup>iii</sup>

### POLITICAL SYSTEM

Presidential democracy

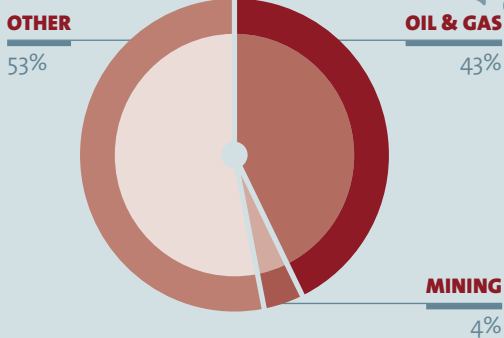
### RULING PARTY

New Patriotic Party (NPP)

### OPPOSITION PARTY

National Democratic  
Congress (NDC)<sup>iv</sup>

### EXPORT SHARES, 2013<sup>v</sup>



<sup>i</sup> "DataBank 2015: Population, total," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/SP.POP.TOTL>.

<sup>ii</sup> "DataBank 2015: GDP per capita (current US\$)," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>.

<sup>iii</sup> "DataBank 2015: Total natural resource rents (% of GDP)," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.TOTL.RT.ZS>.

<sup>iv</sup> Parliament of Ghana, <http://www.parliament.gh/parliamentarians>.

<sup>v</sup> "DataBank 2013: Fuel exports as % of merchandise exports," World Bank (2013), accessed 5 September 2016, <http://databank.worldbank.org/data/reports.aspx?source=2&series=TX.VAL.FUEL.ZS.UN&country=> and "DataBank 2013: Ores and metals exports as % of merchandise exports," World Bank (2013), accessed 5 September 2016, <http://databank.worldbank.org/data/reports.aspx?source=2&series=TX.VAL.MMTL.ZS.UN&country=>



## Case study: Ghana

# Political rivalry threatens fiscal sustainability

### Political system

Ghana has a multi-party system and unicameral parliament. The New Patriotic Party (NPP) won a majority over the National Democratic Congress (NDC) in the presidential and parliamentary elections in December 2016, in which Ghana's economic performance was a key election topic. In the latest elections, two smaller opposition parties represented in the previous legislature lost their seats, reinforcing the two-party dominance in Ghana's political system. Executive power is vested in the government, which is headed by President Nana Akufo-Addo.

### Natural resource endowments and governance

Ghana discovered oil in 2007 and became an oil producing country in record time by December 2010, increasing the contribution of natural resource revenues to government revenues to 18 percent in 2014.<sup>84</sup> The Ghanaian government engaged in wide public consultations to guide the design of a petroleum revenue management system, which was codified in the 2011 Petroleum Revenue Management Act (PRMA) and subsequent amended versions, putting in place two savings funds and an apparently strong legal basis for revenue management. In later years, Ghana started borrowing heavily against projected oil revenues to finance infrastructure development projects. Consequently, the unexpected dramatic fall in global oil prices from June 2014 resulted in considerable public debt and a fiscal deficit. This experience revealed that overall fiscal sustainability was not sufficiently considered when the PRMA was designed. In particular, the PRMA failed to shield the budget from overspending by a government pressured by political rivalry, which in turn was fueled by high expectations for oil revenues.

This case study examines the creation of the PRMA and the challenges in its implementation by showing how political rivalry and mismanagement of Ghana's modest oil revenues contributed to the country's debt and budget crisis.

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<sup>84</sup> Ghana EITI, <https://eiti.org/ghana>.

## The development of the Petroleum Revenue Management Act under political rivalry

In 2008, after the discovery of commercial quantities of oil, the New Patriotic Party (NPP) government initiated public consultations to feed into the process of drafting key laws governing Ghana's nascent oil sector and revenues. Domestic and international civil society organizations and donors pushed the government to consult the people of Ghana. Citizens were initially wary of news of the oil discovery, because of historical public discontent with the management of mineral revenues in Ghana and neighboring Nigeria's challenges in the oil sector. However, broad public consultations led to a greater awareness of the opportunities—as well as pitfalls—of oil wealth, and Ghanaians started seeing the oil discovery as a unique opportunity to get things right.

### Box 2.4

#### *Policy position development in Ghanaian parties*

Policy-making on oil and gas issues by the Ghanaian parties represented in parliament takes place through the formation of sector-specific committees, which consider draft policies that emanate generally from the responsible ministries and governmental agencies. At this stage, external experts may also be consulted.

Additionally, party caucuses make contributions to election manifestos for approval by the party's national executive committee. Inclusion of the views of regional branches and other constituencies takes place via their representation in the party's national executive committee.

In some parties, the party leadership approves the proposed policy before the national committee hearing, making it a forum for formal approval rather than substantial debate, and rendering policy position development rather a top-down than bottom-up process.

In spite of the consultative approach to developing the revenue management principles, intense political rivalry between the two main parties had a detrimental impact on revenue management outcomes. The NPP's energy minister at the time of oil discovery went as far as presenting a bottle of crude oil in a parliamentary session to celebrate the discovery.<sup>85</sup> These types of public appearances and accompanying positive messages raised expectations among the public, which were reflected in the nature of the consultation process and the assumption that revenues would be large enough to quickly transform the

<sup>85</sup> "Parliament Discusses Oil Discovery," *Modern Ghana*, 20 June 2007, <https://www.modernghana.com/news/138029/parliament-discusses-oil-discovery.html>.

country's economy. Consequently, public consultations led to wide backing for the codification of a revenue management system into law and the principle of saving a minority of the resource revenues for future generations and investing the rest in national development.

Political rivalry has continued to play a role in shaping the sector's management, with the subsequent NDC government publicly declaring that it would produce "first oil in record time" and pressuring the industry to move ahead with production. However, this strategy was not accompanied by equal determination in developing a comprehensive set of policies, laws and regulations before the start of production. This is now seen as one of the major mistakes that impacts the oil sector today, as expressed by Kwame Jantuah, vice chairman of the Public Interest Accountability Committee (PIAC), an institution created under the PRMA to increase accountability of the use of oil revenues.

"Some of us were of the opinion that we started the whole policy development on a wrong footing, as when political power changed hands from the NPP to the NDC government, we should have halted exploration until we had put in place the new Exploration and Production Act,<sup>86</sup> which we saw as the bible of the industry where all the other governing laws emanated from," Jantuah said. "Instead, we rushed to pass the Petroleum Revenue Management Act 2011 because the international oil companies were going ahead, and we realized we didn't have an effective law that governed how the revenue should be managed and spent in the economy."<sup>87</sup>

Competition between the main political parties did not translate into an articulated policy debate around the PRMA's content. In fact, politicians have been hesitant to pronounce any major differences between their positions on the law, as it would have been difficult to deviate from the main views expressed in the public consultations. Nonetheless, Steve Manteaw, head of the Ghana Civil Society Platform on Oil & Gas, explains that there were some differences regarding the balance of saving and spending revenues. Mainly, the then-ruling party NDC argued that money should not be put away for saving only, but also used to address Ghana's infrastructure gap. Other parties did not take strong positions. Opinions were also divided on allowing oil revenues to be used as guarantees for debt repayment. According to MPs from the NDC, the ruling party was divided on this topic, but ultimately the temptation to access debt financing to accelerate projects took over, as stated by former NDC MP Kwame Ampofo: "As a politician I say we're going to develop now that

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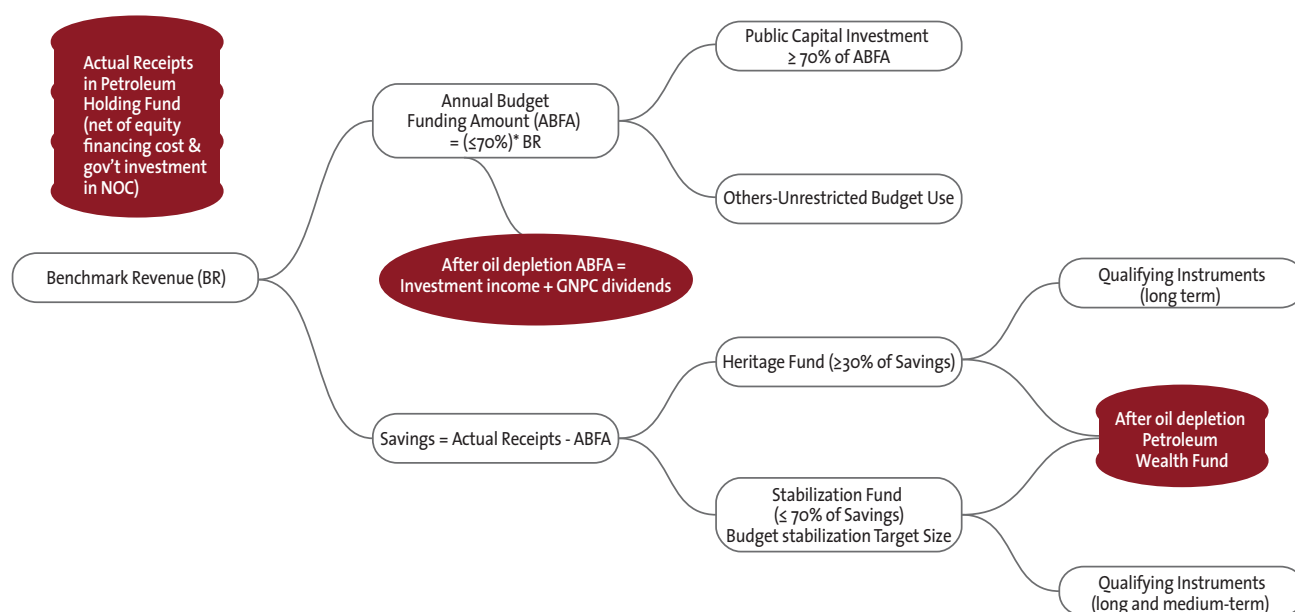
<sup>86</sup> The Exploration and Production Bill replaced PNDC Law 84, which was designed to govern the mining sector and hence did not cover fundamental issues of oil and gas extraction and production.

<sup>87</sup> Only in August 2016, the Exploration and Production Bill was passed in parliament introducing competitive open bidding to the sector.

we're in power. You need to take risks and make bold decisions when you can. Otherwise you're seen as a weak politician.”

The final design of the PRMA reflected a compromise between party views and those emerging from the consultations. After equity payments to the Ghana National Petroleum Company, up to 70 percent of the benchmark revenue would be directed to the annual budget (Annual Budget Funding Amount, ABFA) and any excess of this saved in the Stabilization and Heritage Funds (Figure 2.1).<sup>88</sup>

**Figure 2.1**  
**Ghana's fiscal rules under the Petroleum Revenue Management Act**



In order to accommodate the views of advocates for prudent revenue management, the ABFA limited the use of oil revenues as collateral for debt. Ultimately, the PRMA's detailed design was created by the Ministry of Finance, influenced by international donors and local experts, and approved fairly unanimously in parliament. Consequently, the ruling party in particular has emphasized the broad agreement to these rules, as declared by NDC MP Adam Mutawakilu: “All parties have won on the same ticket. There are no major differences between the parties with regard to oil and gas. The differences appear only on how to spend the revenues.” Many

<sup>88</sup> Government of Ghana, *Petroleum Revenue Management Act 2011* (2011), [www.mofep.gov.gh/sites/.../Petroleum\\_Revenue\\_Management\\_Act\\_%202011.PDF](http://www.mofep.gov.gh/sites/.../Petroleum_Revenue_Management_Act_%202011.PDF).

interviewees affirmed that differences in spending choices are related to the parties' ideologies with the NDC being more consumption driven and the NPP aiming to develop industry. In reality, Ghana's political system, with its Westminster-style whip system and majority rule, helps the ruling party ensure that its view is sufficiently reflected in outcomes.

## Implementation challenges

In its early years in government and especially near the 2012 elections, the NDC benefited from access to additional financing backed by oil revenues by entering into a resources-for-infrastructure deal with China. It also raised public sector wages and, in general, government expenditure soared. When oil prices started to decline in 2014, lack of consideration for overall budget sustainability allowed the NDC government to continue spending even though much less oil revenue was flowing in than what had been estimated based on the benchmark formula.<sup>89</sup> PRMA principles were also circumvented by the finance minister's decision to cap the Stabilization Fund and channel the excess into debt repayment, as mandated by the NDC party and allowed by ambiguity and wide executive discretion in the law's implementation.<sup>90</sup>

In the absence of general fiscal rules, it took a long time for the NPP-led opposition to voice concerns over the increased indebtedness and spending, as it seemingly occurred within the limits of the PRMA. Between 2011 and 2014, PIAC and civil society organizations produced reports that flagged the mismatch between the price used in the benchmark revenue formula and the real development of oil prices and pointed to other implementation challenges, triggering a debate on amending the PRMA.<sup>91</sup> The reports' findings convinced the main parties represented in the mines and energy committee of the need to reform elements of the PRMA. Due to wide public discussion on the shortcomings of the law triggered by the civil society, the PRMA Amendment Act was approved unanimously by parliament in 2015. The key changes to the PRMA include allowing adjustment of the benchmark revenue by finance minister; specifying the transfer rules between the ABFA and the funds and further between the Stabilization and Heritage Funds; and earmarking ABFA allocations to the Ghana Infrastructure and Investment Fund, which was established by the Amendment Act. The amendments also ensured regular funding for PIAC.

***“All parties have won on the same ticket. There are no major differences between the parties with regard to oil and gas. The differences appear only on how to spend the revenues.”***

***MP Adam Mutawakilu***

<sup>89</sup> See, for example, “In Ghana, Fiscal Responsibility Remains Elusive Even as Oil Flows,” *NRGI Blog*, 11 August 2015, <http://www.resourcegovernance.org/blog/ghana-fiscal-responsibility-remains-elusive-even-oil-flows>.

<sup>90</sup> Africa Centre for Energy Policy, *Three years of petroleum revenue management in Ghana*, (2014), <http://www.aceplive.com/wp-content/uploads/2014/08/ACEP-Report-PRMA-Final.pdf>.

<sup>91</sup> Africa Centre for Energy Policy, *Three years of petroleum revenue management in Ghana*. However, it should be noted that while many non-governmental organizations pointed to the implementation challenges, they also voiced concerns over allowing more ministerial discretion to definition of benchmark revenue, risking the integrity of the fiscal regime.

However, in the run-up to the 2016 elections, political rivalry again threatened implementation of the PRMA rules. Before the PRMA Amendment, PIAC and CSO reports had pointed out that the ABFA was used on a wide range of expenditure areas instead of four priority sectors selected from 12 sectors of national development impact, as mandated by the law.<sup>92</sup> Responding to this criticism, interviewed members of the mines and energy and finance committees from both main parties now maintain that oil revenues should be further targeted for greater impact. In reality, however, the 2015 expenditure shows that ABFA spending has continued to be spread thinly, contrary to PIAC report recommendations. For example, roads and other infrastructure priority spending areas received nearly half of ABFA funding in 2015, exceeding the allocated amount and starting 21 new road projects on top of 12 unfinished ABFA-funded road projects since 2011. One hundred and eighteen road projects were funded by ABFA between 2011 and 2015.<sup>93</sup> The thin spread of spending can be linked back to political pressure to demonstrate benefits from oil revenues, heightened by excessive expectations, as described by James Avedzi, Chair of the Finance Committee from the NDC: “There is a need for infrastructure in all parts of the country, and pressure is put on the president by the people. Can the president select which projects to start? The answer is no. The president is forced to start all projects. It’s a difficult discussion with voters and local chiefs. When you say no, I cannot give you any more projects, you’re done.”

**“Once in opposition, the party is struggling to have the finances to keep the party afloat and hence capacity building in the oil and gas sector can become secondary.”**

*Kwame Jantuah*

### **Lessons on capacity building and dialogue**

Political outmaneuvering has been central to the process of creating and implementing the PRMA, but parties have not been driving the substantive policy debate. Opposition MPs have used PIAC and other civil society reports to raise questions to the finance minister especially on the thin distribution of revenues. However, engagement between civil society and opposition parties has been limited, as civil society actors have traditionally targeted the government rather than opposition parties to challenge policy. This can be linked back to the lack of sector expertise in the policy-making machinery within Ghanaian parties, as well as practical challenges such as lack of funding for opposition parties between elections. As Kwame Jantuah explains: “Once in opposition, the party is struggling to have the finances to keep the party afloat and hence topics like capacity building in the oil and gas sector and related issues of technical nature, although important to the party, can become secondary, especially because of the challenges attributed to running the party.” At the same time, learning is taking place, and the committee on

<sup>92</sup> See, for example, “Concentrate petroleum revenue on few key sectors of the economy – IMANI,” *Ghana Business News*, 14 September 2015, <https://www.ghanabusinessnews.com/2015/09/14/concentrate-petroleum-revenue-on-few-key-sectors-of-the-economy-imani>.

<sup>93</sup> PIAC Annual Report 2015, 45-49, <http://piacghana.org/resources/2015%20PIAC%20Annual%20Report477.pdf>.



mines and energy is increasingly capacitated and serving as a platform for inter-party cooperation.

Overall, the results of inter-party dialogue in Ghana are mixed. On the one hand, the level of influence, respect and authority enjoyed by civil society actors has ensured that throughout the development of Ghana's revenue management system, independent actors were pushing the government and political parties to consider national benefits from the sector, as well as introducing an independent accountability mechanism in the form of PIAC. The importance of the consultations and the existence of a political dialogue platform cannot be understated, especially in how it has succeeded to inform ordinary Ghanaians of the principles of oil revenue management. On the other hand, the bitter rivalry between the two major parties in Ghanaian politics, a winner-takes-all electoral system and a political system that creates strong executives have concentrated power in the ruling party. This has enabled the governing party to make decisions on oil revenues with undesired consequences for the wider economy. The unfortunate disconnect between the two major parties on long-term policy development undermines the otherwise positive results of consultations.



# Case study: Malaysia

Shifting alliances based on  
subnational petroleum revenue sharing



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Tricia Yeoh and Kaisa Toroskainen

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## MALAYSIA, KEY INDICATORS 2015

### POPULATION

30.3 million<sup>i</sup>

### GDP PER CAPITA (PPP)

\$27,000<sup>ii</sup>

### MAIN NATURAL RESOURCES

Natural gas, petroleum, copper, tin, bauxite, iron ore<sup>iii</sup>

### RESOURCE RENTS AS % OF GDP

8<sup>iv</sup>

### POLITICAL SYSTEM

Constitutional monarchy;  
Westminster parliamentary  
democracy

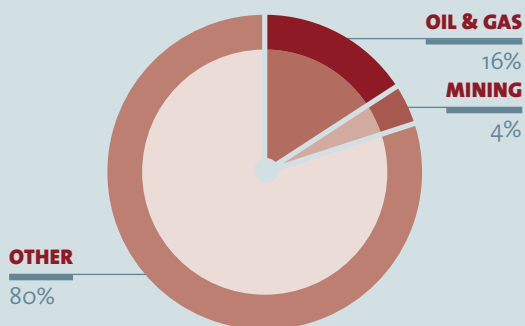
### RULING PARTY

Barisan Nasional (National Front)

### OPPOSITION PARTIES

Pakatan Harapan (Alliance of Hope)

### EXPORT SHARES, 2015<sup>v</sup>



<sup>i</sup> DataBank 2015: Population, total," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/SP.POP.TOTL>.

<sup>ii</sup> "DataBank 2015: GDP per capita (current US\$)," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>.

<sup>iii</sup> U.S. Department of the Interior, U.S. Geological Survey, 2013 *Minerals Yearbook: Malaysia*, accessed 5 September 2016, <http://minerals.usgs.gov/minerals/pubs/country/2013/myb3-2013-my.pdf>.

<sup>iv</sup> "DataBank 2015: Total natural resource rents (% of GDP)," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.TOTL.RT.ZS>.

<sup>v</sup> "DataBank 2015: Fuel exports as % of merchandise exports," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/TX.VAL.FUEL.ZS.UN> and "DataBank 2015: Ores and metals exports as % of merchandise exports," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/TX.VAL.MMTL.ZS.UN>.



## Case study: Malaysia

# Shifting alliances based on subnational petroleum revenue sharing

### Political system

The political system in Malaysia is based on a federal, multiparty Westminster system with a constitutional monarchy. The Barisan Nasional (BN, National Front) coalition has ruled the country since its independence in 1957, and all of Malaysia's prime ministers to date have come from the United Malays National Organization (UMNO) party. However, during the last two elections (in 2008 and 2013) the coalition failed to secure a two-thirds majority in parliament. This gave space to a growing opposition force.

### Resource endowments and governance

Oil was first discovered in 1910 in Miri, Sarawak. Since the 1960s, Malaysia has become a leading oil producer in Asia. The oil sector is governed by the Petroleum Development Act of 1974, which gives the national oil and gas company, Petronas, the exclusive right to manage the sector with only broad policy guidance from government and little legislative oversight.

In 1975, Malaysia's 13 states signed agreements with Petronas and the federal government entitling the states to a 5 percent royalty on revenue from local onshore and offshore oil and gas production paid in cash.<sup>94</sup> Due to the strengthening of opposition parties at both the national and state levels from 2008 onwards, the issue of petroleum royalties has become the subject of intense political debate. The states of Sabah and Sarawak, while controlled by the ruling coalition, have demanded a larger share of oil revenues. Furthermore, the government has been reluctant to grant petroleum royalties to opposition-controlled states, leading the state of Kelantan to file a lawsuit against Petronas to demand the payment of outstanding petroleum royalties due since 1998.<sup>95</sup> As a response, the federal government offered to make

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<sup>94</sup> The five oil-producing states are Sabah and Sarawak in East Malaysia, and Kelantan, Terengganu and Pahang in Peninsular Malaysia. Oil was most recently found in Pahang in 2012.

<sup>95</sup> The Kelantan state government argues that in return for ownership over onshore and offshore petroleum in the state, Petronas is obliged to make cash payments twice a year to Kelantan of 5 percent of revenues generated.

token “goodwill payments”<sup>96</sup> to Kelantan, but still refuses to acknowledge the state’s royalty rights on the grounds that exploration takes place beyond three nautical miles from its shores.<sup>97</sup>

This study examines policy-making processes on natural resources within the ruling and opposition coalitions looking at dynamics between political parties in Sarawak and the federal government.

### Varied political engagement with natural resources

Despite its federal system, Malaysia practices a centralized, top-down form of government, with political power concentrated in the office of the prime minister. The roles of legislature and executive are fused, meaning there is little, if any, direct oversight over the management of natural resources. The parties in the ruling BN coalition lack clear and robust mechanisms for deciding, planning and executing key policies regarding natural resources. There is minimal policy engagement on natural resources by political parties at the party’s national executive branch level and only nominal engagement at the state level.

An important institutional feature of policy formation on petroleum is the deference and delegation of decision-making powers from the government to Petronas. There are very few sources of external opinion, leaving Petronas as the main policy-making and regulating institution in the oil sector. Saifuddin Abdullah, a former member of the UMNO (the main political party in BN coalition) Supreme Council, the party’s governing body, said, “In all of the five years I was there, no meeting ever discussed policy adequately or thoroughly. Discussions were very general, with no position papers.”

However, discussions on natural resource management within the opposition coalition seem to be more informed, especially on the issue of subnational royalty payments to oil-producing states. For instance, an opposition parliamentarian from the Democratic Action Party (DAP) said, “Natural resource extraction is an important matter in regards to state policy and state power. Hence, the party state committees in oil and gas rich states Sabah and Sarawak will discuss and announce their positions vis-à-vis natural resource extraction.” The opposition coalition has also engaged external parties, such

***“In all of the five years I was there, no meeting ever discussed policy adequately or thoroughly. Discussions were very general, with no position papers.”***

***MP Dato’ Saifuddin Abdullah***

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Kelantan lawmakers have since claimed that the federal government owes as much as RM12 billion in oil royalties to the state government.

<sup>96</sup> The issue of oil royalties is particularly salient in Kelantan, as the government projected a state budget deficit for 2016, with state revenues totaling only RM593.8 million. See, for example, <https://www.malaysiakini.com/news/318287>.

<sup>97</sup> According to the Territorial Sea Act 2012, all natural resources beyond three nautical miles from any state shores automatically belong to the federal government, although this is being contested as unconstitutional by the Sarawak chief minister.

as non-governmental organizations, sector experts and researchers, on the incorporation of references to the EITI into the coalition's 2013 election manifesto, but these consultations with external parties remain infrequent.

In terms of internal consultations, the opposition coalition coordinates among its three member parties on oil royalties before a common position is reached. Dato' Saifuddin Abdullah, MP, and now a member of the opposition People's Justice Party (PKR) who is assisting with the coalition's common policy framework, said, "Each of the three parties discusses respectively, and then brings policies to the presidential council for a final decision."

### **The royalty row: a political call for greater autonomy**

In 2014, the Sarawak legislative assembly passed a motion to increase its petroleum royalty claim to 20 percent, leading opposition politicians from the state of Sabah to demand the same. The premise for this argument is that more natural resource revenues should be given to Sarawak for its economic development, noting it is the second poorest state in Malaysia.<sup>98</sup> Pressure from both these BN-ruled states for a greater share of the nation's oil wealth is an important emerging dynamic, given their political importance. Long considered the BN coalition's "fixed deposits," Sabah and Sarawak together account for 47 out of the 133 BN seats in the federal parliament (112 are needed for a simple majority). Sarawak Chief Minister Adenan Satem<sup>99</sup> has recently warned the federal cabinet that if the issue of petroleum royalties and greater autonomy is not resolved, the BN coalition could lose control of the state in the next election.<sup>100</sup>

The issues of the size of petroleum royalties and the perceived mistreatment of the states of Sabah and Sarawak have also led to a call for the creation of its own petroleum company and for Petronas to employ more Sarawakians.<sup>101</sup> These demands reflect contestation between the Sarawak state government and the federal government over demands for greater state-level autonomy and the right of the state to manage its own finance and taxation. The prevailing mood among locals in Sarawak is for more devolution and a

***"Natural resource extraction is an important matter. Party state committees in Sabah and Sarawak will discuss and announce their positions vis-à-vis natural resource extraction."***

***An opposition MP from the Democratic Action Party***

<sup>98</sup> Incidence of poverty by state, Malaysia, 2014 (Economic Planning Unit, 2014).

<sup>99</sup> At the time of writing, Adenan Satem was still the Sarawak Chief Minister. He passed away on 11 January 2017 and was replaced by Abang Abdul Rahman Zohari Abang Openg.

<sup>100</sup> Richard T.W. "Adenan: BN risks losing in GE if autonomy promises not met," *Free Malaysia Today*, 29 July 2016, <http://www.freemalaysiatoday.com/category/nation/2016/07/29/adenan-bn-risks-losing-in-ge-if-autonomy-promises-not-met>.

<sup>101</sup> Following the prime minister's intervention, Chief Minister Adenan and Petronas have agreed that it must raise the number of Sarawakians in its local operations to at least 60 percent by 2020. See, for example, Sharon Ling, "Sarawak govt reaches amicable settlement with Petronas," *The Star Online*, 27 August 2016, <http://www.thestar.com.my/news/nation/2016/08/27/sarawak-govt-reaches-amicable-settlement-with-petronas>.

return to the spirit of the 1963 Malaysia Agreement.<sup>102</sup> Parties across the political divide in Sarawak have responded by becoming increasingly vocal in asserting the rights of Sarawakians.

A central development in the debate on petroleum royalties is the rapidly evolving dynamic between the federal government and Sarawak politicians from within the ruling coalition and the opposition. Despite the significance of Sarawak to the ruling coalition's political survival, clear fault lines are beginning to emerge between coalition partners on the larger issue of state autonomy. In the recently concluded 2016 Sarawak state elections, every major party in Sarawak promised to implement the 20 percent petroleum royalty allocation, including Parti Pesaka Bumiputera Bersatu (PBB), a BN coalition party and the most dominant political force in Sarawak. This demand for a greater share in the nation's oil wealth is symptomatic of longstanding grievances in Sarawak regarding federal neglect of development allocations and federal interference related to issues within the state's exclusive authority such as religious freedom. Thus, it is imperative to view the issue of petroleum royalty payments in light of widespread dissatisfaction with the current power-sharing arrangement between the state and federal governments.

Despite being the second largest BN coalition party with 14 MPs in the federal parliament, Juanda Jaya, a PBB member of the Sarawak legislative assembly, alleged that UMNO does not see his party as an equal partner. The BN coalition's lack of formal procedures means that in practice UMNO does not consult or share the contents of its internal discussions with coalition parties. As a consequence, other parties in the ruling coalition, such as PBB, remain relatively independent of the decisions made by their main political ally UMNO and lack formal procedures for internal consultation and policy formulation. In terms of policy formation within PBB, the party's president occasionally consults with the party's supreme council (its main decision-making body) or other external parties. However, the president has discretionary authority to decide the position of the party and by extension that of the state government on a host of policy issues.

### **Heightened debate has increased inter-party dialogue**

Under Chief Minister Adenan's leadership, a new dynamic is taking shape between the Sarawak government and state opposition parties. The state government has increasingly attempted to distance itself from peninsula-based BN coalition parties, even if this comes at the expense of aligning itself with the opposition. For example, while the DAP tabled the original motion in the state legislative assembly in 2014 to increase

<sup>102</sup> The Malaysia Agreement enshrined the autonomy and special interests of Sabahans and Sarawakians upon the formation of Malaysia.



petroleum royalties to 20 percent, it was an amended version tabled by a PBB backbencher (which included a further demand for development grants) that was eventually passed. Thus, the prevailing political discourse in Sarawak appears to transcend partisan divides, with both the state government and opposition parties united in their demands for greater petroleum royalty payments, as well as more safeguards to protect local Sarawakian employment in Petronas.

While the government and opposition parties are divided at the national level, this does not apply to politics in Sarawak where parties manage to reach consensus on substantial policy matters. For example, Juanda said that there is unofficial interaction between the chief minister and representatives from opposition parties to discuss policy issues, suggesting that interactions across the political divide are much more cordial than at the national level. This unique political development is possible because all parties have a vested interest in appearing to champion and lead the discourse on the state's autonomy and its oil rights. The heightened debate on revenue sharing and political autonomy, for example, has led the prime minister and Petronas to engage with the Sarawak chief minister to offer increased employment and capacity building. Thus, the jostling of parties in Sarawak is as much motivated by a genuine desire to return to the conditions of the Malaysia Agreement, as it is a tacit admission by all key political actors that Sarawakians will support the party that promises them more autonomy.



# Case study: Peru

Presidential candidates divided on gas deal renegotiation



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Alonso Hidalgo, Fernando Patzy and Kaisa Toroskainen

## PERU, KEY INDICATORS 2015

### POPULATION

31.4 million<sup>i</sup>

### GDP PER CAPITA (PPP)

\$12,500<sup>ii</sup>

### MAIN NATURAL RESOURCES

Oil, gas, copper, silver, gold

### RESOURCE RENTS AS % OF GDP

9<sup>iii</sup>

### POLITICAL SYSTEM

Presidential representative  
democratic republic

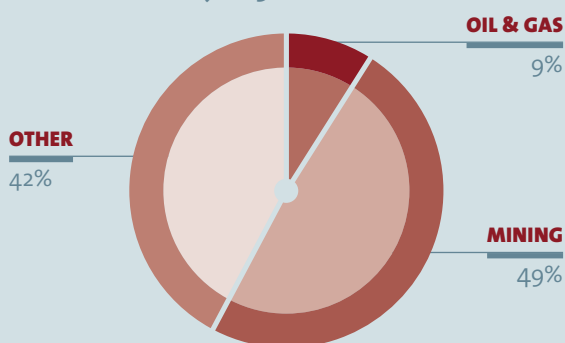
### RULING PARTY

Peruanos Por el Kambio (PKK)

### OPPOSITION PARTIES

Fuerza Popular (FP),  
Frente Amplio (FA),  
Acción Popular (AP),  
Alianza Para El Progreso (APP),  
Célula Parlamentaria Aprista (APRA)<sup>iv</sup>

### EXPORT SHARES, 2015<sup>v</sup>



<sup>i</sup> "DataBank 2015: Population, total," accessed 5 September 2016, World Bank (2015), <http://data.worldbank.org/indicator/SP.POP.TOTL>.

<sup>ii</sup> "DataBank 2015: GDP per capita (current US\$)," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>.

<sup>iii</sup> "DataBank 2015: Total natural resource rents (% of GDP)," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.TOTL.RT.ZS>.

<sup>iv</sup> Congress of Peru, <http://www.congreso.gob.pe/eng/?K=371>.

<sup>v</sup> "DataBank 2015: Fuel exports as % of merchandise exports," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/TX.VAL.FUEL.ZS.UN> and "DataBank 2015: Ores and metals exports as % of merchandise exports," accessed 5 September 2016, World Bank (2015), <http://data.worldbank.org/indicator/TX.VAL.MMTL.ZS.UN>.

# Case study: Peru

## Presidential candidates divided on gas deal renegotiation

### Political system

Peru is a presidential representative democratic republic with a multiparty system and a unicameral parliament consisting of 130 seats. The president of Peru is elected for a single term of five years. The major parties in Peru<sup>103</sup> include Peruanos por el Kambio (PPK), a center-right political party created in 2014. PPK founder Pedro Pablo Kuczynski, an economist and the elected president of Peru, served as finance minister when the disputed gas field agreements analyzed in this case study were struck.<sup>104</sup> Founded in 1956 as a left-of-center political party with broad support until the 1980s, Acción Popular (AP) has since evolved into a center-right party with declining support. Fuerza Popular (FP) is a right-wing political party led by Keiko Fujimori, daughter of former President Alberto Fujimori, currently imprisoned for corruption and crimes against humanity. Finally, Frente Amplio (FA), a coalition of leftist parties and civil society movements, was created in 2013.

### Natural resource endowments and governance

The mining and hydrocarbon sector has a long history in Peru. Located between the regions of Ucayali in the central part of the country and Cusco in southern Peru, the Camisea field is the country's largest natural gas reserve. Despite being one of Peru's most valuable natural resource assets, the project took nearly 20 years to be developed since its discovery in 1984. In recent years, the Camisea gas field's future has sparked debate around the destination of Peruvian gas exports; the Peruvian state's role in an export deal increasingly viewed as disadvantageous for Peruvians; and the nature of deals between the state and extractive companies. As a result, all parties involved in the 2016 electoral race stated their positions on this matter, as energy related policies

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<sup>103</sup> Two other parties not mentioned in this study also managed to obtain congressional representation in this term: Partido Aprista Peruano (APRA) and Alianza por el Progreso (APP). Their campaign was marred by personal scandals of their presidential candidates, which required these parties to steer their campaigns into a defense front against multiple types of accusations. Therefore, their capacity to make technical proposals over the gas policy was limited.

<sup>104</sup> The word "Kambio" is written with the letter "K" intentionally, so that the party has the same initials as their leader Pedro Pablo Kuczynski.

came to the forefront of election debates. This case study analyzes the positions taken by presidential candidates and their parties on natural gas issues, and the processes through which they were formed.

### **Structural reforms pave the way to exploitation of Camisea gas field**

Despite intense negotiations between the government and Royal Dutch Shell during the 1980s and early 1990s, licencing agreements to develop the Camisea gas field initially remained unsigned due to Peru's fragile investment climate. It was not until the mid-1990s when the adoption of a new hydrocarbon law introduced drastic structural reforms to the property rights regime that commercial activities began in Camisea. The law allowed the new hydrocarbons agency, Perupetro, to transfer all property rights to licence holders, and separated exploration and operation licences from transport and distribution contracts. In order to attract foreign investment and secure state revenues, the government created a specific ruling for the gas industry, establishing royalties in accordance with the price applied to the gas, and limiting the state from operating in the gas market to encourage competition.<sup>105</sup> For bidding purposes, the Camisea field was divided in two blocks: Block 88 (the largest) to meet internal energy demands and the smaller Block 56, which was dedicated to export. The main difference between the blocks' conditions is the price. Shell sells Block 56 LNG to Mexico at the U.S. Henry Hub spot price. As the U.S. started flooding the market with shale gas from 2010 - 2015, the Henry Hub price collapsed<sup>106</sup>, which had a direct negative impact on the royalties paid to the Peruvian government. The price of Block 88 is fixed for the domestic market (see box 2.5), and part of it is actually channeled to exports at the collapsed price.

The collapse in prices sparked a debate on renegotiating the export price from Peru to Mexico. This turned out to be difficult as the deal is not between the Peruvian and Mexican states, but between Shell and the Mexican government.<sup>107</sup>

### **Renegotiation of the Camisea gas deals becomes an election issue**

The debate on the Camisea deals started with the AP blaming the former government of ex-President Alejandro Toledo—including his former finance minister and current president Kuczynski—for cutting a bad deal for

<sup>105</sup> Law 27133.

<sup>106</sup> "The US shale revolution," *Financial Times*, 24 April 2015, <https://www.ft.com/content/2ded7416-e930-11e4-a71a-00144feab7de>.

<sup>107</sup> "Camisea natural gas: Peru's political football," *Peru Reports*, 28 March 2016, <http://perureports.com/2016/03/28/camisea-natural-gas-perus-political-football>.

### **Box 2.5** **Evolution of Peru's Camisea gas contracts**

Bidding for the exploration, production and transportation phases of Block 88 was finalized in 2000. Camisea Consortium and Transportadora de Gas del Perú (TPG) won those bids. This was followed by bidding for the second phase of Camisea, Block 56, launched in 2004. The Block 88 reserves were assumed to cover domestic demand, while Block 56 was intended for export. But there was no clear indication of Block 56's potential, as it remained largely unexplored. Due to uncertainty regarding the Block 56 reserves, international investors demanded 4.5 trillion cubic feet (tcf) of proven reserves to apply for a bidding process, while the government could only guarantee 2 tcf. In order to attract potential investors, the government put in a warranty of an additional 2.4 tcf from Block 88, intended for domestic use, until exploration of Block 56 ended.

Upon finalization of the exploration phase, it was clear that Block 56 did not account for the 4.5 tcf necessary for the financial feasibility of a transportation duct for export. As a result, the government decided to continue allocating gas from Block 88 for exports. Peru LNG, which is largely owned by the same members of the Camisea Consortium and TPG, won the bidding process to build and operate gas liquefaction facilities. For the export of gas from Block 56 the government signed four contracts in total:

- **The Peruvian state**, through Perupetro, signed a licencing deal with **Camisea Consortium** for the exploration, extraction and operation of Block 56.
- **The Camisea Consortium** signed a processing deal with **Peru LNG** for the liquefaction and storage of natural gas.
- **Peru LNG** signed a deal with **Shell** (and from 2013 with **Repsol**), the off taker that would trade the gas in foreign markets.
- **Shell**, being the off-taker, signed a deal with **Mexican government** (through the Federal Electricity Commission) to export 72 percent of the LNG produced from Block 56 to Mexico.

Peruvians. In a March 2016 statement, AP candidate Alfredo Barnechea suggested that the deal should be opened for renegotiation: "All contracts can be modified, including international treaties. Every contract can be modified when circumstances change, more so in the case of these fraudulent contracts handpicked/awarded by Mr. Toledo and Mr. Kuczynski."<sup>108</sup> Despite Barnechea's statements, it seems that within the AP there was no consensus on how to proceed with the renegotiation. Carlos Herrera Descalzi, former energy and

<sup>108</sup> "Barnechea arremete contra candidatos," *La Razón*, 3 March 2016, <http://cronologiapoliticadelperu.org/2016/03/03/barnechea-arremete-contra-candidatos/>.

mines minister, also from AP, was more cautious and proposed a reconciliation process between investors: "...when one party (to a contract) feels aggrieved, it proposes an amendment to the counterparty. This process is resolved through the mechanisms established for that purpose: direct negotiation, arbitration or going to the judiciary. Also, when the state is one of the parties, it is because there are public goods or interests involved. Therefore, regarding contracts that affect the common good, the state not only has the right but also the moral obligation to request a renegotiation and subject [the contract] to the rules of the game. Renegotiation does not mean imposing or expropriating, confiscating much less."<sup>109</sup>

**As the gas problem became central to the public debate, political parties endeavored to better define their positions.**

As the debate continued, the Frente Amplio coalition went further to challenge the property rights now transferred to the companies by virtue of the actual licence contracts. The party opened a debate over who owns the Camisea gas and whether the hydrocarbon laws passed in the 1990s are a good deal for the Peruvian state and people. Verónica Mendoza, FA presidential candidate, made the use of the Camisea natural gas for national development one of her main campaign messages. For FA, the renegotiation of gas export contracts involves changing the entire Peruvian gas policy as ruled by the Organic Hydrocarbon Law (26221). At the start of the election campaign, in January 2016, she said: "The gas has to be used for national development and not for looting by a few companies... the construction of the Peruvian Southern Gas Pipeline will allow the people of Cusco and the macro southern region to use this resource for industrialization and job creation."<sup>110</sup>

The other two main parties, Fuerza Popular and Peruanos por el Cambio, were inconsistent insofar as their position on the sector. The gas issue does not appear in the government plan<sup>111</sup> (election manifesto) of the FP,<sup>112</sup> which is a conservative political party promoting private domestic and foreign investment. From this perspective, questioning one of the largest private investment projects in the country was not part of its original electoral agenda. But when facing PPK in the second electoral round, FP candidate Keiko Fujimori turned to the gas issue to undermine the PPK's image: "Kuczynski 'gave away' the

<sup>109</sup> "Debate: ¿Es posible renegociar el contrato del gas de Camisea?" *El Comercio*, 4 March 2016, [http://elcomercio.pe/opinion/colaboradores/debate-posible-renegociar-contrato-gas-camisea-noticia-1883781?ref=flujo\\_tags\\_517047&ft=nota\\_3&e=titulo](http://elcomercio.pe/opinion/colaboradores/debate-posible-renegociar-contrato-gas-camisea-noticia-1883781?ref=flujo_tags_517047&ft=nota_3&e=titulo).

<sup>110</sup> "Verónica Mendoza sobre Camisea: '¿Dónde está el bendito gas?' [VIDEO]" *LaMula*, 29 January 2016, <https://redaccion.lamula.pe/2016/01/29/veronika-mendoza-sobre-camisea-donde-esta-el-bendito-gas-video/redaccionmulera>.

<sup>111</sup> A government plan or election manifesto is a technical requirement for any Peruvian party who wishes to enter the presidential race. It is a planning document in which parties lay out their policies for implementation, if they were to be elected for government. In practice some parties submit quite technical documents such as the 2016 government plans of the PPK and FA parties; others are not as specific.

<sup>112</sup> Keiko Sofía Fujimori Higuchi. "El Plan de Gobierno de Fuerza Popular representa un compromiso con el futuro del Perú," *Plan Perú*, [http://keikofujimori.pe/#yt\\_spotlight7](http://keikofujimori.pe/#yt_spotlight7).



gas. We will investigate the contract and renegotiate it for the benefit of the country. [Kuczynski] has made the Block 56 exclusive for export and changed the laws, so that the Block 88 can also be exported and trading was done in the worst way. The cheapest price was used as reference. Therefore, he gave away our gas, and we will investigate and renegotiate the contract considering the interests of the country.”<sup>113</sup>

When confronted with the gas issue during his presidential bid, the PPK’s Kuczynski had to respond. In April 2016, he said that the project was originally developed assuming more gas production, but since then “the energy framework has changed, the price of raw materials has fallen, and in particular the price of natural gas collapsed.” In another intervention, he stated that his priority was to expand domestic consumption through the construction of a southern pipeline to popularize the consumption of natural gas in households: “My government will deliver, because we will subsidize the installation of domestic gas connections and use the cheapest gas for Peruvians.”<sup>114</sup>

The difference between the PPK and FA positions is that the first is based on the assumption that reserves would be large enough to cover gas production that satisfies both internal and external demand. Conversely, FA thinks the gas export deal does not serve Peru and gas production should be redirected to domestic consumption, thereby covering the energy needs of a larger part of the country.

As the gas problem became central to the public debate, political parties endeavored to better define their positions. The results, nevertheless, varied. From the start, the FA opposed the continuation of gas exports, proposing the renegotiation of contracts with Mexico in order to suspend exports and reroute gas for domestic consumption and industrialization. Also, the FA proposed renegotiating the existing extraction/production contracts from licences to service contracts. Both the AP and FP, more cautiously, proposed that the government would assume a more central role in the renegotiations between the off taker (Shell) and Mexico’s Federal Electricity Commission. PPK, true to its initial stance, ruled out renegotiation and proposed the scaling up of production in order to boost domestic consumption.

### **From electoral campaigning to policy agendas**

The PPK won the June 2016 presidential elections and now has an electoral promise to keep. However, the party’s position on whether the government

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<sup>113</sup> “Keiko Fujimori ‘PPK regaló el gas de Camisea’ (VIDEO)” *Correo*, 18 May 2016, <http://diariocorreo.pe/edicion/arequipa/keiko-fujimori-ppk-regalo-el-gas-video-673543>.

<sup>114</sup> “PPK: ‘Renegociaré el contrato de exportación del gas de Camisea,’” *Inforegion*, 20 March 2016, <http://www.inforegion.pe/219613/ppk-renegociare-el-contrato-de-exportacion-del-gas-de-camisea>.

will renegotiate the export contract was imprecise; there is no reference to a renegotiation of contracts in its government plan. Political realities—it is only the third-largest party in the congress—are prompting the PPK government to build bridges with other parties. Therefore, during his inaugural speech, Peru’s Prime Minister Fernando Zavala of PPK announced that a renegotiation of contracts would take place under his administration.<sup>115</sup> This renegotiation would most likely imply a direct political agreement with Mexico, modifying the existing contract between the Federal Electricity Commission and Shell in order to reduce export volumes and secure better prices, in line with AP and FP positions. Expectations that his economically liberal government will take the additional step of changing the current contracts to service contracts, thus asserting state sovereignty over the extracted resource, are low.

A few months into the parliamentary session, most other parties seem to be backtracking on electoral promises. Despite initiating the renegotiation debate, the AP did not include it in its government plan, nor has it been central to its parliamentary agenda. Similarly, after the election campaign ended with Fujimori’s Fuerza Popular winning an absolute majority in congress (despite being defeated in the presidential race), the issue has disappeared from FP’s legislative agenda, potentially reducing the pressure on the PPK. Consequently, FA is the only party that regards the gas deals as central, both in the face of public opinion and in congress. Given its political weight and popularity in the polls ahead of the upcoming regional elections, it will seek to put pressure on other political parties, foremost the PPK.

### **Populism and personal politics inhibit evidence-based energy policy**

In the 2016 campaign, government plans covered a wide array of subjects with little detail. Policy proposals were generally broad, tackling subjects deemed relevant to a majority of the electorate (such as employment, economic growth and public safety) without a radical departure from previous policy or positions. Peruvian political parties, as in the rest of Latin America, depend heavily on the personality and gravitas of their leading candidates.<sup>116</sup> Policy positions are typically designed by a small group of members of the party management, meaning that intra-party discussion is quite limited. This is the result of structural weaknesses within the political party system, wherein political parties function more as electoral machines rather than platforms for debate.

<sup>115</sup> “Premier Zavala anuncia el inicio de la negociación del gas de Camisea,” *La República*, 20 August 2016, <http://larepublica.pe/impres/politica/795643-premier-zavala-anuncia-el-inicio-de-la-negociacion-del-gas-de-camisea>.

<sup>116</sup> See, for example, <http://www.globalsecurity.org/military/world/peru/political-parties.htm>.

The PPK and FP parties fall into this description, as they were mainly created to sustain the presidential candidacy of their leaders. Their policy positions during the election campaign were not the result of a deliberative process structured around the interests of grassroots supporters.<sup>117</sup> The PPK position on gas policy was in line with the track record of its candidate and the party elite, and the FP position shifted depending on its political adversary. By contrast, the AP, a more traditional party, and the FA coalition built more nuanced positions through intra-party discussion in order to achieve programmatic agreements. The AP initially brought the Camisea case to public knowledge and the FA rapidly echoed its importance. The latter had already included a detailed programmatic proposal on gas policy in its government plan.

Despite programmatic weaknesses, the shift in the election debate's focus to gas issues was bound to have repercussions for the winner of the elections. The Camisea gas export deal involves many different stakeholders including another sovereign country, two business conglomerates, and local governments dependent on subnational revenue transfers and citizens that feel they are not benefitting from gas production. This translated into a debate that involved a confusing landscape of parties aligned with different stakeholders. Inter-party dialogue on this issue was limited to a handful of civil society-organized electoral debates. These lacked technical details and only a few of them were televised. Therefore, possibly the biggest outcome of the election debate on Camisea is the fact that Peru's new government cannot ignore issues concerning the gas field's exploitation.

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<sup>117</sup> It is worth noting that despite following a leader-oriented type of organization, Fuerza Popular has managed to amass the largest political base of the country.



## How political parties can develop policy positions

As discussed in Chapter 1, clearly articulated policy positions can enable political parties to play a more active role in ensuring that their country's natural resources are managed well and in the best interests of the wider population.

The purpose of this chapter, through both the narrative guide and the worksheets, is to help interested political parties develop their own positions on the management of oil, gas and mineral resources. The development process will vary depending on the party's structure, existing positions and development processes, but this guide sets out the key steps and offers guidance and templates that can be adjusted as needed (see Figure 3.1).

This guidance is informed by NRGi and International IDEA's extensive combined experience in the field of resource governance and in supporting political parties around the world to articulate general policy positions, including a highly successful joint programme in Ghana (see Box 3.4).<sup>118</sup> The issue-specific worksheets are drawn primarily from the Natural Resource Charter Benchmarking Framework, a tool developed by NRGi to help governments, oversight actors and researchers assess resource governance systems (see Worksheet G). The process worksheets were also inspired by and partly adapted from International IDEA's publication, *Strategic Planning for Political Parties: a Practical Tool*.<sup>119</sup>

### Process initiation

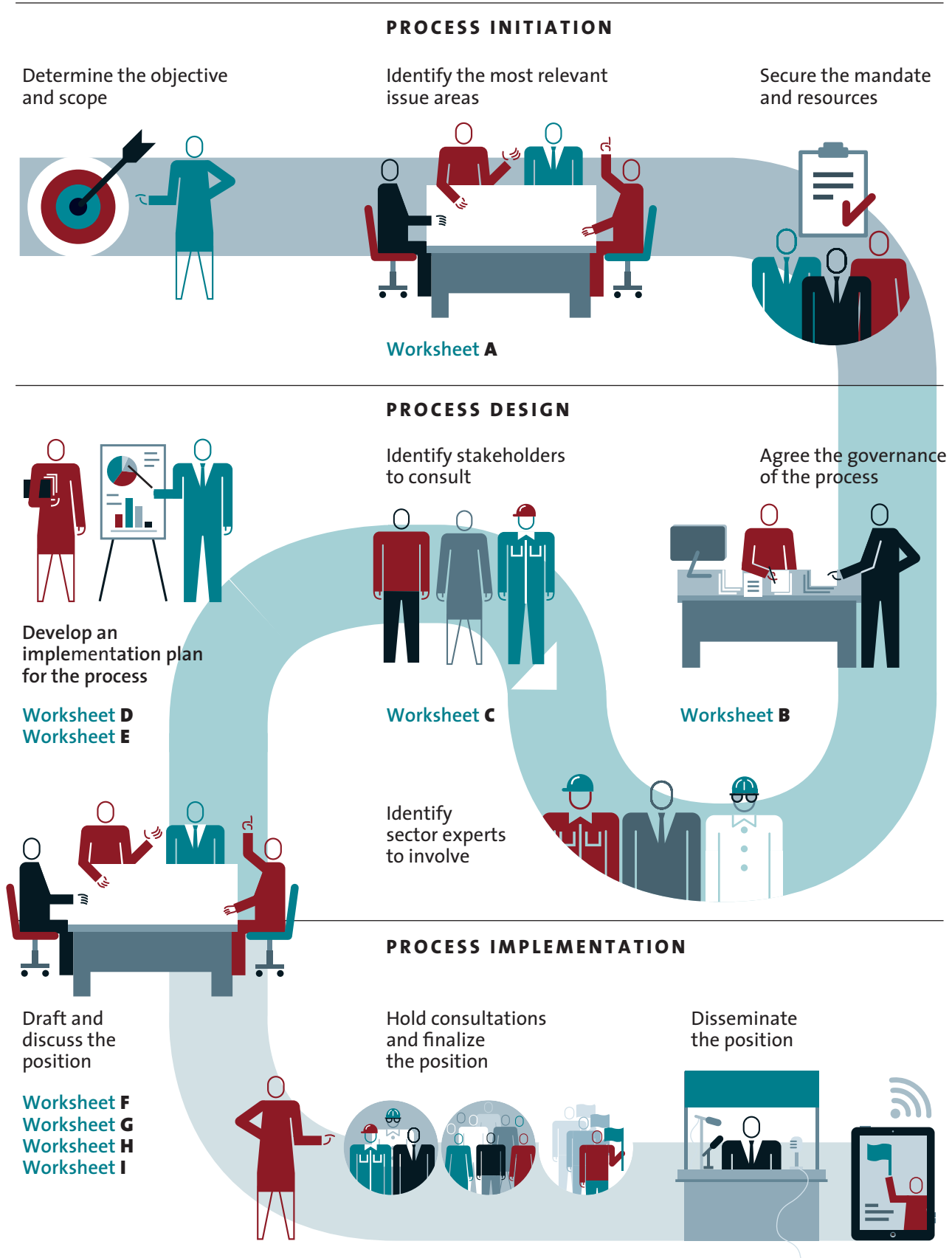
#### Determine the objective and scope of the process

The first step in developing a natural resource policy position is to identify the overall objective of the process. The scope—which includes the design of the process, and the breadth and depth of topic coverage—should then be tailored to suit that objective. Figure 3.2 provides examples of three possible objectives and associated scopes.

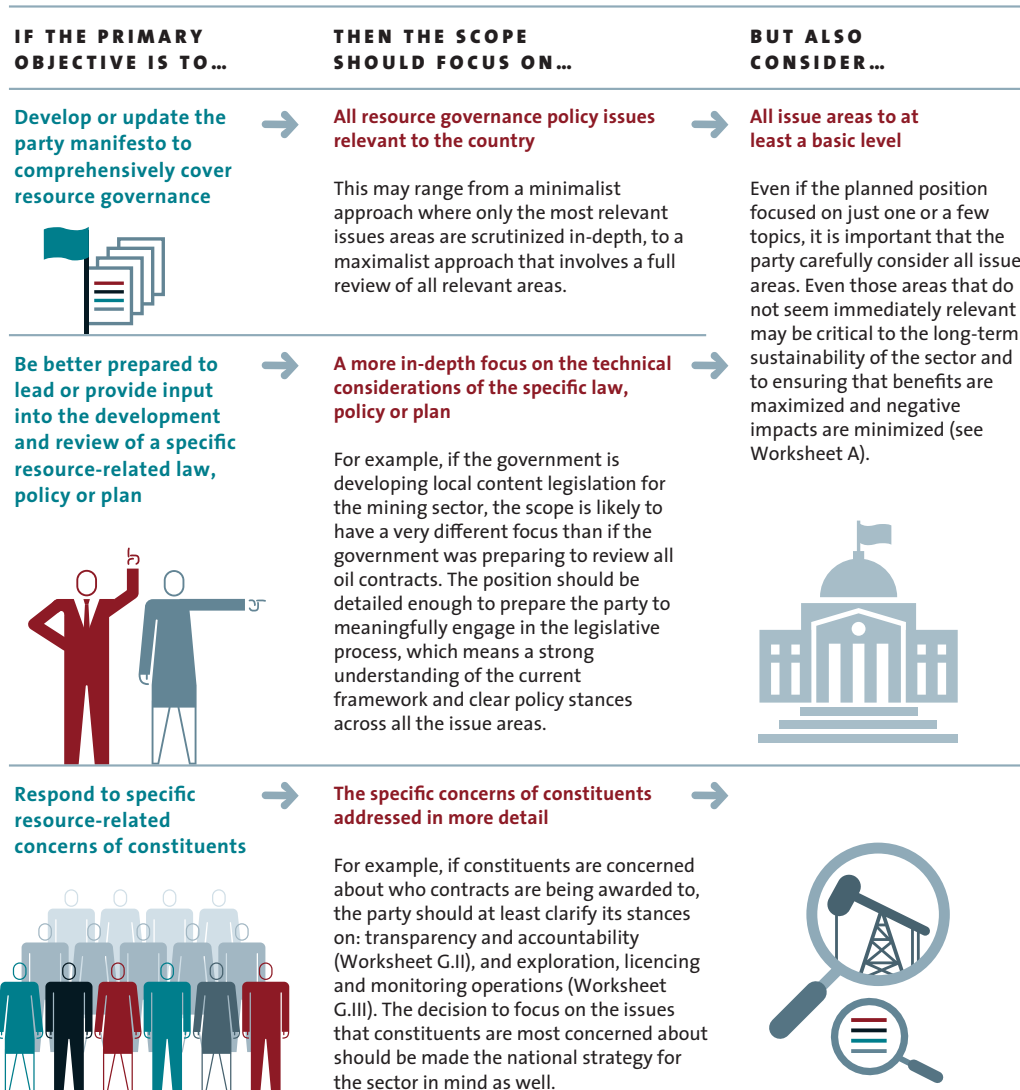
<sup>118</sup> This experience includes joint NRGi and International IDEA work with the four main political parties in Ghana in 2015–16 as they developed party platforms on resource governance, as well as International IDEA's work with political parties in Georgia, Haiti, Kenya and Nepal.

<sup>119</sup> van den Berg, C. F. et al., *Strategic Planning for Political Parties: A Practical Tool* (Stockholm: International IDEA: 2013).

**Figure 3.1**  
**The policy position development process: A step-by-step overview**



**Figure 3.2**  
**Determining the scope**



The interrelated nature of resource governance decisions means that it is ideal for all major political parties in resource-rich countries to have a comprehensive position, covering all the issue areas. However, a context of immediate needs and limited time and support might dictate that the party initially focus on a narrower objective, such as being prepared to review specific legislation or respond to a recent event like a commodity price drop or corruption scandal. For example, in Peru, the structure of a particular gas deal seemed less favourable in the context of a sudden drop in commodity prices, which coincided with the 2016 elections. Both major political parties therefore developed positions and put the issue front and centre in their campaigns.<sup>120</sup> Ahead of the 2016 elections in Ghana, political

<sup>120</sup> See the Peru case study in Chapter 2.

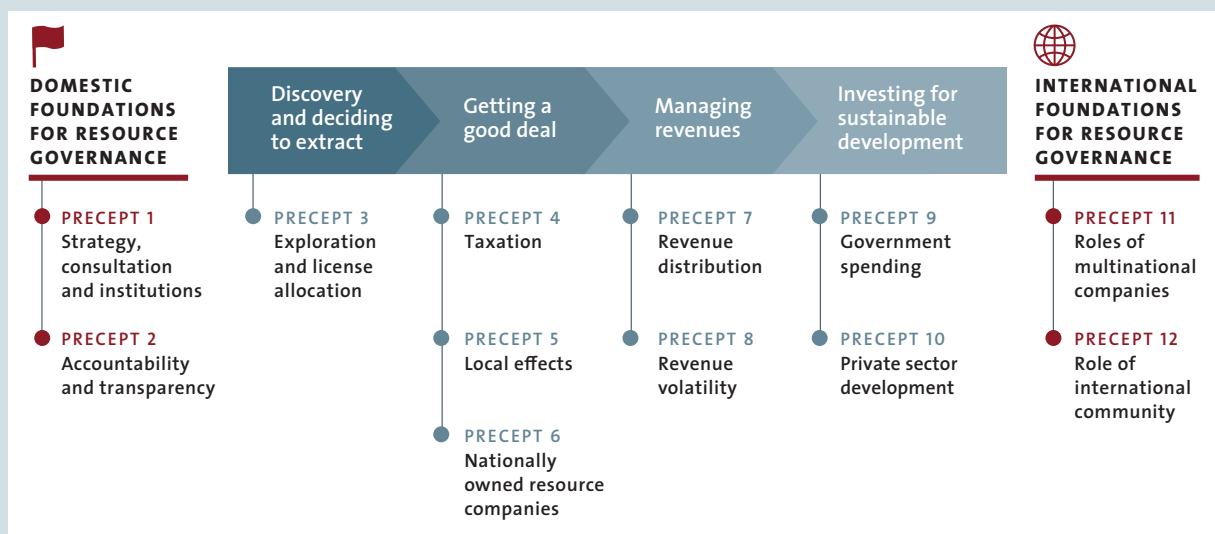
parties responded to public concerns around early revenue miscalculations and overspending by developing detailed resource policy positions that specifically addressed revenue management and savings.

The objective and scope will also determine the format of the position. Possible formats range from a short executive summary with a general position statement (e.g., committing to standards of transparency, open contracting, fiscal sustainability, etc.) to a highly detailed position that contains in-depth technical considerations (e.g., fiscal regimes and rules, impact assessment, etc.). Although the format—and even the objective—may shift as the process unfolds, it is important to have an end goal in mind when planning the drafting and consultations.

### Identify the most relevant issue areas

When deciding what exactly the position will cover, the party should carefully consider which issue areas along the *natural resource governance decision chain* are most important to the country at this juncture, as well as which will be important for long-term development.<sup>121</sup> Often in a new producing country, like Israel in 2016, parties will feel the need to focus on issues such as licencing

The **natural resource governance decision chain** is the series of decisions that governments make in the process of transforming resource wealth 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.



<sup>121</sup> For more information, see the NRG primer on the decision chain, available at <<https://resourcegovernance.org/analysis-tools/publications/primer-natural-resource-charter-decision-chain>>.



and fiscal terms.<sup>122</sup> In a more seasoned producer with some data to reflect on, such as South Africa, parties might be more inclined to focus on issues related to economic diversification and local content.<sup>123</sup> However, even if it only makes sense to cover a few of the issue areas in depth at this time, it is important that all countries—regardless of where they are in the extraction lifecycle—at least consider all the issue areas. This will allow them to have the full picture of resource governance, inform the in-depth stances they choose to take and help prepare for the future, including unexpected changes in circumstances such as major new discoveries or a significant environmental incident. This will ultimately help the country avoid the damaging short-term thinking often associated with the resource curse, as noted in Chapter 1. Worksheet A can help the party assess which areas of the decision chain are most important to cover in-depth, and the orientation and context sections of Worksheet G can facilitate the review of all areas, regardless of whether detailed stances will be developed immediately.

It is likely that party members will already have some idea of the most pressing issues, but the process will benefit considerably from some initial consultations with sector experts and key external stakeholders in civil society, academia and local communities. In Norway, for example, public opinion on resource governance differed significantly across regions, as those in the oil-producing regions were most concerned about compensation for job losses and those in climate vulnerable locations were concerned about the long-term impacts of extraction. In order to get a good understanding of national and regional priorities, the parties needed to listen to representatives and constituents from all over the country.<sup>124</sup>

The Resource Governance Index (RGI), a global index measuring the quality of resource governance across the decision chain, can also be an excellent reference because it allows countries to see how they perform against good practice standards and against other countries.<sup>125</sup> The party can also use it to see how other governments have addressed similar challenges.

While hot topics are often attractive areas of focus, the party would benefit considerably from developing forward-looking policy stances in advance of any incidents or major legislative milestones. This will help it to engage more effectively on these issues as they arise, whether in government or opposition.

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<sup>122</sup> See the Israel case study in Chapter 2.

<sup>123</sup> See the South Africa case study in Chapter 2.

<sup>124</sup> See the Norway case study on in Chapter 2.

<sup>125</sup> The 2017 Resource Governance Index is available at <<http://resourcegovernanceindex.org/>>.

## Worksheet A: Issue areas

Use this worksheet to conduct an initial assessment of the possible issue areas and identify which are most important to cover in depth in the new policy position.

### Task

For each issue area, mark one of the three ‘coverage required’ columns to indicate the importance of the corresponding issue area.

Any issue area marked ‘high’ should be covered in-depth in the new policy position. Others should at least be reviewed by the working group at a basic level (meaning the current party orientation and framework sections of the issue-specific tables in Worksheet G), even if they will not be covered in the final text. The table includes references to specific precepts of the Natural Resource Charter (NRC).<sup>126</sup>

### *A warning on ‘importance’*

If the party decides to focus on just a few areas, the risks of focusing on one over another warrant careful consideration. While it may be tempting to focus on the most publicized topics of the day, lesser-known issue areas may have more of an impact on long-term development and the degree to which ordinary citizens benefit. Consequently, the party members leading this process should try to read widely on the resource governance and other major issues facing the country, including reports from NGOs, think tanks and international financial institutions.

Perhaps the best starting point is a realistic assessment of the party’s, and indeed the government’s, understanding of the resource endowment and whether or not the country has a comprehensive and inclusive national strategy (more on this in Worksheet G under Issue Area I). The following factors can also be helpful for identifying the most pressing issue areas and to what extent they should be covered in the process:

- **Timeliness:** Are there significant upcoming legislative efforts around this issue area? Have there been recent public debates on it? Is the issue relevant for where the country is in the extraction lifecycle? Changes in the industry or commodity prices can make some issues more prominent than others.

<sup>126</sup> For more information on the charter, see Worksheet G. The Natural Resource is available at < <https://resourcegovernance.org/approach/natural-resource-charter> >.

- **Economic and social significance:** Where does this issue fit within the broader national development strategy? Where does it fit within the national strategy for resource governance, if one exists? How important is this issue area to the party base and wider electorate? Based on global indices like the RGI, is there potential for improvement on this issue and how might such improvement affect social or economic development? Historical considerations can also make certain areas of the decision chain more pressing.
- **Legal and implementation gaps:** Is the governing framework for this issue area weaker than other laws and regulations in the country? Is enforcement weaker than elsewhere? As measured by the RGI, is there a significant implementation gap between law and practice?
- **Existing party positions:** Does the party already have a strong stance on this issue area? Are there problematic internal fractures around it? Do other parties have relevant positions?

### *How the RGI can help identify problem areas*

The 2017 RGI's **country profiles** contain expandable breakdowns of the country scores across the different components, subcomponents and indicators. Details from expert assessments can also be found in the **data explorer** and are useful for identifying problem areas and better understanding the current context.<sup>127</sup>

Issue areas	Coverage required		
	Low	Medium	High
<b>I. Strategy, legal framework and institutions:</b> Addressing the big picture decisions, including around the identification of the country's resource endowment, who owns it and whether the country has an inclusive and comprehensive national strategy for the management of natural resources. <b>NRC Precept 1</b>			*
<b>II. Transparency and accountability:</b> Deciding whether, and if so how, to publicly disclose resource sector information to improve accountability and oversight by official government bodies (e.g. parliament and audit office) and civil society. This may also include participation in international initiatives (e.g., EITI and OGP) that support or supplement domestic resource governance efforts. <b>NRC Precept 2</b>			*

<sup>127</sup> The country profiles are available at <<http://resourcegovernanceindex.org/country-profiles>, and the data explorer can be downloaded at <<http://resourcegovernanceindex.org/about/data-and-source-documents>.

Issue areas		Coverage required		
		Low	Medium	High
RGI Value Realization Subcomponents	<b>III. Exploration, licencing and monitoring operations:</b> Allocating and monitoring licences, including gathering geological information, awarding licences to competent and law-abiding companies, and the monitoring of operations across the extractive project lifecycle. <b>NRC Precept 3</b>			
	<b>IV. Taxation and other company payments:</b> Setting up a fiscal regime that secures a reasonable return for the government and has the flexibility to respond to changing circumstances (e.g., commodity price swings) while still attracting sufficient investment. <b>NRC Precept 4</b>			
	<b>V. Local impacts:</b> Enhancing local benefits while addressing environmental and social costs. <b>NRC Precept 5</b>			
	<b>VI. State-owned enterprises:</b> Clarifying the commercial and non-commercial roles and financing of state-owned enterprises (SOEs), and ensuring that their corporate governance systems limit political interference and their decision-making and operations are transparent, audited and accountable. <b>NRC Precept 6</b>			**
RGI Revenue Management Subcomponents	<b>VII. Revenue management:</b> Ensuring that the government's savings and borrowing on resource revenues are fiscally sustainable and protect the economy from economic shocks (e.g., through monetary policy and sovereign wealth funds). <b>NRC Precepts 7 and 8</b>			
	<b>VIII. Public spending:</b> Ensuring that the government's spending is efficient and aligned with national plans, and that any subnational revenue transfers are managed transparently and accountably. <b>NRC Precept 9</b>			
<b>IX. Private sector development:</b> Leveraging the resource sectors to stimulate growth in other sectors and benefit the wider economy. <b>NRC Precept 10</b>				

\*The first two issue areas are foundational and should be reviewed at a basic level at least.

\*\*Not all countries have SOEs, so this issue area may be irrelevant by default.

### Secure the mandate and resources

Next, those driving the process need to secure the necessary mandate, time and funding as early as possible. Sign-off from the most senior party members and key party bodies often lends legitimacy and support to the process. These members—while perhaps unlikely to have the time to participate meaningfully in drafting—may have contacts and recommendations to make that are helpful for achieving a more nuanced understanding of the key issues in the natural resource sector, or have significant technical expertise to offer during the consultation period.

The process of securing a mandate for the process can also help to ensure that the new policy position is grounded in the wider manifesto and in line with the party's other priorities. Although four political parties participated in the 2015–2016 multiparty position development process in Ghana (see Box 3.4), only three had secured final approval from the party leadership in time for the joint launch. This was due to a lack of clarity in the mandate over who had the final say on the position content and how it should be disseminated.

Before embarking on the design phase, it is critical that the person running the process also knows exactly what resources are available and what can be realistically achieved under the circumstances. For example, there should be sufficient funding to cover any costs involved in securing subject experts and facilitation, organizing policy retreats for party members to discuss the position and holding consultations with other stakeholders. If the party intends to publish and launch the position through informational material and public events, it will need to account for the related costs. Another important but often neglected consideration are non-financial costs in the form of the time that party members and support personnel will need to spend on the process.

## Process design

### Agree the governance of the process

Establishing a **working group** to develop the policy position, whether ad hoc or under a pre-existing committee, will help to ensure ownership of the process among a few key party members. In South Africa, for example, the Economic Transformation Committee is responsible for formulating mineral policy for the African National Congress.<sup>128</sup> An example from Ghana's National Democratic Congress party can be found in Box 3.4.

Working groups are most effective when they include individuals who are able to coordinate with all key party bodies, those with natural resource sector

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<sup>128</sup> See the South Africa case study in Chapter 2.

**Box 3.1****Working group membership: An example from Ghana<sup>129</sup>**

- Dr. Kwame Ampofo, former MP for South Dayi Constituency and Chairman of the Energy Commission
- S.P. Adamu, former MP for Bibiani/Anhwiaso/Berkwai and Coordinator of the School Feeding Programme
- Dr. William Ahadzie, Director, Research, NDC Headquarters
- Adam Mutawakilu, MP (Damongo), Vice Chairman of the Select Committee on Mines and Energy
- Benjamin Komla Kpodo, MP (HO Central) and Member of the Finance, Local Government and Rural Development Committees
- K. Abaka-Quansah, Member of the Manifesto Committee

knowledge and those who will be responsible for taking action on the position. Because resource governance often spans several parts of government and the economy, it may be necessary to include members in various ministry and shadow ministry roles (e.g., ministries of natural resources, finance and the environment) as well as members of relevant parliamentary committees (e.g., the committees on energy, the environment or public finance). The key is to find the right balance between seniority within the party and technical knowledge of resource governance.

The party should appoint a **coordinator** who will convene working group meetings, guide discussions, oversee the drafting and editing of the policy position, lead interparty consultations and secure leadership approval for and sign-off on the final policy document. An independent **facilitator**, ideally someone with a strong background in resource governance, could also be brought in to help design an optimal drafting process and negotiate differences around sensitive areas. Worksheet B provides an outline of some things to consider and guidance questions to ask prior to finalizing the membership and plans of the working group.

<sup>129</sup> As taken from the Acknowledgements section of the NDC's 2016 *Position Paper on Oil and Gas*.

## Worksheet B: Working group considerations

Use this worksheet to think through key governance considerations for the development process.

### Task

In the 'governance considerations' column, provide brief answers to the corresponding guiding questions.

Guiding questions	Governance considerations
<b>Membership</b>	
<ul style="list-style-type: none"> <li>Do the coordinator and the lead drafter have sufficient understanding of natural resource governance to properly lead the process?</li> </ul>	
<ul style="list-style-type: none"> <li>Does the party have any in-house natural resource experts who could be assigned to the working group?</li> </ul>	
<ul style="list-style-type: none"> <li>Are there any party members or any former members of parliament with sectoral knowledge who could be called on to join?</li> </ul>	
<ul style="list-style-type: none"> <li>How should key constituencies be represented in the working group? Are resource-rich regions represented? Are women represented? Are young people and youth groups represented?</li> </ul>	
<ul style="list-style-type: none"> <li>Should members of parliament from the party be included? If policy positions will feed into legislative debates, should the working group include the leadership of relevant parliamentary committees (e.g., natural resources, public accounts, environment, etc.)?</li> </ul>	
<ul style="list-style-type: none"> <li>Is senior party representation needed throughout the entire process to ease approval of the position? If so, is it possible to secure the participation of at least one senior party member from the outset, particularly any members with sector expertise?</li> </ul>	
<ul style="list-style-type: none"> <li>Should members of relevant party governing bodies be included?</li> </ul>	
<ul style="list-style-type: none"> <li>Which working group member should be responsible for liaising with any external facilitators and resource governance experts?</li> </ul>	
<ul style="list-style-type: none"> <li>Which working group member(s) should be responsible for coordinating consultations?</li> </ul>	

Guiding questions	Governance considerations
<b>Facilitation</b>	
<ul style="list-style-type: none"> <li>Is there anyone within the party who has the clout, is well regarded by different party factions, and possesses facilitation or natural resource expertise to play this role?</li> </ul>	
<ul style="list-style-type: none"> <li>Alternatively, are there any external facilitators, ideally with knowledge of the party and/or of natural resources, who could be invited to facilitate the process?</li> </ul>	
<b>Accountability</b>	
<ul style="list-style-type: none"> <li>Who in the party leadership will be responsible for supervising the process? Do they have sufficient understanding of resource governance issues to fulfil this oversight role?</li> </ul>	
<ul style="list-style-type: none"> <li>Which bodies will need to review and approve the policy position? Do they have sufficient understanding of resource governance issues to conduct such a review? If not, what information and support should be provided in advance of and during approval?</li> </ul>	
<ul style="list-style-type: none"> <li>Which discussion forums exist within the party (e.g., the national party congress, national executive committee, annual meetings of women and youth leagues) that the working group can leverage for consultations and/or approval of the proposed position?</li> </ul>	



### **Identify sector experts to involve**

One of the major challenges governments face in managing natural resources well is an asymmetry of information. Extractive industry companies often have rooms full of lawyers and economists to advise them on the negotiating strategies for a particular project, the feasibility of certain infrastructure options, and their approach to legal and regulatory obligations. They have these experts due to the complicated nature of the extractives sector, with its many variables and risks. Governments can rarely compete in terms of human resources, and when governments lack a strong technical understanding they can be at a disadvantage in negotiations and when monitoring company operations. At other times, when only a few actors in the government have an understanding of the industry, they can use their positions for their personal gain. For example, in 1998, Nigeria's then-minister of petroleum, Dan Etete, awarded one of the country's richest oil concessions to a company that he co-owned. This now billion-dollar scandal, spanning continents and decades, remains unresolved. In the meantime, the people of Nigeria have potentially lost out on hundreds of millions of US dollars in revenue.<sup>130</sup>

The policy position process is an important opportunity to build the party's internal expertise and to set out clear stances on a range of technical issues. Even with only a topline policy position, the drafting process will benefit from including natural resource governance experts. These experts will help the party adequately assess the feasibility, risk, returns and trade-offs of different policy options. They can also assist in the review of domestic and international practice to determine what is most appropriate and realistic for the country, and most in line with the broader party stances and ideology. Experts can also train party officials so that they are confident enough in their basic knowledge of the issues and know where to look to respond to the government as time passes. South Africa's leading party, the African National Congress, for example, uses policy advisers and external researchers to create policy option reports that inform debate on new positions.<sup>131</sup>

Experts must be seen as politically neutral and objective by all those involved in the process, and be well briefed on party dynamics and sensitivities. Ideally, these experts will have practical experience and a strong reputation in the field, but they must not have conflicts of interest. Possible profiles include respected sector lawyers, economists and academics, as well as former government officials from other resource-rich countries. Some parties have found great value in relying on expertise from civil society. As Rasmus

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<sup>130</sup> Toyin Akinniyi, *Nigeria Watchdog Journalism Plays Essential Role in Malabu Oil Scandal Probe*, NRGJ 6 April 2017. <<https://resourcegovernance.org/blog/nigeria-watchdog-journalism-plays-essential-role-malabu-oil-scandal-probe>>.

<sup>131</sup> See the South Africa case study in Chapter 2.

Hansson, MP and spokesperson for Norway's Green Party, explains: 'Compared to a big party, we had a limited amount of research capacity to calculate the exact financial effects [of a policy decision]. Most of our expertise comes from NGOs....Increasingly, the other parties are taking [our] position seriously'.<sup>132</sup>

### Identify stakeholders to consult

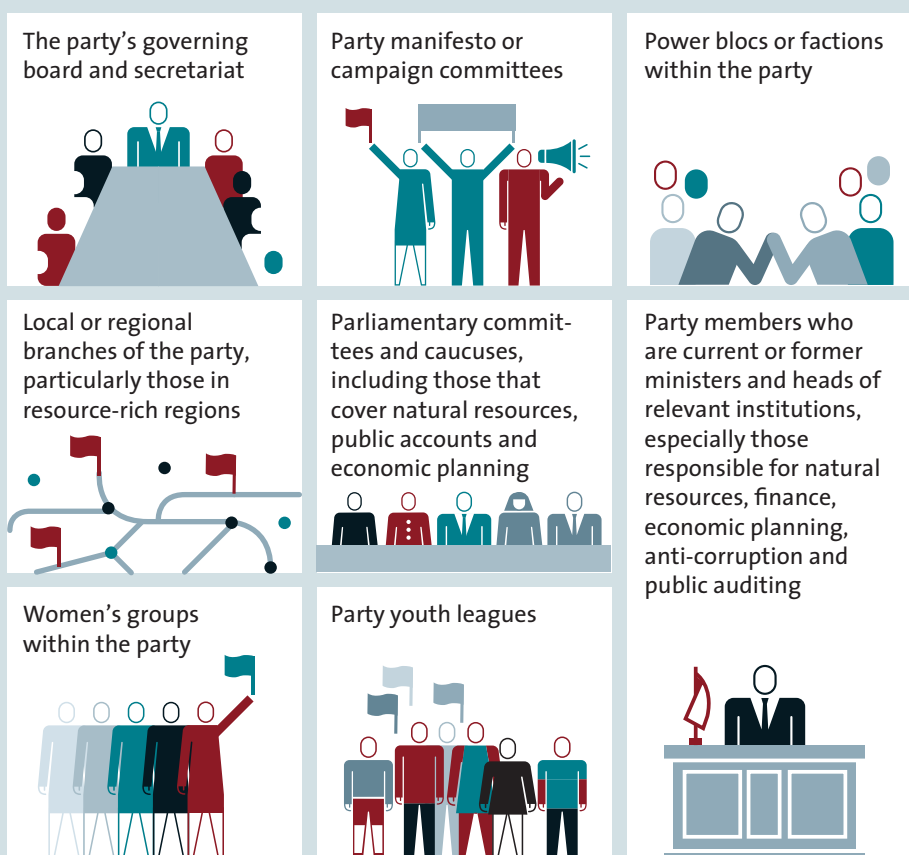
Developing a high-quality policy position requires the party to engage in transparent and robust consultations during the drafting process, ensuring that the new position both secures buy-in from within the party and reflects broadly based stakeholder inputs. In Norway, wide and frequent consultations with constituents, industry and other external actors are common when developing positions, and party representatives note that they benefit considerably from such efforts. In Malaysia, the opposition coalition was able to develop a more detailed and precise party position on key issues, including subnational royalty payments

#### Box 3.2

##### Possible stakeholders

The party should consult a wide range of stakeholders, both internal and external. To the right are some groups that the party might want to include in the process because of their ability to inform the content of the position and/or to secure wider understanding and buy-in. It is impossible to consult everyone so when narrowing the list, it is important the party prioritizes underrepresented voices, those most affected by the policy stances, and those whose exclusion would undermine the implementation of the position.

##### Internal stakeholders








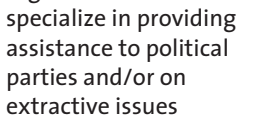

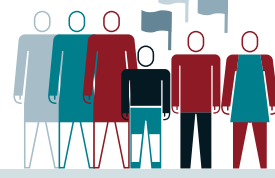




<sup>132</sup> See the Norway case study in Chapter 2.

and revenue transparency, because of concerted internal party discussions ahead of coalition decisions, as well as consultations with NGOs, sector experts and researchers. Box 3.2 lists the stakeholder groups that the party should consider. Worksheet C can be used to map who will be consulted and how.

For consultations with **internal stakeholders**, priority should be given to those individuals and groups unable to participate in the working group that have the ability to inform and endorse the process, such as influential party members with sector expertise or who work in the relevant government offices. For **external stakeholders**, the working group should decide who to consult based on who can inform the policies being developed and who will be negatively or positively affected by the position. Who exactly should be consulted may differ based on the issue at hand. For example, when considering how or whether to share resource revenues between the national government and subnational authorities,

### External stakeholders

<p>Communities living near extraction sites</p> 	<p>Resource extraction companies, their owners or their shareholders</p> 	<p>Subcontractors of and service providers to extractive industries, including any groups that represent them (e.g., chambers of commerce)</p> 	<p>Employers and influence groups active in the extractive sector (e.g., chamber of mines or association of petroleum producers)</p> 
<p>Bodies representing professions with expertise or a stake in the industry, such as lawyers, accountants, geologists, mining engineers</p> 	<p>Workers employed in the sector and the unions that represent them</p> 	<p>Government agencies with a mandate on the sector (e.g., geological survey services, department of energy, office for occupational and health safety etc.)</p> 	<p>International development partners such as donors, embassies or organizations that specialize in providing assistance to political parties and/or on extractive issues</p> 
<p>Independent think tanks, civil society groups and academics that undertake research and/or policy advocacy on natural resource governance</p> 	<p>Women's and youth groups</p> 	<p>Independent experts or other individuals such as reporters who have deep knowledge about the sector</p> 	

it is important to consult with both resource-rich and resource-poor districts. When considering local content, parties might want to include consultations with extractive companies, business groups, women's economic empowerment groups and funders of economic innovation.

Two stakeholder groups are particularly important, and often overlooked, in informing strong resource governance policy for long-term sustainable development: women and youth. Women are disproportionately affected by the social, environmental and economic impacts of extraction projects. This can be true for women close to an extraction project, who in some cases have higher risks of domestic violence and HIV, and for women throughout the country, whose work opportunities might be reduced because of distortions to the economy. Numerous studies also show that women can be a particularly strong driver of economic growth and sustainable development.<sup>133</sup> As a result of the increased negative impact on women, it is particularly valuable for political parties to consult women and women's groups on constructing policies, to ensure that parties address women's concerns and enable women to become advocates for strong resource governance decisions.

Youth are also of particular importance in resource governance decision-making because of the finite nature of these resources. The immediate financial benefits of extraction may decrease or even disappear during their lifetime, so they have a big stake in managing the expectations of the population and in decisions around revenue savings and investment in economic diversification.

When all stakeholders cannot be consulted, undertaking a comprehensive stakeholder analysis will at least provide the party with valuable contacts that it can call on for issue-specific advice and consultations after the policy development process has concluded, for instance during future policy formulation or review processes.

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<sup>133</sup> See for example World Bank, *World Development Report 2012: Gender Equality and Development* (2012), <<https://openknowledge.worldbank.org/handle/10986/4391>>.

## Worksheet C: Stakeholders

Use this worksheet to prioritize stakeholders and plan their involvement.

### Tasks

1. In the 'stakeholders' columns list the individuals and groups that will be included in the development process. Suggested stakeholders are listed in grey. They have been selected because they are likely to be especially helpful for developing an informed resource position.
2. List the purpose of each stakeholder's inclusion in the 'roles' column (e.g., to provide expert advice on one of the issue areas), and the logistics in the 'when / how' column (e.g., the drafting stage: written input). Example text is provided, again in grey.

Box 3.2 offers a longer list of stakeholders to consider. Be as specific as possible to ensure that the worksheet is a useful reference tool when stakeholder outreach begins in earnest.

### *Internal stakeholders*

Stakeholders	Roles	When / how
Party secretariat / governing board	<ul style="list-style-type: none"> <li>• Review the rationale, governance and implementation plan of the policy position development process</li> <li>• Review and/or appoint members of the working group</li> </ul>	Design stage, informal meeting
Party secretariat / governing board	<ul style="list-style-type: none"> <li>• Review and approve the final draft of the policy stances</li> </ul>	Approval stage, formal meeting
Local branches of the party from resource-rich regions		
Party members who sit on parliamentary committees dealing with natural resources, public accounts, economic planning and other relevant issues		
Party members with leadership or significant technical roles in the natural resource, finance, and economic planning or other ministries		

Stakeholders	Roles	When / how
Party members with leadership or significant technical roles in public audit, anti-corruption or sector regulatory bodies		
Party members who represent communities on or near extraction sites		
Leadership of the women's groups within the party		
Leadership of the youth branch of the party		

### *External stakeholders*

Stakeholders	Roles	When / how
Experts with substantive expertise on tax policy and environmental issues, including independent experts, NGOs and academics	<ul style="list-style-type: none"> <li>Provide substantive overviews of policy issue</li> </ul>	Capacity development, discussion and drafting stage, briefings and presentations, ad hoc support
	<ul style="list-style-type: none"> <li>Assist the working group with discussions and reviews of policy stances, with a view to ensuring that the draft policy positions are well informed and reflect good sector practice</li> </ul>	Consolidation stage, ad hoc support
Communities living near extraction sites		
Company representatives		
Industry associations, chambers and unions		
Sector experts		
Civil society groups active in the sector		
Academics and think tanks that undertake research in the sector		
Women's groups		
Youth groups		
Communities not living near extraction sites		

**Develop an implementation plan for the process**

An implementation plan that maps out key stages and milestones can help the coordinator keep the process on track. Worksheet D is a template for such a plan.

The overall timeframe for completing the different stages will depend on a variety of factors. International IDEA and NREGI's experience with Ghana's political parties suggests that it takes at least four to six months to develop a policy position that tackles only four of the major issue areas in great depth. In order to allow the working group optimal opportunity for success, it helps if the party's immediate agenda is free from too many competing major events or commitments, such as election campaigns, annual party conferences or key parliamentary debates, including the annual budget approval process. If the ambition is to mainstream the policy position into campaign manifestos, the process should start well ahead of the beginning of the election campaigning.

As noted in Chapter 1, resource governance issues are not only highly technical but also particularly susceptible to corruption, whether real or perceived. At the very least, there may be some influential party members with a vested interest in the status quo who would prefer to water down stances that commit to greater transparency and oversight. Conflicting events can also call key party members away and distract from the process, leading to delays or gaps in the drafting. When developing the implementation plan, the working group should therefore map out the risks and possible mitigation, such as risks related to party dynamics and competing priorities as well as external events (e.g., a new licencing round or conflict around an affected community). Worksheet E provides a framework for this mapping.

## Worksheet D: Process implementation plan

Use this worksheet to develop an implementation plan for the drafting process.

### Tasks

1. For each planned stage, describe the time period in the 'when' column and detail what is expected to take place in the 'what' column. Example text is included in grey.
2. In the 'responsibilities' column, detail what each of the roles will entail. Include specific deliverables where possible.
3. In the 'resources' section detail the financial, logistical and human resources that will be needed to support the development process. Example text is again included in grey.

Stages	When	What
<b>Needs assessment</b>	Weeks 1–2	Review existing internal expertise across the selected technical topics, identify knowledge gaps, secure external expertise as needed
<b>Capacity development, discussion and drafting</b>	Weeks 3–10	Research topics, participate in expert briefings and training, discuss the pros and cons of possible stances and decide on the basic wording of the position (this could involve several meetings/retreats)
<b>Consultation</b>	Weeks 11–14	Hold consultations with key stakeholders
<b>Consolidation</b>	Weeks 15–16	Integrate stakeholder feedback into the draft position
<b>Review and approval</b>	Weeks 17–22	Secure final approval from party leadership
<b>Dissemination</b>	Weeks 23–26	Present the position to party members, the media and the general public
Roles	Responsibilities	
<b>Working group coordinator</b>		
<b>Working group chair</b>		
<b>Working group rapporteur</b>		
<b>Other working group members</b>		
<b>Facilitator</b>		



Roles	Responsibilities
<b>Drafting lead</b>	
<b>Consultation lead</b>	
<b>Party leadership for approval</b>	
<b>Technical experts</b>	
<b>Internal stakeholders</b>	
<b>External stakeholders</b>	
<b>Resources</b>	
USD\$10,000 for meetings, external expertise and dissemination materials	

## Worksheet E: Risks

Use this worksheet to map risks and identify mitigating actions.

### Tasks

1. In the 'risks' column list all the major risks to the implementation of the process.
2. For each risk, note the level of risk in the 'importance' column (e.g., low, medium, high) and detail plans to address it in the 'mitigation' column. Example text is included in grey.

Risks	Importance	Mitigation
The government begins a new mining licencing round before the full policy position is ready	high	The working group will prioritize the discussion on exploration, licencing and monitoring operations (Worksheet G.III) and develop early talking points to have on hand as needed

## Process implementation

This section provides a topline overview of the drafting, approval and dissemination of a natural resource policy position, as well as a summary of how the multiparty process worked in Ghana (see Box 3.4).

### Discuss and draft the position

Drafting is often smoothest when the working group appoints a **drafting lead**, who, together with the **facilitator**, steers discussions to ensure that they adequately unpack the resource governance issues at hand. In order to develop a clear and comprehensive policy position, the working group will need to meet several times for expert presentations, discussions on natural resource policy options and drafting. There must be enough time and space to concentrate on the complex issues without distraction.<sup>134</sup> One option is to hold policy retreats, where the party meets at a location away from headquarters and parliament, as was the case during the multiparty process in Ghana.

Effective time management is important for the successful implementation of the retreats, and the aim should be to achieve a stress-free process in which the participants have sufficient time to mentally and intellectually absorb all the inputs from sector experts, and to discuss as well as formulate a well-thought-out position on the issues selected. Typically, each major issue area should take at least half a day.

In Ghana, the first of the two policy position retreats was critical to revealing some of the general challenges that parties face in developing policy positions. Bernard Mornah, General Secretary of the People's National Convention (PNC), explained that even within internal party processes, it has never been easy to come together on one particular subject area for policy discussions:

*And so we think that this project contributed enormously by facilitating deep discussions. ... The high-level party representation at this particular forum tells that all of us are excited about this policy development process, despite the challenges that we face—most parties have very limited knowledge of the oil and gas industries.<sup>135</sup>*

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<sup>134</sup> See Annex II for the agenda of the first policy retreat in the 2015–2016 multiparty process in Ghana.

<sup>135</sup> Brouwer, F., Kayitare, F. and Perdomo, C., 'Natural resources, representative democracy and development: What role for political parties?', 18 November 2015, <<https://resourcegovernance.org/blog/natural-resources-representative-democracy-and-development-what-role-political-parties>>.

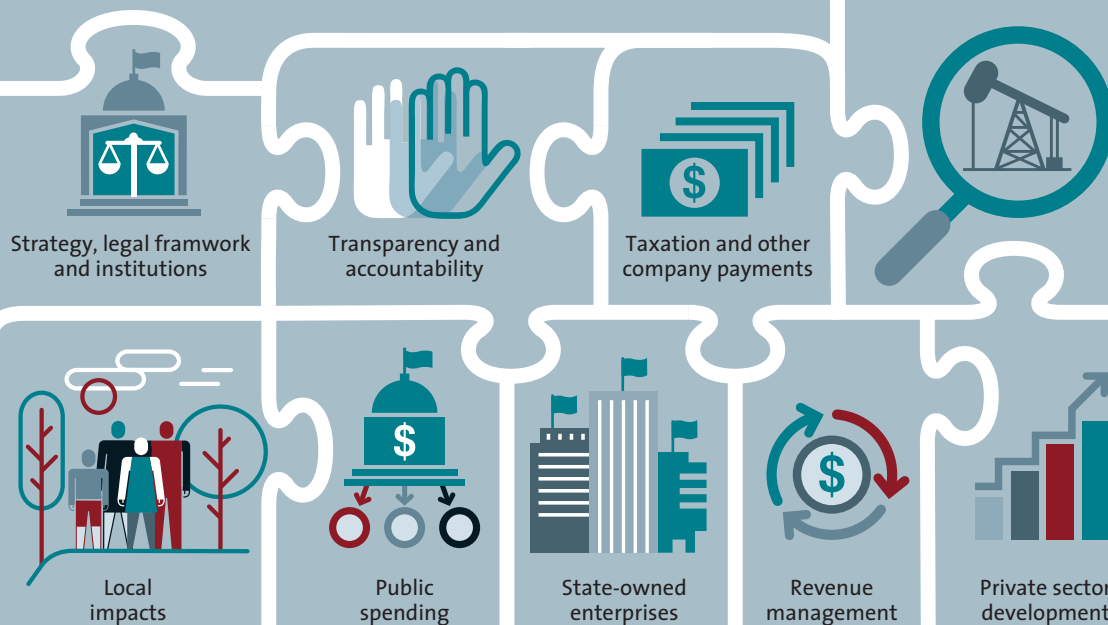
**Box 3.3****A possible outline of a final policy position****Introduction**

Explain the party's overarching vision for natural resource governance and the values and characteristics of the party that make it uniquely placed to ensure resources are managed responsibly and in the best interests of all citizens (Worksheet F).

Explain the process for developing the new position (Worksheet D) and who was consulted and how (Worksheet C).

**Issue-specific policy stances**

Provide details on the party's stances across the issue areas (Worksheet G):

**Conclusion**

Reiterate the party's vision for natural resource governance and its role in the future of the country (Worksheet F).

Explain how the new position will be integrated into the wider party platform and implemented, including specific commitments and milestones (Worksheet I).

Box 3.3 is one outline option for the final policy position. It is critical that the position is as clear and comprehensive as possible, giving party members something not only to incorporate into their campaigns but also to revisit between elections to ensure that their work reflects the party's official position.

Worksheets F, G and H are designed to help the party think through the different policy options and draft the main content of the position. Worksheet F is focused on developing an overarching vision of how natural resources should be managed. Worksheet G contains nine issue-specific tables with questions aimed at guiding and stimulating discussion, prompting the party to consider what stakeholders think about each issue area and reflect on any positions taken by the party in the past. It is critical that parties take advantage of the research and analysis already available, particularly issue- and context-specific pieces.<sup>136</sup> Even if the party does not intend to develop a stance on every issue during this process, the working group should at least do a basic review of each to ensure that the more detailed stances are informed by the bigger picture.

The tables in Worksheet G also work through different policy options, instruments and practices, and encourage the review of the political viability of policy choices by considering costs and trade-offs. Some of the questions are highly technical and even industry experts may struggle to answer them quickly, so there are extensive footnotes throughout to help point the working group to useful resources. This makes it especially important that sector experts are on hand to facilitate discussions and answer any questions during the drafting and revision processes. Worksheet H will help the party review the full text for coherence, alignment and viability, while Worksheet I provides a template for an implementation plan.

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<sup>136</sup> See the Ghana case study in Chapter 2.

## Worksheet F: Party vision

Use this worksheet to draft an overarching vision for the policy position.

### Tasks

1. Detail important contextual information in the 'background' column by answering the corresponding guiding questions.
2. In the 'vision statement' section describe in a sentence or two the overall vision of the party on natural resource management. Example text is included in grey.

The background questions will help to identify key considerations for drafting the vision statement. The statement may shift as the party develops specific policy stances, but the initial vision developed here will serve as a guiding principle for the prioritization and wording of the stances to be drafted in Worksheet G.

Guiding questions	Background
<ul style="list-style-type: none"> <li>• What are the values and characteristics of the party that make it unique? What is the party's purpose and who does it serve?</li> </ul>	
<ul style="list-style-type: none"> <li>• What are the values and characteristics of the party that make it uniquely placed to manage the country's natural resources?</li> </ul>	
<ul style="list-style-type: none"> <li>• What is the party's general stance on what the natural resource sector's primary contribution to economic and social development should be? (For example, to support the government budget, boost structural transformation of the economy, provide the energy supply for a specific industry, and/or something else.)</li> </ul>	
<ul style="list-style-type: none"> <li>• What is the party's general stance on government intervention in economic development?</li> </ul>	
<ul style="list-style-type: none"> <li>• What is the party's general stance on the role of domestic and international enterprises?</li> </ul>	
<ul style="list-style-type: none"> <li>• What is the party's general stance on the role of the government in the natural resource sector?</li> </ul>	
<ul style="list-style-type: none"> <li>• What is the party's general stance on centralized versus decentralized ownership and management of natural resources?</li> </ul>	
<ul style="list-style-type: none"> <li>• What is the party's general stance on the environmental and social impacts of natural resource extraction?</li> </ul>	
Vision statement	
<p><i>Example vision</i> - The party believes that effective natural resource management requires transparent and responsive government agencies and companies, as well as informed, active and independent oversight actors.</p>	

## Worksheet G: Issue-specific stances

Use the issue-specific tables provided in this worksheet to conduct a deeper assessment of each issue area and to develop policy stances.

### Tasks

1. With reference to the corresponding guiding questions, detail key contextual information in the 'current orientation' and 'current framework' columns.
2. With reference to but not limited by the corresponding policy options, draft statements and commitments in the 'stances' columns. These stances can be completely new, or modify or reinforce existing party stances. Example text is provided in grey.

The stance questions are largely based on the Natural Resource Charter Benchmarking Framework and designed to guide the working group through the key links of the resource governance decision chain to the approaches and aims most appropriate to the party and the country.

The stances drafted here will eventually be combined with the vision statement (Worksheet F) and the implementation plan (Worksheet I) to form the basis of the final policy position (see Figure 3.3 for a suggested outline).

### *Some available tools*

The **NRC** is a set of precepts on how best to harness the opportunities created by extractive resources for development. It is not a recipe for the policies and institutions that countries must build, but instead discusses some of the main ingredients that successful countries have used.

The Natural Resource Charter **Benchmarking Framework** is a tool developed by NRCI for governments and oversight actors to use assess a country's management of oil, gas and mineral resources against the NRC.<sup>137</sup> It contains guiding questions and goes into some detail on the different policy options available.<sup>138</sup>



<sup>137</sup> The Natural Resource Benchmarking Framework is available at <<https://resourcegovernance.org/analysis-tools/tools/natural-resource-charter-benchmarking-framework>>.

<sup>138</sup> The questions in Worksheet G largely mimic those in the NRC Benchmarking Framework



There are also references throughout to the **2017 RGI**, a comparative measure of natural resource governance covering 81 countries across three components: value realization, revenue management and enabling environment. For every country it assesses, the RGI and its accompanying data sets provide extensive detail on the current legal and institutional framework, in law and in practice. The working group can refer to the **country profiles** for a quick overview of the country's performance across key areas of the decision chain. For a deeper dive into the assessments, the group can download the **data explorer**. This tool offers more detail on the individual assessments and evidence, as well as easy-to-customize charts for visualizing the data, comparing across countries and examining correlation. All of the legal and other documents underlying the RGI are available in the **source library**.<sup>139</sup>

Both the RGI and the Benchmarking Framework can be useful for this exercise, and specific notes on where to look for some of the information can be found in the footnotes. The working group can also use the RGI data explorer to dig into some of the current framework details for the country, and the Benchmarking Framework provides additional guidance for assessing possible stances.

<sup>139</sup> The RGI Country Profiles are available at <<http://resourcegovernanceindex.org/country-profiles>>; the RGI Data Explorer is available at <<http://resourcegovernanceindex.org/about/data-and-source-documents>>; and the RGI Source Library is available at <<https://www.resourcedata.org/organization/rgi>>.



## Worksheet G

### I. Strategy, legal framework and institutions

**Background:** As with all good public policy, natural resource management has the best opportunity for success when it is rooted in an informed and comprehensive national strategy.

Political parties can play an important role in ensuring that a strong national strategy is in place for the sector. A policy position aimed at addressing cross-cutting issues of strategy ideally clarifies not only the overarching goals for the industry, but also how those goals will be implemented, including the legal framework and institutions that are needed. Ghana’s National Democratic Congress, for example, included commitments to ‘introduce appropriate institutional and legal arrangements to give effect to the provisions of [several key laws]’ and to ‘promote further enhancement and stricter enforcement of rules and regulations in the sector’.

#### Costs and trade-offs

*When developing policy stances related to the **national strategy, legal framework and institutions** it is particularly important to consider:*

- The financial, time, political and economic costs of developing a new or revising the existing national strategy
- Which aspects of the legal framework are most important to have in place and functioning effectively
- Which institutions are most important to have in place and functioning effectively

For more information on these policy issues, refer to Precept 1 in the Charter Benchmarking Framework and the NRGi primers on the resource curse, the natural resource charter decision chain and legal frameworks.<sup>140</sup>

<sup>140</sup>The Resource Curse primer is available at <<http://www.resourcegovernance.org/analysis-tools/publications/primer-resource-curse>>; the Natural Resource Charter Decision Chain primer is available at <<http://www.resourcegovernance.org/analysis-tools/publications/primer-natural-resource-charter-decision-chain>>; and the Legal Framework primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-legal-framework>>.

Guiding questions	Current orientation
<ul style="list-style-type: none"> <li>Does the party already have a stance (formal or informal, public or internal) on what the national strategy for governing natural resources should be? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>Does the party already have a stance (formal or informal, public or internal) on the legal framework and institutions needed to govern natural resources? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>What do the party base and its core constituencies think about the strategy, legal framework and institutions needed to govern natural resources? What does the wider population think?</li> </ul>	
Guiding questions	Current framework
<ul style="list-style-type: none"> <li>What is the current national strategy for governing natural resources (formal or informal)? If it exists, has it been generally followed?</li> </ul>	
<ul style="list-style-type: none"> <li>What are the major policies, laws and regulations that govern natural resource management across the entire decision chain?</li> </ul>	
<ul style="list-style-type: none"> <li>Which institutions are directly responsible for enforcing and monitoring the implementation of the legal framework? What are their roles and responsibilities?</li> </ul>	
Policy options	Stances
<p><b>What should the government do to more clearly identify the country's resource endowment, who owns it and the positive and negative impacts of extraction?</b></p> <ul style="list-style-type: none"> <li>How should the government more clearly establish who owns extractive resources?</li> <li>How can the government gain a well-informed understanding of the country's resource endowment?</li> <li>How can the government gain a realistic and sound understanding of how dependent the country is on natural resources?</li> <li>How should the government more seriously consider the positive and negative impacts of exploitation in making the decision on whether to extract?</li> </ul>	<p><i>Example stance:</i> The party believes that in order to benefit fully from the extraction of natural resources, the country must have a well-informed understanding of its resource endowments. We therefore commit to collecting information on reserves, production volumes, price scenarios, costs and time horizons.</p>
<p><b>What should the government do to ensure that there is an inclusive and comprehensive national strategy in place for the management of resources?</b></p> <ul style="list-style-type: none"> <li>How should the resource strategy reflect an understanding of the fundamentals of resource wealth?</li> <li>How should the resource strategy take a long-term approach?</li> <li>How should the resource strategy reflect consideration of the full range of issues in the management of resource wealth?</li> <li>How should the government engage all relevant actors in the development, implementation and oversight of the resource strategy?</li> <li>How should the government ensure that the resource strategy guides the relevant legal framework?</li> <li>How should the government ensure that the resource strategy guides the relevant institutional framework?</li> </ul>	<p><i>Example stance:</i> The party believes that the country must have a long-term natural resource strategy. We therefore commit to developing a comprehensive national strategy document through an open and consultative process.</p>

## Worksheet G

### II. Transparency and accountability

**Background:** Public disclosure of contracts, operations, company information and financial flows can lead to better informed public debate, help manage citizens' expectations and deter corruption. Transparency can also help government officials and oversight actors identify mismanagement and corruption, and hold the government and companies to account, provided that robust formal oversight mechanisms exist and there is a good enabling environment for civil society and various media.

When developing a resource position, parties are well positioned to call for greater transparency and stronger oversight mechanisms. For example, in the policy position of Ghana's Convention People's Party, the party explicitly recognized transparency and accountability as prerequisites for good governance. It also made several commitments to back up this statement, not least around strengthening the capacity of the revenue authority and enacting beneficial ownership and contract data disclosure rules.

Party positions can also be an opportunity to call for the country's participation in international initiatives that support or supplement domestic resource governance efforts, such as the EITI or the Open Government Partnership (OGP).

#### Costs and trade-offs

*When developing policy stances related to **transparency and accountability** it is particularly important to consider:*

- Who benefits from transparency and who benefits from opacity
- The corruption risks associated with opacity
- The implications of not publishing the contracts on citizens' ability to hold the government and companies accountable
- The financial, time, political and economic costs of disclosing documentation and data and cost differences between different format choices
- What information is most important to subject to public scrutiny, both to enable accountability and to help manage expectations
- Who the target audiences for resource sector transparency are and what information formats are most accessible for them

For more information on these policy issues, please refer to Precept 2 in the Charter Benchmarking Framework and the NRGi primers on transparency mechanisms and movements, the EITI, Publish What You Pay (PWYP) and contract transparency.<sup>141</sup>

Guiding questions	Current orientation
<ul style="list-style-type: none"> <li>Does the party already have a stance (formal or informal, public or internal) on what natural resource documentation and data should be publicly disclosed and how? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>Does the party already have a stance (formal or informal, public or internal) on the role of formal oversight mechanisms (e.g., the supreme audit institution, anti-corruption authority and ombudsman) in promoting good resource governance? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>Does the party already have a stance (formal or informal, public or internal) on how to protect the enabling environment for oversight by civil society and the media? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>Does the party already have a stance (formal or informal, public or internal) on what global or regional resource governance initiatives the country should participate in? (e.g., EITI and OGP) If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>What do the party base and the party's core constituencies think about the need for transparency and accountability in natural resource management? What does the wider population think?</li> </ul>	
Guiding questions	Current framework
<ul style="list-style-type: none"> <li>What is the current legal and regulatory framework for transparency in the management of natural resources? What are the current documentation and data disclosure requirements? Are these requirements adequately enforced? How is information disclosed (e.g., timing, frequency, format)?<sup>142</sup></li> </ul>	

<sup>141</sup> The Transparency Mechanisms and Movements primer is available at <<http://www.resourcegovernance.org/analysis-tools/publications/primer-transparency-mechanisms-and-movements>>; the Extractive Industries Transparency Initiative primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-extractive-industries-transparency-initiative-eiti>>; the Publish What You Pay primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-publish-what-you-pay-pwyp>>; and the Contract Transparency primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-contract-transparency>>.

<sup>142</sup> Information on the current framework may be available in the RGI data under questions 1.1.7a-b, 1.1.8a-b, 1.1.9a, 1.1.10a-d, 1.2.1a-1.2.2c, 1.2.3a, 1.2.4a-c, 1.3.2a, 1.3.3b, 1.3.4a, 1.4.2a-1.4.3a, 1.4.4b, 1.4.5b-1.4.6b, 1.4.7d, 1.4.8a-1.4.9e, 2.1.1a-d, 2.1.4a-2.1.5b, 2.2.3a-c, 2.3.2a-b, 2.3.4a-c, and 2.3.5b.

<sup>143</sup> Information on the current framework may be available in the RGI data under questions 1.1.10c-d, 1.2.6c, 1.2.7a, 1.4.3b-c, 1.4.5a, 2.1.2b, 2.1.3b, 2.2.4a, 2.2.5a, 2.3.5c-d, and 2.3.6b-c.

Guiding questions	Current framework
<ul style="list-style-type: none"> <li>• What formal oversight mechanisms exist under the current legal framework? Are these mechanisms sufficiently resourced, independent and given the information and access they need to operate effectively? If not, why not?<sup>143</sup></li> </ul>	
<ul style="list-style-type: none"> <li>• What is the current legislative and regulatory framework around the enabling environment for civil society and the media? Are civil society and the media outlets able to operate freely? How does the country perform on the ‘Enabling Environment’ component of the Resource Governance Index?</li> </ul>	
<ul style="list-style-type: none"> <li>• If the country is an EITI member, what were the major findings and recommendations in the latest EITI report?<sup>144</sup></li> </ul>	
Policy options	Stances
<p><b>What should the government do to ensure that resource management is sufficiently transparent for all actors to effectively understand and scrutinize decision-making and its implications?</b></p> <ul style="list-style-type: none"> <li>• How should the government ensure that the full legal framework governing resource management is available to the public?</li> <li>• Should the government establish or strengthen rules that enable access to information on resource management?</li> <li>• What information management systems should the government have to support access to information?</li> <li>• What extractive sector contracts should be made public and how?</li> <li>• Should the government publish data according to open data standards?<sup>145</sup></li> <li>• How should the government ensure that data is released on a comprehensive set of resource governance and management issues?</li> </ul>	<p><i>Example stance:</i> The party believes that data on the management of natural resources should be accessible to all citizens. We therefore commit to establishing rules that guarantee citizens access to sector information, both through the proactive disclosure of information by default and through a request process—and always in an open data format.</p>
<p><b>What should the government do to ensure that formal oversight bodies hold officials to account?</b></p> <ul style="list-style-type: none"> <li>• How should the legislature hold public officials to account on issues relating to resource governance?</li> <li>• How should the supreme audit institution oversee the government’s management of financial flows relating to the extractive sector and how should the government respond to its findings?</li> <li>• What measures should the government take to deter, detect and prosecute corruption?</li> </ul>	<p><i>Example stance:</i> The party believes that the legislature must have the capacity, access and independence to hold the government to account for the management of natural resources. We therefore commit to establishing a special parliamentary committee on resource governance that has adequate funding for technical staff and expert support.</p>

<sup>144</sup> For the most recent report and other information on country progress see the EITI website at <<https://eiti.org/countries>>. Information on the current framework may be also available in the RGI data under questions 1.2.8a-b.

<sup>145</sup> The Open Data Charter defines open data as ‘digital data that is made available with the technical and legal characteristics necessary for it to be freely used, reused, and redistributed by anyone, anytime, anywhere’. More information on open data principles is available at <<https://opendatacharter.net/principles/>>.

Policy options	Stances
<p><b>What should the government do to ensure that there is a critical mass of informed citizens that holds the government to account?</b></p> <ul style="list-style-type: none"> <li>• Should the government implement a communications strategy to ensure that the public has realistic expectations of the future benefits and costs of extraction?</li> <li>• How should the government ensure that civic and political freedoms are consistently upheld?</li> <li>• What should the government do to ensure that the media and civil society groups are able to contribute to improved public accountability in natural resource management?</li> <li>• What should the government do to ensure that research institutions carry out independent and high-quality research on resource governance?</li> <li>• What should the government do to encourage professional associations and unions to actively promote and enforce professional standards of conduct and engagement among their members who are engaged in extractive industries?</li> </ul>	<p><i>Example stance:</i> The party believes that an informed civil society and media are key to effective oversight of natural resource management. We therefore commit to active and open communication with both on resource governance issues.</p>
<p><b>Should the government participate in international initiatives that support or supplement domestic resource governance efforts (e.g., EITI and OGP)?</b></p> <ul style="list-style-type: none"> <li>• If the country is a member or pursuing membership of the EITI and/or OGP, what should it do to ensure it is following through on the associated commitments in a meaningful way?</li> <li>• If the country is a member of one or both, how should it leverage the initiatives' support or convening powers more effectively?</li> <li>• If the country is not a member of one or both, should it pursue membership?</li> </ul>	<p><i>Example stance:</i> The party recognizes the value of membership of the Open Government Partnership. We therefore commit to joining and to making and implementing robust resource governance commitments.<sup>146</sup></p>

<sup>146</sup> More information on this Working Group is available at <<https://www.opengovpartnership.org/about/working-groups/openness-natural-resources>>.

## Worksheet G

### III. Exploration, licencing and monitoring operations

**Background:** In most countries, the national government is the owner of all sub-soil resources. But because resource exploration and extraction is a financially and technically difficult thing to do, most governments do not undertake these activities themselves. Instead, they usually enter into agreements with private sector companies that have these competencies and yield the benefits through taxation, sharing of production and other means.

To ensure that the country gets the best deal for its resources, governments must do the following as part of their exploration and licencing processes:

1. Understand the resource base, manage the resulting data and decide whether to licence areas and at what pace
2. Choose a process for ensuring that resource rights are allocated to the companies with the financial and technical capacity to explore or exploit the resources, without risk of corruption or conflicts of interest
3. Monitor operations to ensure companies fulfil their commitments in accordance with the law, regulations and best practices.

The party's position should address all three of the above and can have an impact whether in power or in opposition. As Norway considered opening up new areas for oil exploration, the Green Party prioritized concerns about climate change and the long-term sustainability of extraction and proposed to phase out all activities within 20 years. Despite the fact that it originated from a very small party, the position elevated the topic to the national stage. The policy was subsequently adopted by another party and similar language is becoming increasingly common in the statements of others.<sup>147</sup>

Developing a position on licencing processes is an opportunity for a party to strengthen its understanding of the country's geological resources, the land tenure process and the sector's operating environment, and to lay the groundwork for meaningful action.

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<sup>147</sup> See the Norway case study in Chapter 2.

### Costs and trade-offs

When developing policy stances related to **opening new areas to extraction** it is particularly important to consider:

- What knowledge the government already has about the property rights, geology and environmental risks in the region
- The time and financial costs involved in obtaining more clarity through pre-licencing surveys and environmental and strategic impact assessments, and how these costs weigh against the risks associated with poor quality information (e.g., significant information deficits between the government and companies, and significant environmental impacts)
- The financial costs of establishing/managing land and resource licence registries and the risks associated with conflicting claims
- The challenges and risks associated with allocating licences too quickly (e.g., changes in risk and value, regulatory oversight capacity) and with licence area sizing (e.g., attracting bidders vs allowing just a few companies to control huge portions of land)

When developing policy stances related to **the licencing process, including licence transfers**, it is particularly important to consider:

- The political and economic risks associated with awarding contracts to companies without the requisite expertise and resources, or to companies with a reputation for poor operations or unethical behaviour
- Whether there is sufficient competition and the government has the administrative capacity to conduct a competitive licence round (as is best practice); or, in situations where this is not the case, what the government can do to identify reputable companies, overcome information deficits between itself and companies, and limit the use of negotiable/biddable terms
- The corruption and conflict of interest risks associated with the licencing process and the degree to which open and competitive bidding, political exposure rules and the transparency of beneficial ownership can mitigate these risks
- The financial costs associated with collecting, verifying and publishing beneficial ownership information, balanced against the risks associated with hidden ownership (e.g., political



exposure, conflicts of interest and awarding contracts to unethical and/or unqualified companies)

- The specific risks associated with licence transfers (e.g., corruption and questionable new companies)
- When and how is best to disclose information on licencing processes and the licences themselves, and the implications for independent oversight

*When developing policy stances related to **monitoring operations** it is particularly important to consider:*

- The risks associated with company operations moving ahead without sufficient government scrutiny of development plans, weighed against the implications of long delays in the approval process that can deter investment
- The implications of company operations failing to realize the demands of agreed work plans and the most appropriate consequence (e.g., relinquishment or payment)
- The time and financial costs involved in collecting, managing and disclosing geological and operational data

For more information on these policy issues, refer to Precept 3 in the Charter Benchmarking Framework and the NRGi primer on granting rights to natural resources.<sup>148</sup>

Guiding questions	Current orientation
<ul style="list-style-type: none"> <li>• Does the party already have a stance (formal or informal, public or internal) on how new areas should be opened up for exploration or extraction? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>• Does the party already have a stance (formal or informal, public or internal) on how licences should be allocated? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>• Does the party already have a stance (formal or informal, public or internal) on how licences should be monitored? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>• What do the party's base and its core constituencies think about exploration, licencing and monitoring extractive operations? What does the wider population think?</li> </ul>	

<sup>148</sup>The Granting Rights to Natural Resources primer is available at <<http://www.resourcegovernance.org/analysis-tools/publications/primer-granting-rights-natural-resources>>.

Guiding questions	Current framework
<ul style="list-style-type: none"> <li>• What is the current legal and regulatory framework for awarding extraction and exploration licences? Is it consistently implemented?<sup>149</sup></li> </ul>	
<ul style="list-style-type: none"> <li>• What assessments are made prior opening up an area for extraction? What information does the government prepare prior to a licencing round? What does the government do to address possible information asymmetry between itself and resource companies?<sup>150</sup></li> </ul>	
<ul style="list-style-type: none"> <li>• How does the government currently guard against conflicts of interest in the award of licences?<sup>151</sup></li> </ul>	
<ul style="list-style-type: none"> <li>• How does the country perform on the general ‘Licencing’ subcomponent of the Resource Governance Index? What underlying rules and practice indicators does the country perform poorly on and why?<sup>152</sup></li> </ul>	
<ul style="list-style-type: none"> <li>• If the country is an EITI member, what were the findings and recommendations around the ‘Legal and Institutional Framework, Including Allocation of Contracts and Licences’ and ‘Exploration and Production’ requirements in the latest EITI report?<sup>153</sup></li> </ul>	
Policy options	Stances
<p><b>What should the government do to better prepare before allocating licences?</b></p> <ul style="list-style-type: none"> <li>• Should the government facilitate or fund pre-licencing surveys and make geological information available to companies?</li> <li>• Should a strategic impact assessment be conducted and published before allocating licences?</li> <li>• Prior to allocating licences, how should the government establish property rights and how should those rights be upheld?</li> <li>• How should licences be organized to ensure that areas do not overlap or conflict with existing rights to explore and extract resources?</li> <li>• Should there be a policy on the pace of licencing and size of licence areas?</li> </ul>	<p><i>Example stance:</i> The party believes that the government must carefully consider the benefits and costs prior to awarding natural resource licences. We therefore commit to ensuring that strategic impact assessments are completed in advance.</p>

<sup>149</sup> Information on the current framework may be available in the RGI data under questions 1.1a-c, 1.1.1a-1.1.6c, and 1.1.10c-d.

<sup>150</sup> Information on the current framework may be available in the RGI data under question 1.1c.

<sup>151</sup> Information on the current framework may be available in the RGI data under questions 1.14a-1.18b.

<sup>152</sup> For detailed answers to these questions, refer to the downloadable RGI Data explorer available at <<http://www.resourcegovernanceindex.org/about/data-and-source-documents>> (subcomponent 1.1). For a quick snapshot of the subcomponent and indicator scores, see the country profile at <<http://www.resourcegovernanceindex.org/country-profiles>> (select your country, scroll down to the Full Scores section, and click + to expand the relevant scores).

<sup>153</sup> Find the latest report and other information on country progress on the EITI website at <<https://eiti.org/countries>>.

Policy options	Stances
<p><b>What should the government do to ensure that it awards resource rights to competent and law-abiding companies, in a way that maximizes value for the country?</b></p> <ul style="list-style-type: none"> <li>• How should licence applicants be screened before they are allowed to enter a licencing round or negotiation?</li> <li>• How should the method of awarding licences account for the level of competitive interest and the administrative capacity of the government?</li> <li>• How should negotiable/biddable terms be limited and further negotiations after the bidding process be resisted?</li> <li>• Should the government submit licence transfers to the same checks and balances as an initial licence award?</li> <li>• Should the government disclose pre- and post-licence round information?</li> <li>• What should be done to ensure that oversight of the licencing process is effective and that conflicts of interest are avoided?</li> </ul>	<p><i>Example stance:</i> The party believes that the process for awarding natural resource licences should get the country the best deal possible. We therefore commit to creating a model contract that sets out standard terms that apply to all licence holders, along with a limited set of terms that companies can bid on during an auction or offer during negotiations.</p>
<p><b>What should the government do to better monitor operations across project lifecycles?</b></p> <ul style="list-style-type: none"> <li>• How should the government evaluate and approve development plans with appropriate consideration for all stakeholders without undue delay? What institutions should be involved and are they properly resourced?</li> <li>• What should be done to ensure that the government has the capacity to monitor companies during each stage of the project lifecycle?</li> <li>• How should the government collect and manage geological and operational data?</li> </ul>	<p><i>Example stance:</i> The party believes that the government must have the mandate and capacity to monitor natural resource extraction. We therefore commit to ensuring that all company work programmes are properly reviewed prior to and during extraction by the Ministry of Mines.</p>

## Worksheet G

### IV. Taxation and other company payments

**Background:** Resource extraction can be a significant source of revenue for a country but the government must carefully consider how to maximize revenues without driving away credible companies. Finding this balance is tricky and requires that the government do the following:

1. Set fiscal terms that are neither too high nor too low and that provide a suitable share of both risk and return to the extraction operations.
2. Create a legal framework that provides sufficient assurances to investors, but is not so rigid that the assurances prevent the government from responding if economic circumstances change significantly.
3. Ensure that authorities collect the full amount of revenue set by the fiscal terms, which is sometimes improved by setting a fiscal framework that is simple to collect.
4. Ensure that government officials are held to account for all of the above.

Many political parties have been involved in setting the terms of fiscal frameworks and monitoring whether they are consistently applied. In South Africa, the relatively new Economic Freedom Fighters party was founded in part because of a debate within the ruling African National Congress over the extent to which government revenues from extraction should be prioritized over the type of company involved in extraction projects.<sup>154</sup> In Peru, questions about whether the terms of extraction were a good deal for the country became central to a national presidential campaign.<sup>155</sup>

Political party positions often arise because of particularly controversial deals, but can be crafted to inform a larger set of extraction projects. Questions related to the actual collection of the revenues, although sometimes overlooked, are invaluable to ensuring that the country fully realizes the potential benefits. This often requires involvement of oversight institutions, such as the supreme audit institution, the internal audit offices of the tax authority, taxpayer tribunals and parliament.

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<sup>154</sup> See the South Africa case study in Chapter 2.

<sup>155</sup> See the Peru case study in Chapter 2.

### Costs and trade-offs

When developing policy stances related to **the overall fiscal framework** it is particularly important to consider:

- The balance between attracting enough high-quality, competent investors and ensuring that the country gets the best deal for extraction over the lifecycle of projects
- The balance between securing revenues in the short term and spreading revenues more evenly over the lifecycle of projects
- The balance between receiving a bigger take when prices rise or having a more consistent take across price variations
- The benefits and costs of the state holding equity shares in resource companies; for example, equity allows the government to benefit whenever the company declares dividends and possibly to hold positions on the board, but dividends are typically paid later than profit tax payments (if at all) and equity may come with high financial costs
- In situations where the government is not attracting quality investors, what parts of the framework could be altered (e.g., royalty rates, cost limits, variable rate tax, corporate income tax and incentives) while still securing a reasonable return for the government

When developing policy stances related to **the legal framework for fiscal terms** it is particularly important to consider:

- If there is legitimate justification for including stabilization clauses in contracts to assuage investor concerns, or if there are better fiscal mechanisms for offering stability while allowing for any necessary adjustments (e.g., a progressive tax regime)
- The extent to which stabilization clauses in contracts could bind government action to address fluctuations in commodity prices and profitability, both in the number of terms and the length of time

When developing policy stances related to **the tax administration and oversight** it is particularly important to consider:

- The time and financial costs involved in strengthening the tax administration and other official oversight institutions (e.g., enabling them to adequately track all costs and payments of companies), weighed against the costs of tax evasion and avoidance, and corruption in the administration and collection of taxes

For more information on these policy issues, please refer to Precept 4 in the Benchmarking Framework and the NRG primers on fiscal regime design and transfer pricing.<sup>156</sup>

Guiding questions	Current orientation
<ul style="list-style-type: none"> <li>Does the party already have a stance (formal or informal, public or internal) on what the fiscal regime for the resource sector should be? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>What do the party base and its core constituencies think about resource sector taxation and other company payments? What does the wider population think?</li> </ul>	
Guiding questions	Current framework
<ul style="list-style-type: none"> <li>What is the current fiscal regime for resource extraction? Is it adequately implemented?<sup>157</sup></li> </ul>	
<ul style="list-style-type: none"> <li>Do the current fiscal terms provide sufficient accountability to citizens, stability for investors and the flexibility to respond to changing circumstances?</li> </ul>	
<ul style="list-style-type: none"> <li>Are government authorities able to collect the full value of taxes and other payments owed to the state? Are they transparent and accountable in the way they set and collect company payments?<sup>158</sup></li> </ul>	
<ul style="list-style-type: none"> <li>How does the country perform on the 'Taxation' subcomponent of the Resource Governance Index? What underlying rules and practice indicators does the country perform poorly on and why?<sup>159</sup></li> </ul>	
<ul style="list-style-type: none"> <li>If the country is an EITI member, what were the findings and recommendations around the 'Legal Framework and Fiscal Regime' and 'Revenue Collection' requirements in the most recent EITI report?<sup>160</sup></li> </ul>	

<sup>156</sup> The Fiscal Regime Design primer is available at <<http://www.resourcegovernance.org/analysis-tools/publications/primer-fiscal-regime-design>> and the Transfer Pricing primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-transfer-pricing-0>>.

<sup>157</sup> Information on the current framework may be available in the RGI data under questions 1.2a and 1.2.5f.

<sup>158</sup> Information on the current framework may be available in the RGI data under questions 1.2.5a-e.

<sup>159</sup> For detailed answers to these questions, refer to the downloadable RGI Data explorer available at <<http://www.resourcegovernanceindex.org/about/data-and-source-documents>> (subcomponent 1.2). But for a quick snapshot of the subcomponent and indicator scores, see the country profiles at <<http://www.resourcegovernanceindex.org/country-profiles>> (select your country, scroll down to the Full Scores section, and click + to expand the relevant scores).

<sup>160</sup> Find the most recent report and other information on country progress on the EITI website at <<https://eiti.org/countries>>.

Policy options	Stances
<p><b>What should the government do to ensure that the fiscal regime secures a reasonable return for the government while still attracting sufficient investment?</b></p> <ul style="list-style-type: none"> <li>• What should be done to ensure that government officials have the expertise and information to effectively evaluate and design fiscal regimes?</li> <li>• How should the government avoid the use of costly or non-essential investment incentives?</li> <li>• Should the fiscal regime include a tax on gross sales—a royalty or equivalent—to ensure that the state receives some payment despite changes to profitability?</li> <li>• Should the fiscal regime include a variable rate tax targeted explicitly at profits?</li> <li>• Should the fiscal regime for the extractive sectors include the country’s generally applicable corporate income tax?</li> <li>• Should the state hold equity shares in resource companies? If so, how should the government ensure that the expected fiscal and non-fiscal benefits of that equity are greater than the costs of acquiring it?</li> </ul>	<p><i>Example stance:</i> The party believes that the country must establish a fiscal regime that strikes the right balance between securing a reasonable return while still attracting good investors. We therefore commit to reviewing the current fiscal regime and considering the appropriateness of a variable rate tax on resource sector profits.</p>
<p><b>What should the government do to ensure that the legal framework on fiscal terms provides sufficient accountability to citizens, stability for investors and flexibility to respond to changing circumstances?</b></p> <ul style="list-style-type: none"> <li>• Should the government set all fiscal terms using legislation or model contracts, with a minimum number and defined scope for bidding or negotiation terms?</li> <li>• Should legal clauses that stabilize legal terms governing an extractive project be allowed? If so, what should be done to ensure that these clauses are limited to specific fiscal terms and that stabilization is limited in duration?</li> </ul>	<p><i>Example stance:</i> The party believes that the fiscal regime for the natural resource sector should be enshrined in law. We therefore commit to establishing as many fiscal terms as possible in legislation and that the legislation includes the guarantees necessary for public accountability.</p>
<p><b>What should the government do to ensure that government authorities collect the full value of taxes and other payments owed to the state?</b></p> <ul style="list-style-type: none"> <li>• What needs to be done to ensure that tax administrators are competent and well resourced?</li> <li>• What needs to be done to simplify and harmonize tax administration procedures?</li> <li>• Should there be fewer tax collecting organizations and better coordination between government agencies related to tax administration?</li> <li>• Should the government further simplify the tax regime (e.g., reduce the number of tax types)?</li> <li>• Should new provisions to limit avoidance practices be added to the fiscal regime?</li> </ul>	<p><i>Example stance:</i> The party believes that fighting tax evasion and avoidance in the natural resource sector should be a priority for the country. We therefore commit to simplifying the tax base and putting in place and enforcing strong anti-abuse legislation.</p>
<p><b>What should the government do to ensure that it is held to account for setting and collecting taxes and other company payments?</b></p> <ul style="list-style-type: none"> <li>• What should be done to ensure that official agencies perform strong oversight of the fiscal regime?</li> <li>• What fiscal terms and company data should the government disclose to inform oversight?</li> <li>• How should the government consult with businesses and civil society before reforming the fiscal regime?</li> </ul>	<p><i>Example stance:</i> The party believes that the government should be transparent and accountable in the fiscal governance of natural resources. We therefore commit to holding regular consultations with different stakeholders, including trade associations and civil society organizations, to ensure that we have a deeper pool of knowledge to inform tax policy.</p>

## Worksheet G

### V. Local impacts

**Background:** The costs and benefits of resource projects are not shared equally by all the people in a producing country. While the benefits of resource projects—stemming largely from resource revenues, job creation and business linkages—can be shared throughout the country, the social and environmental costs of exploitation are usually concentrated among affected communities located close to project sites.

Where operations are mismanaged, extraction can result in irreversible environmental damage and unmet expectations, giving rise to local grievances and conflict. Government policy should therefore seek to protect affected populations from the negative impacts of extraction, while at the same time helping them to harness the benefits. Across the world, the RGI showed that the biggest gap between policy and implementation is in the areas of local impact and subnational revenue sharing.

Political parties can play an important role in ensuring that there is good public debate about how best to balance local impacts against national benefits. In Malaysia, a country known for restricted political debate, opposition and governing parties from resource-rich states sought to bring issues of subnational revenue sharing to national attention. All the major parties in the resource-rich state of Sarawak included demands for an increased share of royalties in their party positions and then tried to use that demand to influence national positions.<sup>161</sup> The Progress Party in Norway, which has a strong representation in oil-rich regions, has pushed hard for local demands related to infrastructure investment and job losses in the national conversation.<sup>162</sup>

In addition to the final substance of the party position, the process of developing and communicating it with stakeholders can improve the chances of effective management of local impact concerns. The party must be sure to include a variety of stakeholders from resource-rich regions, including women, youth and business, in the consultations and ideally the working group itself. Because addressing the concerns of directly affected stakeholders is often balanced against national interests, it is also useful for parties to vet their positions with stakeholders in regions that are not resource rich.

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<sup>161</sup> See the Malaysia case study in Chapter 2.

<sup>162</sup> See the Norway case study in Chapter 2.



### Costs and trade-offs

When developing policy stances related to **community consultation and communication between stakeholders** it is particularly important to consider:

- The time and financial costs involved in facilitating communication between companies and local stakeholders, weighed against the risks associated with some key stakeholders being excluded (e.g., project-delaying disruptions by communities, political disagreement and conflict)

When developing policy stances related to **local impacts** it is particularly important to consider:

- The likelihood and potential severity of environmental, social and health impacts from extraction projects and the political, economic and legal risks associated with significant impacts
- The time and funds required to conduct thorough environmental and social impact assessments and to mitigate negative impacts

When developing policy stances related to **compensation and resettlement** it is particularly important to consider:

- The financial, political and social implications of resettling affected communities
- How resettlement is managed in other sectors of the economy

When developing policy stances related to **subnational revenue sharing** it is particularly important to consider:

- The current political and economic relationship between resource-rich local governments and the national government, and whether there are expectations of local ownership or fiscal independence
- The fiscal responsibilities of local governments related to extraction
- The capacity of local governments to spend money efficiently and effectively, and to respond to the unique revenue management challenges of resource wealth





When developing policy stances related to **local content**\* it is particularly important to consider:

- How many direct and indirect jobs might realistically be available in the extractive sector over the lifecycle of projects
- The skill level required for those jobs and the investment needed to build those skills in the domestic workforce (if not present already)
- The capacity for domestic companies to meet the likely service and subcontracting needs of the sector and the investment required to help local companies participate efficiently (if not already the case)

\* These considerations are also included in Worksheet G.IX. on Private Sector Development section below and should be covered here only if that issue area is not selected for discussion.

For more information on these policy issues, please refer to Precept 5 in the Charter Benchmarking Framework and the NRGi primers on local content, extractives-linked infrastructure, subnational revenue distribution and subnational revenue management.<sup>163</sup>

Guiding questions	Current orientation
<ul style="list-style-type: none"> <li>• Does the party already have a stance (formal or informal, public or internal) on how to balance the non-fiscal costs and benefits of extraction? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>• Does the party already have a stance on revenue sharing? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>• What do the party base and its core constituencies think about the local impacts of extraction? What does the wider population think?</li> </ul>	
Guiding questions	Current framework
<ul style="list-style-type: none"> <li>• What is the current legal and regulatory framework governing the relationships between all stakeholders within affected communities and extractive companies?</li> </ul>	

<sup>163</sup> The Local Content primer is available at <<http://www.resourcegovernance.org/analysis-tools/publications/primer-local-content>>; the Extractives-Linked Infrastructure primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-extractives-linked-infrastructure>>; the Subnational Revenue Distribution primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-subnational-revenue-distribution>>; and the Subnational Revenue Management primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-subnational-revenue-management>>.

Guiding questions	Current framework
<ul style="list-style-type: none"> <li>What is the current legal and regulatory framework governing the assessment of the potential impacts of resource extraction? How does it address mitigating the environmental, social and health costs? Is it implemented effectively?<sup>164</sup></li> </ul>	
<ul style="list-style-type: none"> <li>Does the national government share benefits, or revenues, with subnational governments or communities? If so, what is the legal framework that governs revenue sharing? Is it implemented consistently and efficiently?<sup>165</sup></li> </ul>	
<ul style="list-style-type: none"> <li>How does the country perform on the ‘Local Impact’ subcomponent of the Resource Governance Index? How does the country perform on the ‘Subnational Resource Revenue Sharing’ component of the RGI? What underlying rules and practice indicators does the country perform poorly on and why?<sup>166</sup></li> </ul>	
<ul style="list-style-type: none"> <li>If the country is an EITI member, what were the findings and recommendations around the ‘Social and Economic Spending’ requirement in the most recent EITI report?<sup>167</sup></li> </ul>	
Policy options	Stances
<p><b>What should the government do to ensure that there are good working relationships between all stakeholders within affected communities?</b><sup>168</sup></p> <ul style="list-style-type: none"> <li>How should the government ensure that affected communities meaningfully participate in decision-making about resource projects?</li> <li>How should the government ensure that affected communities have realistic expectations about the impacts of resource projects?</li> <li>How should the government ensure that there are credible and effective dispute resolution procedures for affected communities?</li> <li>How should the government ensure that government and private security providers related to resource projects do not use excessive force?</li> <li>How should the government ensure that the rights of indigenous people are protected?</li> </ul>	<p><i>Example stance:</i> The party believes that affected communities deserve to participate in decision-making around natural resource extraction. We therefore commit to putting robust participation and dispute-resolution systems in place.</p>

<sup>164</sup> Information on the current framework may be available in the RGI data under questions 1.3.1.a, 1.3.2a, 1.3.4a, 1.3.5a-1.3.5b, and 1.3.6a-1.3.7b.

<sup>165</sup> Information on the current framework may be available in the RGI data under questions 2.2a-2.2.2b, 2.2.3a-c, 2.2.4a, and 2.2.5a.

<sup>166</sup> For detailed answers to these questions, refer to the downloadable RGI Data explorer available at <<http://www.resourcegovernanceindex.org/about/data-and-source-documents>> (subcomponents 1.3 and 2.2). For a quick snapshot of the subcomponent and indicator scores, see the country profile at <<http://www.resourcegovernanceindex.org/country-profiles>> (select your country, scroll down to the Full Scores section, and click + to expand the relevant scores).

<sup>167</sup> Find the most recent report and other information on country progress on the EITI website at <<https://eiti.org/countries>>.

<sup>168</sup> Free, Prior and Informed Consent (FPIC) is the international standard for consulting with and helping affected communities. A manual on implementing it is available at <<https://www.un.org/development/desa/indigenouspeoples/publications/2016/10/free-prior-and-informed-consent-an-indigenous-peoples-right-and-a-good-practice-for-local-communities-fao/>>.

Policy options	Stances
<p><b>What systems should the government establish or strengthen to assess the impacts of resource projects?</b></p> <ul style="list-style-type: none"> <li>• Should the government use strategic impact assessments before deciding to open an area up to exploration and production activities?</li> <li>• Should the government use environmental and social impact assessments to inform decision-making at all stages of resource projects?</li> </ul>	<p><i>Example stance:</i> The party believes that the harmful effects of extraction on affected communities should be carefully assessed prior to natural resource extraction. We therefore commit to conducting thorough environmental and social impact assessments at all stages of resource projects.</p>
<p><b>What should the government do to better monitor and mitigate the environmental, social and health costs of resource projects?</b></p> <ul style="list-style-type: none"> <li>• How should the government favour incident prevention over minimization and avoid practices that require compensation and resettlement?</li> <li>• How should the government set and enforce effective environmental, social and health regulations?</li> <li>• Should the government require companies to develop environmental impact mitigation management plans; and, if so, how should it ensure that these plans are followed?</li> <li>• Should the government require companies to develop effective disaster response plans?</li> <li>• How should the government allocate responsibility for the execution and financing of project closure and land rehabilitation?</li> <li>• Where social and environmental costs are unavoidable, how should the government ensure that there is adequate compensation?</li> <li>• Where resettlement is unavoidable, how should the government ensure that resettlement provides adequate redress?</li> </ul>	<p><i>Example stance:</i> The party believes that the environmental, social and health costs of natural resource extraction should be mitigated to the greatest extent possible. We therefore commit to requiring that companies develop and follow detailed environmental mitigation plans.</p>
<p><b>What should the government do to help affected communities benefit from resource projects?</b></p> <ul style="list-style-type: none"> <li>• What should the government do to ensure that companies come to an agreement with affected communities as to how companies will deliver community benefits?</li> <li>• What should the government do to encourage companies to direct employment and procurement opportunities towards affected communities?</li> </ul>	<p><i>Example stance:</i> The party believes that affected communities should benefit from natural resource extraction. We therefore commit to ensure that companies set and deliver on community development agreements.</p>
<p><b>Should revenues be allocated to subnational governments?</b></p> <ul style="list-style-type: none"> <li>• If so, what type of revenues and to which subnational authorities? How should they be shared and what should be done to ensure such transfers are based on a well-articulated set of objectives and that they are correct and timely?</li> </ul>	<p><i>Example stance:</i> The party believes that a small portion of the royalties from the extraction of natural resources should be shared with the state governments where extraction takes place. We therefore commit to establishing a transparent and accountable mechanisms for subnational transfers.</p>
<p><b>What should the government do to ensure that domestic businesses and workers have the opportunity and capacity to operate in the extractive sector?*</b></p> <ul style="list-style-type: none"> <li>• What needs to be done to remove barriers to local participation?</li> <li>• Should there be local content rules? If so, what should be done to ensure that they are consistent with local capacity, avoid excessive protection and guard against corruption? How should the government monitor and enforce companies' adherence to the rules and the government's own support measures?</li> </ul>	<p><i>Example stance:</i> The party believes that successful implementation of local content rules in the natural resource sector requires a dedicated institution, staff and funds. We therefore commit to establishing an institution dedicated to the implementation, monitoring and enforcing of local content rules.</p>
<p>* These questions are also included in Worksheet G.IX. on Private Sector Development section below and should be covered here only if that issue area is not selected for discussion.</p>	

## Worksheet G

### VI. State-owned enterprises

**Note:** Not all countries have or are considering establishing SOEs, so this issue area may be irrelevant for the purposes of this process.

**Background:** The performance of state-owned enterprises (SOEs) can be an important component in a country's strategy to harness resources for development. Well-run SOEs can help producing countries in several ways: they can secure resource revenues in addition to taxes, nurture local content and improve the country's regulatory capacity. However, building effective SOEs is no easy task. All too often, SOEs become obstacles to private investment, drains on public coffers, inefficient managers of public resources, or sources of corruption and patronage that prevent countries from maximizing returns on natural resources. The corruption case involving Brazil's national oil company, Petrobras, did incredible damage to the reputation of the ruling party when almost one-third of its cabinet was named in the scandal.<sup>169</sup>

Because SOEs also tend to attract a great deal of popular attention, it is important that political parties develop informed positions on whether they should exist and how they are governed. After commissioning extensive research, in 2010 the ANC in South Africa decided to take a position that limited further government ownership of the mining sector because of concerns over costs and investor incentives. The party justified the controversial position by framing it as a means to achieve broader development objectives.<sup>170</sup>

#### Costs and trade-offs

When developing policy stances related to **whether to have a state-owned enterprise** it is particularly important to consider:

- The country's expectations of national ownership, the potential economic opportunities and risks associated with establishing an SOE (both in and outside of the country) and the government's access to capital
- The skill level of the potential workforce for the SOE and the cost of company learning
- The risks of capture or corruption



<sup>169</sup> For more information see <<http://www.bbc.com/news/world-latin-america-39574355>>.

<sup>170</sup> See the South Africa case study in Chapter 2.



When developing policy stances related to **the governance structure of an SOE** it is particularly important to consider:

- How public shareholders might improve access to capital and accountability
- If there are skilled professionals willing and capable of serving on a board of directors and the best process for selecting them

When developing policy stances related to **the role of the SOEs (commercial and non-commercial)** it is particularly important to consider:

- What other institutions govern the sector and how the roles and requisite workforce skills might overlap (i.e., would concentration of skills in ministries or regulatory agencies be more effective)
- Whether there is or could be a conflict of interest or an increased chance of corruption if the SOE takes on non-commercial roles

When developing policy stances related to **the amount of revenues retained by the SOE** it is particularly important to consider:

- The costs and benefits of the SOE having fiscal and governance independence and the realistic revenue needs of the company
- How big the SOE is with respect to the national budget, and how predictable national budget transfers are currently
- The risks associated with off-budget spending and quasi-fiscal activities

For more information on these policy issues, please refer to Precept 6 in the Charter Benchmarking Framework and the NRG primers on state participation and state-owned enterprises and commodity trading.<sup>171</sup>

<sup>171</sup> The State Participation and State-Owned Enterprises primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-state-participation-and-state-owned-enterprises>>; and the Commodity Trading primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-commodity-trading>>.

Guiding questions	Current orientation
<ul style="list-style-type: none"> <li>Does the party already have a stance (formal or informal, public or internal) on the role of SOEs in the resource sector and how it should be governed? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>Does the party already have a stance (formal or informal, public or internal) on state participation outside of the resource sector? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>What do the party base and its core constituencies think about state participation generally or the existing SOE(s) specifically? What does the wider population think?</li> </ul>	
Guiding questions	Current framework
<ul style="list-style-type: none"> <li>What is the legal and regulatory framework governing SOEs? Is it adequately enforced?<sup>172</sup></li> </ul>	
<ul style="list-style-type: none"> <li>What is the SOEs funding mechanism? Is the information about finances publicly disclosed? Does the SOE have the financial and technical capacity to fulfil its role?<sup>173</sup></li> </ul>	
<ul style="list-style-type: none"> <li>Does the SOE have strong corporate governance structures that limit political interference and conflicts of interest, and ensure proper oversight? Are its decision-making and operations transparent and accountable?<sup>174</sup></li> </ul>	
<ul style="list-style-type: none"> <li>How does the country perform in the ‘State-Owned Enterprises’ subcomponent of the Resource Governance Index? What underlying rules and practice indicators does the country perform poorly on and why?<sup>175</sup></li> </ul>	
<ul style="list-style-type: none"> <li>If the country is an EITI member, what were the findings and recommendations around the ‘State Participation’ requirement in the most recent EITI report?<sup>176</sup></li> </ul>	
Policy options	Stances
<p><b>What should the government do to more clearly define the SOE’s role and establish a working funding mechanism for the company?</b></p> <ul style="list-style-type: none"> <li>Should the SOE’s commercial role be more clearly defined to reflect the company’s actual financial and technical capacity?</li> <li>Should the SOE’s non-commercial roles be more clearly defined? What should be done to limit conflicts of interest?</li> <li>What should the government do to ensure that the SOE has a workable funding mechanism?</li> </ul>	<p><i>Example stance:</i> The party believes that for a natural resource SOE to be effective, it must have clearly defined roles and responsibilities. We therefore commit to clarifying the SOE’s commercial and non-commercial roles and how they relate to other industries.</p>

<sup>172</sup> Information on the current framework may be available in the RGI data under questions 1.4a-1.4b.

<sup>173</sup> Information on the current framework may be available in the RGI data under questions 1.4.1a and 1.4.2a-b.

<sup>174</sup> Information on the current framework may be available in the RGI data under questions 1.4.31-c, 1.4.5a-e, 1.4.9a-e, and 1.4.10a-b.

<sup>175</sup> For detailed answers to these questions, refer to the downloadable RGI Data explorer available at <<http://www.resourcegovernanceindex.org/about/data-and-source-documents>> (subcomponent 1.4). For a quick snapshot of the subcomponent and indicator scores, see the country profile at <<http://www.resourcegovernanceindex.org/country-profiles>> (select your country, scroll down to the Full Scores section, and click + to expand the relevant scores).

<sup>176</sup> Find the most recent report and other information on country progress on the EITI website at <<https://eiti.org/countries>>.

Policy options	Stances
<p><b>What should the government do to ensure that the SOE's corporate governance systems limit political interference in the company's technical decisions, while ensuring effective oversight?</b></p> <ul style="list-style-type: none"> <li>• Should the government more clearly establish the identity and role of state shareholders in the SOE?</li> <li>• Are reforms needed to ensure the SOE board is more empowered, professional and independent?</li> <li>• Should the SOE invest more in staff integrity and capacity?</li> </ul>	<p><i>Example stance:</i> The party believes that natural resource SOEs should adhere to the highest standards of corporate governance. We therefore commit to ensuring that the role and identity of state shareholders is clearly established and that the SOE has a strong and independent board.</p>
<p><b>What should the government do to ensure SOE decision-making and operations are transparent and accountable?</b></p> <ul style="list-style-type: none"> <li>• Should the SOE disclose more operational and payment data?</li> <li>• Should the SOE subject itself to more rigorous and/or more frequent independent financial audits and publish the results?</li> <li>• Should the legislature do more to oversee SOE performance, without unduly constraining its decision-making?</li> </ul>	<p><i>Example stance:</i> The party believes that natural resource SOEs should operate transparently and accountably. We therefore commit to ensuring that the SOE publishes operational and payment data and is subjected to regular audits.</p>



## Worksheet G

### VII. Revenue management

**Background:** Strong management of resource revenues combines knowledge of economic pitfalls with managing expectations for short-term wins. Political parties can be influential in spurring a strong governance response. Just after Ghana discovered oil, the two major parties tried to out-boast each other, each casting themselves as the party that would get oil flowing the soonest and spend the oil revenues quickest. This race towards spending, which was unfortunately followed by a steep decline in oil prices, quickly resulted in large public debt.<sup>177</sup> Thankfully, more recently, the parties have developed new positions addressing revenue volatility and used those positions to inform public debate on these topics.

The policy position must set out clear rules for saving and borrowing related to natural resources. Resource revenues should be collected, managed and distributed transparently and accountably, and in the long-term interests of citizens. The party should also ensure that there is robust oversight of the government's fiscal framework for the sector, including by oversight institutions, civil society and the media.

#### Costs and trade-offs

*When developing policy stances related to **exhaustibility** it is particularly important to consider:*

- How much longer resource revenues are expected to be available and the needs of the current population for investment vs the expected needs of future generations
- The financial and political implications of maintaining a future generations fund, as well as the risk of corruption

*When developing policy stances related to **decoupling expenditures from revenues** it is particularly important to consider:*

- How predictable revenues (or prices) have been over the past five years
- How well the budget responds to price shocks



<sup>177</sup> See the Ghana case study in Chapter 2.



- The costs and benefits of maintaining a stabilization fund, including the political implications of not spending all the revenues in a high-price year

*When developing policy stances related to **the absorption of revenues into the national economy** it is particularly important to consider:*

- The absorptive capacity of the private sector
- The absorptive capacity of the public sector and the highest rate of efficient spending
- The return on investment when spending beyond the absorptive capacity, and the financial and political implications of putting aside some of the revenues in a parking fund until they can be spent more efficiently

*When developing policy stances related to **resource-backed loans** it is particularly important to consider:*

- The total expected revenues from extraction and the certainty rate of those expectations
- The political and development advantages of having greater access to revenues now, weighed against the implications of not having revenues later
- The likely interest rates of such loans and how the rate of debt might compare with the overall budget and the volume of resource revenues

For more information on these policy issues, please refer to Precepts 7 and 8 in the Charter Benchmarking Framework and the NRG primers on revenue management and distribution, fiscal rules and natural resource funds, subnational revenue distribution and subnational revenue management.<sup>178</sup>

<sup>178</sup> The Revenue Management and Distribution primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-revenue-management-and-distribution>>; the Fiscal Rules and Natural Resource Funds primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-fiscal-rules-and-natural-resource-funds>>; the Subnational Revenue Distribution primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-subnational-revenue-distribution>>; and the Subnational Revenue Management primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-subnational-revenue-management>>.

Guiding questions	Current orientation
<ul style="list-style-type: none"> <li>Does the party already have a stance (formal or informal, public or internal) on what rules should exist to address the challenges of revenue volatility, exhaustibility and economic distortion related to natural resources (i.e., on resource funds and monetary policy)? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>Does the party already have a stance (formal or informal, public or internal) on how any revenue transfers should be managed by subnational authorities?</li> </ul>	
<ul style="list-style-type: none"> <li>What do the party base and its core constituencies think about how resource revenues should be managed (i.e., about resource funds, monetary policy and subnational transfers)? What does the wider population think?</li> </ul>	
Guiding questions	Current framework
<ul style="list-style-type: none"> <li>What is the current fiscal framework for natural resource revenues? Does the government adhere to this fiscal framework, including any fiscal rules set? Are there verification and enforcement measures to promote compliance with any fiscal rules and has the government complied with these?<sup>179</sup></li> </ul>	
<ul style="list-style-type: none"> <li>Has the government adequately managed the rate of spending in the domestic economy? Is government spending independent of short-term changes in revenues (i.e., has spending been stable relative to revenues for the past ten years)?</li> </ul>	
<ul style="list-style-type: none"> <li>How efficient is the government at transforming money into productive assets or social services?</li> </ul>	
<ul style="list-style-type: none"> <li>Is there a sovereign wealth fund? If so, what is its purpose and how is it managed?<sup>180</sup></li> </ul>	
<ul style="list-style-type: none"> <li>Are revenues transferred to subnational governments? If so, how are these transfers managed, accounted for and reported on?<sup>181</sup></li> </ul>	
<ul style="list-style-type: none"> <li>How does the country perform on the 'Revenue Management' component of the Resource Governance Index? What underlying rules and practice indicators does the country perform poorly on and why?<sup>182</sup></li> </ul>	
<ul style="list-style-type: none"> <li>If the country is an EITI member, what were the findings and recommendations around the 'Revenue Allocations' requirement in the most recent EITI report?<sup>183</sup></li> </ul>	

<sup>179</sup> Information on the current framework may be available in the RGI data under questions 2.1.2a-2.1.2b and 2.1.3a-2.1.3b.

<sup>180</sup> Information on the current framework may be available in the RGI data under questions 2.3a, 2.3.1 a-c, 2.3.2a-2.3.2d, 2.3.3a-b, 2.3.4a-e, 2.3.5a-d, and 2.3.6a-c (law).

<sup>181</sup> Information on the current framework may be available in the RGI data under questions 2.2.a-2.2.5a.

<sup>182</sup> For detailed answers to these questions, refer to the downloadable RGI Data explorer available at <<http://www.resourcegovernanceindex.org/about/data-and-source-documents>> (component 2.2). For a quick snapshot of the subcomponent and indicator scores, see the country profiles at <<http://www.resourcegovernanceindex.org/country-profiles>> (select your country, scroll down to the Full Scores section, and click + to expand the relevant scores).

<sup>183</sup> Find the most recent report and other information on country progress on the EITI website at <<https://eiti.org/countries>>.

Policy options	Stances
<p><b>Given that non-renewable natural resources are finite, what should the government do to ensure that its spending and borrowing are fiscally sustainable?</b></p> <ul style="list-style-type: none"> <li>• How should the government assess its use of resources and its spending policy to ensure they are sustainable over the long term? (e.g., which sustainability indicators should it refer to?)</li> <li>• Should the government revise the fiscal framework to ensure that it promotes long-term fiscal sustainability and includes numerical targets?</li> <li>• How should the government ensure that the fiscal framework is adhered to, including any fiscal rules? What verification measures should be put in place or better enforced to promote compliance?</li> <li>• Should the government establish/enforce a well-defined debt management policy, including provisions on the collateralization of government assets, borrowing terms and transparency requirements?</li> <li>• How should the government ensure that it is helping to expand the non-resource tax base?</li> </ul>	<p><i>Example stance:</i> The party believes that the government's management of natural resources should be fiscally sustainable. We therefore commit to establishing rules to limit borrowing, invest resource revenues responsibly, support economic diversification and expand the tax base.</p>
<p><b>What should the government do to better manage the rate of spending in the domestic economy?</b></p> <ul style="list-style-type: none"> <li>• What should be done to ensure that money is efficiently transformed into productive assets or social services?</li> <li>• What information should the government use to assess whether the growth of total spending (including government spending) exceeds the limits of absorptive capacity?</li> <li>• How should the government avoid breaching absorptive capacity constraints? (e.g., should it use surplus revenues to repay foreign denominated debt or save in foreign assets?)</li> <li>• How should the central bank help mitigate the potentially negative impacts associated with resource-dependence, including real exchange rate appreciation or exchange rate and revenue volatility?</li> </ul>	<p><i>Example stance:</i> The party believes that the rate at which natural resource revenues are spent should be in line with the country's absorptive capacity. We therefore commit to use surplus revenues to repay foreign debt or save in foreign assets when resource revenues exceed what can be effectively absorbed by the domestic economy.</p>
<p><b>What should the government do to ensure spending is independent of short-term changes in revenues?</b></p> <ul style="list-style-type: none"> <li>• Should the government revise the fiscal framework to govern short-term expenditure smoothing? What are the appropriate numerical targets? How should compliance be monitored?</li> <li>• If the government has a sovereign wealth fund, what should be done to ensure that the fund is managed in a transparent, accountable and efficient manner? What should be done to ensure that the investment strategy achieves the fund's objectives?</li> </ul>	<p><i>Example stance:</i> The party believes that government spending should be decoupled from short-term fluctuations in natural resource revenues. We therefore commit to establishing a committee to review the current fiscal framework and make recommendations on expenditure smoothing.</p>

## Worksheet G

### VIII. Public spending

**Background:** Resource abundance provides an opportunity to fund significant advances in infrastructure and public services. Unfortunately, countries often squander this opportunity. Even when the government manages savings and investment rates well, public agencies still struggle to spend resource revenues in a way that results in economic development.

The impact of public spending depends critically on its efficiency and the benefits of improving efficiency are stark: countries with the most efficient public investment have significantly more economic growth per investment dollar compared with the least efficient. Political parties have an important role to play in guiding public spending and ensuring that it is managed as efficiently as possible. Strong party positions on spending processes can protect against populist tendencies to spend on visible but less impactful projects.

Ghana's Convention People's Party, for example, included several commitments to 'ensure that revenue from the extractive sector is invested in a manner consistent with the development plan and policy objectives of the people of Ghana.' This included commitments reduce over-dependence on extractive revenues, review royalties paid to local authorities and ensure generational equity by saving half of all revenues.

When developing policy stances in this area, a party should consider allocative efficiency (the reflection of government priorities in the allocation and spending of public resources), distribution of revenues (with a particular focus on the risks of off-budget spending), budget execution and operational efficiency (the ability to manage budgeted public resources efficiently in delivering public services and value for money) and how to ensure accountability in all of these processes.<sup>184</sup>

#### Costs and trade-offs

When developing policy stances related to *spending in line with national plans* it is particularly important to consider:

- The appropriate balance between spending that is justified by a long-term strategy and the need to be flexible to current needs



<sup>184</sup>The questions in the table here follow the Public Expenditure and Accountability (PEFA) framework, with issues pertinent to resource-dependent countries given greater prominence.



- The financial and time costs associated with strengthening the current budget formulation process (e.g., greater participation from other ministries) balanced against the risks of a weak process (e.g., overspending, underspending and waste)

*When developing policy stances related to **off-budget spending** it is particularly important to consider:*

- The financial, economic and political costs of off-budget spending and veracity of the justifications for any off-budget spending

*When developing policy stances related to **subnational revenue sharing**\* it is particularly important to consider:*

- The current political and economic relationship between resource-rich local governments and the national government, and whether there are expectations of local ownership or fiscal independence
- The fiscal responsibilities of local governments related to extraction
- The capacity of local governments to spend money efficiently and effectively and to respond to the unique revenue management challenges of resource wealth

\* These questions are also included in Worksheet G.V. on Local Impacts section above and should be covered here only if that issue area is not selected for discussion.

For more information on these policy issues, please refer to Precept 9 in the Charter Benchmarking Framework and the NRGi primers on the resource curse, fiscal rules and natural resource funds, revenue management and distribution, and transparency mechanisms and movements.<sup>185</sup>

<sup>185</sup> The Resource Curse primer is available at <<http://www.resourcegovernance.org/analysis-tools/publications/primer-resource-curse>>; the Fiscal Rules and Natural Resource Funds primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-fiscal-rules-and-natural-resource-funds>>; the Revenue Management and Distribution primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-revenue-management-and-distribution>>; and the Transparency Mechanisms and Movements primer is available at <<http://www.resourcegovernance.org/analysis-tools/publications/primer-transparency-mechanisms-and-movements>>.

Guiding questions	Current orientation
<ul style="list-style-type: none"> <li>Does the party already have a stance (formal or informal, public or internal) on how revenues should be accounted for and reported? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>Does the party already have a stance (formal or informal, public or internal) on under what circumstances some revenues should be allowed to be off-budget? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>What do the party base and its core constituencies think about how resource revenues should be spent? What does the wider population think?</li> </ul>	
Guiding questions	Current framework
<ul style="list-style-type: none"> <li>Does public spending align with national plans? Are revenues spent as intended?</li> </ul>	
<ul style="list-style-type: none"> <li>Are revenues spent in a transparent and accountable way? What oversight mechanisms exist? Is spending subject to independent auditing?<sup>186</sup></li> </ul>	
<ul style="list-style-type: none"> <li>Does the government allow off-budget transfers (e.g., by SOEs, savings funds or development banks)? If so, under what conditions and how are they accounted for?</li> </ul>	
Policy options	Stances
<p><b>What should the government do to ensure that public spending aligns with national plans?</b></p> <ul style="list-style-type: none"> <li>Should national and sector plans be formally integrated into the budgeting exercise?</li> <li>Should public investment projects be designed and appraised based on national and sector plans?</li> </ul>	<p><i>Example stance:</i> The party believes that the spending of natural resource revenues should be in line with national plans. We therefore commit to integrating the resource sector strategy into the national development plan.</p>
<p><b>What should the government do to ensure that revenues are distributed in an accountable and transparent manner, and avoid off-budget transfers and spending?</b></p> <ul style="list-style-type: none"> <li>Should all government spending from resource revenues be appropriated through the national budget?</li> <li>Should state-owned enterprises, savings funds or development banks be allowed to receive revenues off-budget? If so, what is the justification? What should be done to ensure that such revenues are managed in a transparent, accountable and efficient manner?</li> </ul>	<p><i>Example stance:</i> The party believes that natural resource revenue should be distributed in a transparent and accountable way. We therefore commit to spending all resource revenues through the central government account, brought directly into the national budget.</p>
<p><b>What should the government do to ensure that public revenues are spent as intended?</b></p> <ul style="list-style-type: none"> <li>What spending controls and commitment plans should be put in place?</li> <li>What should be done to ensure that public investment projects are implemented as planned?</li> <li>What should be done to ensure that public procurement is predictable and subject to a process of open and competitive tendering?</li> </ul>	<p><i>Example stance:</i> The party believes that any natural resource-funded projects should be executed transparently and accountably. We therefore commit to putting spending controls and commitment plans in place around any such projects.</p>

<sup>186</sup> Information on the current framework may be available in the RGI data under questions 2.1.4a-2.1.4d.

Policy options	Stances
<p><b>What should the government do to better account for and report on revenues and public spending and to ensure that there is strong oversight of public expenditure?</b></p> <ul style="list-style-type: none"> <li>• How should public spending (including any off-budget spending of resource revenues) be fully accounted for and reported?</li> <li>• What should be done to ensure that budget and off-budget recurrent spending is subject to independent audit and oversight?</li> <li>• How should public investment projects be accounted for and reported on?</li> <li>• Should there be independent audits and evaluations of public investment projects?</li> </ul>	<p><i>Example stance:</i> The party believes that all natural resource revenues and related spending should be managed according to the highest accounting and reporting standards. We therefore commit to subjecting all spending to regular, thorough and independent audits.</p>
<p><b>Should revenues be allocated to subnational governments?*</b></p> <ul style="list-style-type: none"> <li>• If so, what type of revenues and to which subnational authorities? How should they be shared and what should be done to ensure such transfers are based on a well-articulated set of objectives, and that these are correct and timely?</li> </ul>	<p><i>Example stance:</i> The party believes that a small portion of the royalties from the extraction of natural resources should be shared with the state governments where extraction takes place. We therefore commit to establishing a transparent and accountable mechanisms for subnational transfers.</p>
<p>* These questions are also included in Worksheet G.V. on Local Impacts section above and should be covered here only if that issue area is not selected for discussion.</p>	



## Worksheet G

### IX. Private sector development

In order to foster development beyond the lifecycle of extraction, governments must ensure not just that companies operate transparently, accountably and with integrity, but also that the resource sector stimulates the growth of other sectors and benefits the wider economy.

While public attention and demand is often trained on the few jobs available from extractive industries, this is just a small part of the possible non-financial contributions of the private sector and parties are in a strong position to help expand that view, manage expectations and reorient that energy towards economic diversification. The policy position can support this effort by setting out the principles for creating a good enabling environment for responsible business. It can also identify policies and mechanisms for harnessing resource companies' expertise and inputs to strengthen the private sector overall, ideally leading to meaningful economic diversification. This happens through job creation and the purchasing of local goods and services, building resource sector-related infrastructure that can be shared with other users and processing commodities that can provide cheaper energy, petrochemicals or mineral inputs to industry.

#### Costs and trade-offs

*When developing policy stances related to **local content** it is particularly important to consider:*

- How many direct and indirect jobs might realistically be available in the extractive sector over the lifecycle of projects
- The skill levels required for those jobs and the investment needed to build those skills in the domestic workforce (if not present already)
- The capacity for domestic companies to meet the likely service and subcontracting needs of the sector and the investment required to help local companies participate efficiently (if not already the case)

*When developing policy stances related to **extractives-linked infrastructure** it is particularly important to consider:*

- The current and future infrastructure needs of extractive sites and the surrounding communities, and the time and financial costs of building or adapting the current infrastructure to meet those needs





- The potential economic and development impacts of the additional infrastructure for the surrounding community
- The maintenance costs of the infrastructure over time
- The financial and economic implications of opening up infrastructure for shared use

*When developing policy stances related to **downstream investments** it is particularly important to consider:*

- The time and financial costs of creating a domestic processing facility, weighed against the added sales value of a more processed good
- The potential national consumption rate for the processed resource, how the unit costs for the consumption rate compare with what is available on the foreign market and the foreign demand for the product

For more information on these policy issues, please refer to Precepts 10 and 11 in the Charter Benchmarking Framework and the NRGi primers on extractives-linked infrastructure and local content.<sup>187</sup>

Guiding questions	Current orientation
<ul style="list-style-type: none"> <li>• Does the party already have a stance (formal or informal, public or internal) on how resource extraction should benefit the wider economy? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>• Does the party already have a stance (formal or informal, public or internal) on how private companies should contribute to local economic development? If so, what is that stance?</li> </ul>	
<ul style="list-style-type: none"> <li>• What do the party base and its core constituencies think about the how resource extraction should benefit the wider economy and how private companies should contribute to local economic development? What does the wider population think?</li> </ul>	

<sup>187</sup> The Extractives-linked Infrastructure primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-extractives-linked-infrastructure>>; and the Local Content primer is available at <<http://www.resourcegovernance.org/analysis-tools/publications/primer-local-content>>.

Guiding questions	Current framework
<ul style="list-style-type: none"> <li>• What is the current legal and regulatory framework for non-extractive private sector development? Is it adequately enforced?</li> </ul>	
<ul style="list-style-type: none"> <li>• What are the major challenges and obstacles for businesses operating in the country, in both the resource and non-resource sectors?</li> </ul>	
<ul style="list-style-type: none"> <li>• What are the major weaknesses in the country's education and health levels, and how women are able to participate in the economy?</li> </ul>	
<ul style="list-style-type: none"> <li>• What does the government currently do to ensure that the resource sector benefits the wider economy? Do domestic workers have the opportunity to operate in the sector through local content requirements or other means?</li> </ul>	
<ul style="list-style-type: none"> <li>• Is the sector's infrastructure available for third-party use wherever possible, in law or in practice?</li> </ul>	
<ul style="list-style-type: none"> <li>• Are natural resources processed and used domestically?</li> </ul>	
Policy options	Stances
<p><b>What should the government do to ensure that it makes general purpose investments and to remove bottlenecks to non-resource sector growth?</b></p> <ul style="list-style-type: none"> <li>• How should the government engage with the private sector in a manner that protects the best interests of the country as a whole, on grounds of economic rationale rather than patronage?</li> <li>• Should more be done to identify and address gaps between the country's existing physical infrastructure and the needs of the private sector?</li> <li>• Should the government do more to identify and address bottlenecks and gaps in domestic construction services?</li> <li>• Should more be done to identify and address bottlenecks in the financial system?</li> <li>• What needs to be done to identify and address weaknesses in the country's health and education levels?</li> <li>• What needs to be done to identify and address weaknesses in how women are able to fully contribute to the economy?</li> <li>• Should more be done to identify and address weaknesses in business regulation?</li> </ul>	<p><i>Example stance:</i> The party believes that the government should prioritize removing bottlenecks to non-natural resource sector growth. We therefore commit to develop a plan for identifying bottlenecks in the construction and financial systems that are created or exacerbated by the resource sector.</p>
<p><b>What should the government do to ensure that domestic businesses and workers have the opportunity and capacity to operate in the extractive sector?</b></p> <ul style="list-style-type: none"> <li>• What needs to be done to remove barriers to local participation?</li> <li>• Should there be local content rules? If so, what should be done to ensure that they are consistent with local capacity, avoid excessive protection and guard against corruption? How should the government monitor and enforce companies' adherence to the rules and the government's own support measures?</li> </ul>	<p><i>Example stance:</i> The party believes that the government should do more to ensure that domestic businesses and workers are able to operate in the extractive sector. We therefore commit to establishing fair and appropriate local content rules for the sector.</p>

Policy options	Stances
<p><b>Should the government ensure that extractive industry infrastructure is open to third parties wherever economically feasible?</b></p> <ul style="list-style-type: none"> <li>• What should be done to help the coordination of extractive companies with other potential infrastructure users?</li> <li>• How should the costs and benefits of facilitating shared use of infrastructure be assessed?</li> </ul>	<p><i>Example stance:</i> The party believes that shared natural resource-related infrastructure is beneficial to the wider economy. We therefore commit to assist in the coordination of resource sector companies with other potential infrastructure users.</p>
<p><b>Should the government take the opportunity to use oil, gas and mineral resources domestically, when the opportunity costs of doing so are more than the benefits?</b></p> <ul style="list-style-type: none"> <li>• If so, should an independent and robust assessment of the market failures, costs and benefits of domestic processing and marketing be published?</li> </ul>	<p><i>Example stance:</i> The party believes that some of the country's natural resources should be used domestically. We therefore commit to developing a policy on this issue, informed by a thorough market assessment in order to understand the costs and benefits.</p>

## Worksheet H: Concluding questions

Use this worksheet to review the vision statement developed in Worksheet F and the issue-specific stances developed in Worksheet G.

### Tasks

1. With reference to the guiding questions, assess the coherence of the vision statement and issue-specific stances across the decision chain and the alignment with strong transparency and accountability practices by indicating yes, no or unclear in the 'coherence' columns.
2. Describe the political viability of the vision statement and issue-specific stances in the 'viability' column.

If the answer to any of the coherence questions is 'no' or 'unclear', it may be necessary to revisit the stances. The viability questions (which should be supplemented with any other questions that may be important to the party) are designed to test the position ahead of submission to the party's decision-making body for approval.

Guiding questions	Coherence		
	Yes	No	Unclear
<ul style="list-style-type: none"> <li>• Is the policy position grounded in or does it set out a clear understanding of the country's resource endowment, who owns it and the positive and negative impacts of extraction?</li> </ul>			
<ul style="list-style-type: none"> <li>• Does the position lay the groundwork for a clear and inclusive national strategy on the management of resources?</li> </ul>			
<ul style="list-style-type: none"> <li>• Does the position ensure that resource management is sufficiently transparent for all actors to effectively understand and scrutinize decision-making and its implications?</li> </ul>			
<ul style="list-style-type: none"> <li>• Does the position enable oversight institutions and other actors to hold government officials to account?</li> </ul>			
<ul style="list-style-type: none"> <li>• Does the position resonate with a critical mass of citizens and does it enable them to hold government officials to account?</li> </ul>			
<ul style="list-style-type: none"> <li>• If the position is limited to just a few of the issue areas, does it take into account other areas that may be important for the country?</li> </ul>			
Guiding questions	Viability		
<ul style="list-style-type: none"> <li>• How does the direction being proposed differ from any existing party positions?</li> </ul>			
<ul style="list-style-type: none"> <li>• How clear are the linkages between the new position and the party's general ideology?</li> </ul>			
<ul style="list-style-type: none"> <li>• Based on their known public positions on this issue, how is the position different from those of other parties?</li> </ul>			
<ul style="list-style-type: none"> <li>• To what extent is the position likely to appeal to the party base and the wider electorate?</li> </ul>			
<ul style="list-style-type: none"> <li>• To what extent is the overall position formulated in an action-oriented and specific, measurable, assignable, realistic and timely (SMART) way?</li> </ul>			
<ul style="list-style-type: none"> <li>• If there are large costs or trade-offs associated with implementing the position, how will the party defend the cost-benefit ratio?</li> </ul>			

## Worksheet I: Implementation plan

Use the table below to craft an implementation plan for the new natural resource policy position

### Tasks

1. For each issue area, use the 'commitments' column to list the major commitments included in the issue-specific stances. Example text is included in grey.
2. In the 'concrete actions' column list what the party intends to do, including timeframes where possible. Example text is again included in grey.
3. In the 'approach' column, answer the corresponding guiding questions to outline more general plans for the position's implementation.

Issue areas	Commitments	Concrete actions
2. Transparency and accountability	Full transparency for natural resource revenues, savings and contracts	<ul style="list-style-type: none"> <li>• Publish all revenue and accounts data in a regular, timely and disaggregated way and in an open data format</li> <li>• Publish all contracts by the end of the year, in an open data format</li> </ul>
	Independent auditing of natural resource management	<ul style="list-style-type: none"> <li>• Ensure that the supreme audit institution is able to audit the government's management of natural resources, that comprehensive and timely audits are published and that the government responds to audit findings</li> </ul>
1. Strategy, legal framework and institutions		
2. Transparency and accountability		
3. Exploration, licencing and monitoring operations		
4. Taxation and other company payments		
5. Local impacts		
6. State-owned enterprises		
7. Revenue management		
8. Public spending		
9. Private sector development		

Guiding questions	Approach
• How will the position be integrated into the party's existing manifesto?	
• Who in the party will be responsible for leading action on the position?	
• How will the party hold itself accountable for the position?	
• When and how will the position be reviewed to ensure it fits changing circumstances?	
• What are the upcoming opportunities for putting the position into practice? (elections, legal reform, etc.)	
• What kind of cooperation and consensus-building beyond the party will be needed to put the position into practice?	

### **Hold consultations and finalize the position**

In order to inform the drafting process and increase buy-in for implementation, the working group should collect feedback on the draft policy from the wider party's membership, and external stakeholders and experts. It is at this stage of the process that revisiting Worksheet C will be critical, helping to identify which key internal and external stakeholders to consult and how.

Peru is an interesting example of parties taking very different approaches. Two of the parties developed positions without a deliberative process involving many stakeholders and so the positions lacked buy-in and failed to incorporate the interests of grassroots members. Meanwhile, another party and a coalition developed more nuanced positions through meaningful intra-party dialogue.<sup>188</sup> South Africa's ruling African National Congress debates policy positions in a party conference, involving participation by alliance partners as well as regional representatives.

Public consultations can also be a great way to get input, test assumptions and begin to secure buy-in. In Ghana, broad public consultations after the discovery of oil not only informed the drafting of key laws, but also had the added benefit of increasing public awareness of the opportunities and challenges of oil wealth.<sup>189</sup>

Following the consultations, the lead drafter should incorporate the feedback, in coordination with the working group, and resolve any divergent points of view that may have arisen. In the event that highly contentious points cannot be resolved—which may well be the case given the often-contentious nature of resource governance issues—the working group may want to escalate them to the party leadership. Ideally, any sector experts involved in the drafting process will remain on call to answer questions throughout this finalization.

### **Secure overall party approval**

Once the policy position has been finalized, the working group will need to submit the draft for party approval. In South Africa, the ruling African National Congress votes on policies proposed by the Economic Transformation Committee at a national congress that takes place every five years.<sup>190</sup> In Norway, party positions are also finalized at party congress meetings, which take place one or two years before each general election.<sup>191</sup>

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<sup>188</sup> See the Peru case study in Chapter 2.

<sup>189</sup> See the Ghana case study in Chapter 2.

<sup>190</sup> See the Norway case study in Chapter 2.

<sup>191</sup> See the South Africa case study in Chapter 2.



As the Ghanaian multiparty process demonstrated (see Box 3.4), the participation of senior leadership and other relevant stakeholders in the planning and drafting process can facilitate stronger consensus and buy-in during approval. Another optional measure is to ask an influential party member to present the final document to the leadership on behalf of the working group—ideally someone with natural resource expertise and/or who has championed governance issues in the past.

The final resource policy position must be properly understood and accepted by the party leadership. The fact that the complexities of resource governance are typically so poorly understood, but span so many areas of policy implementation make it critical that the position has strong buy-in from as wide a range of members as possible, especially those likely to be involved in its implementation. For example, if the position includes a strong stance on environmental impacts, it is important that any party members in the environment ministry, natural resource ministry and relevant committee in parliament are clear about the standard and its importance.

The worksheets included in this guide may be useful not only for working through the process, but also to capture all of the thinking that will be helpful to have on hand during final approval. This is particularly true for Worksheets A and H, which can help explain why some issue areas were initially prioritized over others and the extent to which the position is coherent and viable.

### **Disseminate the position**

Big numbers about potential revenues and extraction rates tend to inflate public expectations and can make it harder for politicians to implement soundly developed policies. This, combined with the highly complex nature of the sector, makes it especially important for the party to ensure that its constituencies and the general public have a solid understanding of the position. This will help the party articulate its priorities, commitments and expertise prior to an election, and help weather populist tendencies that could stymie implementation after the election.

There are a number of options to consider for the presentation and dissemination of the new position. The best path will depend on the overall objective of the process, the format of the position and the plans for its implementation. If the position has been developed for mainstreaming into an electoral manifesto, then the publication will follow the party's own manifesto launch process. If the party wants to give resource governance issues special prominence—which may make sense given the social and economic importance of the topic—it can consider publishing the position as a standalone document.

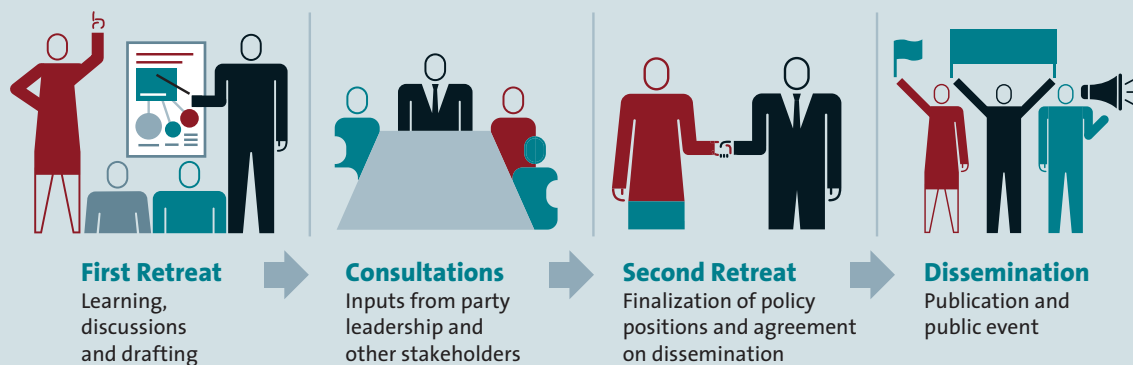
Internal distribution can be done through the party's intranet, using membership mailing lists or by featuring the publication in the party's newsletter. External

distribution can involve interviews with the print media, radio or television, posts on social media and uploading it on to the party's website. The party may also consider organizing a public launch. An official presentation provides the opportunity to generate interest in the media and ensure that the position is relayed to constituents to garner support and maximize the benefits of having a clear position on such an important topic. Ahead of the 2016 elections in Ghana, four political parties presented their resource policy positions at a joint launch and three published them on an online portal called Oil Matters, which allowed voters to review the positions and related information ahead of the elections.<sup>192</sup> For more on the Ghana process, see Box 3.4.

### **Box 3.4** **Policy position development in Ghana**

In 2015–2016, NRG and International IDEA worked with the four main political parties in Ghana as they developed policy positions on resource governance.

#### **The drafting process**



#### **First retreat**

The parties began the process by attending a four-day retreat together, away from party headquarters and parliament. Part of the retreat was focused on the review of party preparedness and available resources, but the bulk of the time was devoted to training sessions on four priority issue areas, led by international and local experts from think tanks, civil society and government.<sup>193</sup>

<sup>192</sup> The website can be found at <<http://oilmatters.info/>>. For more information on the website, see also, <<http://www.reportingoilandgas.org/launch-of-penplusbytes-amplifying-oil-and-gas-issues-project/>>.

<sup>193</sup> See the Annex II for the agenda of the first policy retreat.

The expert leads began each session by providing a comprehensive overview of the issue area, highlighting the background and current state of affairs in the country and international practice, followed by an overview of available policy options and trade-offs. After each training session, the working groups individually deliberated on possible stances using worksheets similar to the more detailed set presented throughout this chapter. The working group facilitators and lead drafters carefully steered group members from answering questions in the worksheets to the incremental drafting of policy stances on each of the issue areas. At the end of the retreat, half a day was earmarked to review the draft positions and make sure that they were consistent and feasible across the board.

In addition to structured training and drafting, ongoing learning was an integral part of the policy development process. Experts were asked to remain on standby during working group discussions at the policy retreat and afterwards to address technical questions from party members.

### *Consultations*

The parties emerged from this first retreat with draft policy positions, which they shared with party cadres and governing bodies, as well as relevant external stakeholders, including local civil society representatives and sector experts, for review and feedback. These consultations and the subsequent draft revision took about a month and again were supported by technical experts with deep knowledge of both resource governance issues and Ghana.

### *Second retreat*

A second retreat of one day was held with all the parties together at the end of the consultation period. The parties discussed the revised drafts, covered any remaining contentious issues and obtained an additional round of expert feedback. They also discussed plans for dissemination and the development of key messages to use in outreach to media and the public.

Across all four parties, the process for securing leadership sign-off and sanctioning the policy statements as party documents took a little over two months. The final sign-off was eased by the ongoing consultations with senior leadership throughout the process and the fact that influential party members championed the writing of the statements and took the lead in presenting the final document to the party leadership and governing bodies.





### **Dissemination**

Three of the four political parties then published their positions as standalone documents.<sup>194</sup> The same parties sent copies of their policy positions to party branches throughout the country, allowing members to read up on the party's policy right at the start of the 2016 election campaign. There was also a joint public launch of the positions that was well attended, widely watched via a webcast and even trended on twitter. The event was not only an opportunity for the parties to showcase their positions, but also a venue for lively debate on the policy options offered by the different parties. Experts from civil society, academia, the private sector and communities from producing areas were invited to share their feedback. The three published positions are now available on an online portal called Oil Matters.<sup>195</sup>

The process was welcomed as a success by the parties and by external stakeholders. As Dr Kwame Ampofo, Chairman of the Board of the Ghana Energy Commission and a former Member of Parliament for the National Democratic Congress (NDC) explained: 'The policy development retreat has even made us look at our own party ideology, our vision. We were at a loss when we needed to state them. We went back to our party constitution and old and current manifestos and then we even took statements on oil and gas from former NDC presidents and the current president, because you cannot have a position right now that is at variance with previous standpoints. So it was a very useful exercise and I personally think that I have become a better [party] member than I used to be'.<sup>196</sup>

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<sup>194</sup> The three published positions can be found at <<http://oilmatters.info/knowledge-hub/>>.

<sup>195</sup> The website can be found at <<http://oilmatters.info/>>.

<sup>196</sup> Brouwer, Kayitare and Perdomo (note 56).

## Conclusion

As noted in Chapter 1, natural resource wealth brings unique opportunities and risks. Oil, gas and mineral extraction can finance sustainable and equitable economic development. It can also undermine democracy, entrench corruption, distort economies and lead to terrible environmental and social impacts. Strong government institutions complemented by a capable, informed and free civil society are critical—and often cited—tools for avoiding the so-called resource curse. The role of political parties is less well known but, as highlighted in the Chapter 2 case studies, they can both help and harm resource governance outcomes.

Having a clear, evidence-based and implementable policy position is key to ensuring that the party contributes positively to resource governance. As outlined in this chapter, developing such a position requires dedicated time, funds and staff to initiate, design and implement the process, as well as a serious commitment from the highest levels of the party, thorough analysis supported by experts and wide consultations. Whether in power or in opposition, the position will help the party navigate the complex challenges of resource wealth and ensure that it is managed transparently, with accountability and in the best interests of all citizens.

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# Appendix

## Technical terms and definitions

Terms	Definitions
<b>absorptive capacity</b>	The ability of the government or the economy to transform (i.e., ‘absorb’) additional money (e.g., revenues, investments) into tangible goods and services without causing inflation or wasteful spending. It depends on the availability of skilled workers and suppliers in the economy, as well as government competency.
<b>beneficial ownership</b>	A beneficial owner is a natural person who, directly or indirectly, exercises substantial control over a legal entity or has a substantial economic interest in, or receives substantial economic benefit from, that legal entity.
<b>commodity</b>	A raw material such as oil, gas or minerals, or a primary agricultural product that is bought or sold on markets.
<b>community development agreements (CDAs)</b>	Agreements between companies, governments and communities that seek to improve the welfare of the community near the project site.
<b>competitive tender</b>	The process by which the government makes a public call for companies to submit bids for a particular extractives project, opening the opportunity to bid to more than one party. Auctions are a common form of competitive tender in the petroleum sector.
<b>corporate income tax</b>	A tax assessed as a percentage of the net profits of a company after deducting allowable expenses.
<b>decision chain</b>	A model of the interrelated policies made by a government in managing resource extraction from exploration and licencing to investing revenues. It is used as a conceptual framework in the Natural Resource Charter, the Extractive Industries (EI) Source Book and other references for understanding natural resource governance.
<b>domestic investment</b>	Investment in assets—such as bonds, equities, human capital (e.g., education) and physical capital (e.g., machinery)—by nationals or the government inside their home country.
<b>economic diversification</b>	The process of producing goods and services in different sectors (e.g., agriculture, manufacturing, services, natural resources) so that no single sector dominates the economy.
<b>economic efficiency</b>	A state that is reached when resources are optimally used and distributed in the economy, minimizing waste and maximizing potential gains.
<b>environmental and social impact assessment (ESIA)</b>	An evaluation of the social and environmental implications of a project’s extraction activity; usually required before the project begins and approved by the government.
<b>exhaustibility</b>	The finite or non-renewable nature of a resource; its ability to be depleted or used up.
<b>extractive resource</b>	A non-renewable natural resource found in or under the ground; specifically oil, gas or minerals.
<b>fiscal regime</b>	The set of terms and instruments (e.g., taxes, royalties, dividends) that together determine how the revenues from extractive projects are shared between the state and companies.
<b>fiscal rule</b>	A multi-year constraint on overall government finances defined by a numerical target; for example, limiting public expenditure growth to three per cent per year.



Terms	Definitions
<b>fiscal stability/ stabilization</b>	The policy of mitigating the impact of volatile resource revenues on the government budget by, for example, saving windfall revenues in a fund, paying down public debt when revenues are high, drawing down on public savings or borrowing when revenues are low, thereby smoothing year-to-year spending.
<b>fiscal sustainability</b>	The ability of the government to maintain its current spending and tax policy over the long term without threatening solvency or risking default; it is especially important in regions dependent on finite resource revenues.
<b>free, prior and informed consent (FPIC)</b>	The principle that communities (often indigenous communities) have the right to give or withhold their consent to proposed projects that might affect the lands they own, occupy or otherwise use. It also often encompasses a process of consultation necessary for obtaining valid consent.
<b>governance</b>	The form of political regime or the manner by which authority is exercised in the management of a country's social or economic resources for the public good. Can also refer to the capacity of governments to design, formulate and implement policies and discharge functions.
<b>infrastructure</b>	Physical or organizational structures, such as roads, railways, telecommunications and water facilities.
<b>licence</b>	A standard-form legal document that the state or a subnational government uses to grant exploration or extraction rights according to a generally applicable set of terms, with limited variation from one project to another. Also known as a permit in some jurisdictions.
<b>licence area</b>	Designated geographic areas over which resource exploration and/or extraction rights are granted. Also known as blocks or concession areas.
<b>licencing</b>	The process and approach through which companies are granted the right to extract. Openness and competition in the allocation of rights can have a positive impact on the quality of the outcome.
<b>local content</b>	Non-tax benefits to the national economy and communities through the use or development, by extractive sector operators, of domestic labour, suppliers, goods and services, capital and infrastructure.
<b>model contract</b>	A document outlining generic terms for possible extraction agreements within a country. The level of detail in and deference given to a model contract vary from country to country.
<b>natural resource funds</b>	Sovereign wealth funds that are financed primarily from oil, gas or mineral revenues.
<b>non-fiscal benefits</b>	The benefits a government or community might get from an extraction project that are not related to the collection of monetary rents. This can include jobs, infrastructure and other contributions to the local economy.
<b>off-budget spending</b>	Government spending that is not managed through the normal budget process and therefore may not be subject to the same high standards such as parliamentary oversight, or procurement and audit requirements.
<b>project lifecycle</b>	The successive stages of an extraction project; usually moving from exploration, development and production to closure. It can last between five and 200 years depending on the size and geology of the project.
<b>quasi-fiscal expenditures</b>	Expenditures by a government entity outside of the ministry or government entity's main purpose. For example, national oil company spending on schools instead of their core business, usually acting on behalf of government.
<b>reserves</b>	The subset of total resources that it is commercially viable to extract.
<b>resource curse</b>	The paradox that countries with an abundance of natural resources, specifically non-renewable resources such as minerals and fuels, tend to have lower economic growth and worse development outcomes than countries with fewer natural resources.
<b>resource rent</b>	Revenues that accrue from a natural resource extraction project above and beyond the total costs and economic returns.

Terms	Definitions
<b>resource revenue transfers</b>	Revenues from extractive projects that are collected by the national government and shared with subnational authorities.
<b>revenue distribution</b>	How a government allocates natural resource revenues to different levels of government, to institutions or directly to citizens.
<b>royalties</b>	Payments due to the resource owner based on either on a percentage of the value of the resource extracted (e.g., 4 per cent on the sale value of the gold extracted) or on a per unit of extraction basis (e.g., 4 per cent on each ounce of gold produced).
<b>sovereign wealth fund (SWF)</b>	A state-owned entity with macroeconomic objectives that invests at least partly in foreign financial assets.
<b>stabilization clauses</b>	Terms in contracts that determine how the contract interacts with other laws in the country. They often limit the potential for changes in laws to influence the terms of the contract for a period of time or in a particular area (e.g., changes in the fiscal regime).
<b>state-owned enterprise</b>	A company that is either wholly or partially owned by the government, which is created to undertake commercial activities on its behalf. Also known as a state-owned company (SOC), or as a national oil company (NOC) in the oil sector.
<b>state equity participation</b>	A state's ownership stake in mineral or oil and gas ventures, either as the sole commercial entity or in partnership with private companies. The government's stake can be in the form of paid equity (where the state pays a market rate for its shares and may have to meet cash calls for project development expenses); carried equity (where the private-sector partner finances part of project costs upfront and the government pays for its equity via foregone revenues); or free equity (where the government pays nothing for its equity, but makes trade-offs elsewhere in the fiscal package).
<b>strategic impact assessment</b>	A methodology for a government to evaluate the overall benefits and costs to the country of licencing areas. This is sometimes known as a strategic environmental assessment (SEA).
<b>subnational authority</b>	Official authority or representative of government at a level lower than national (e.g., state, provincial or district).
<b>tax base</b>	In accounting, the type of revenue to which taxes are applied and its method of calculation.
<b>volatility</b>	In the extractive context, this refers to the frequent tendency of oil, gas and mineral prices to fluctuate unpredictably and dramatically.

For more terms and definitions, see NRG's Resource Governance Glossary, available at <https://resourcegovernance.org/analysis-tools/tools/natural-resource-governance-glossary>.

# Annex

## First retreat agenda from the 2015–2016 multiparty process in Ghana

	Thursday, 15 October	Friday, 16 October	Saturday, 17 October	Sunday, 18 October	Monday, 19 October
09.00-10.00	Arrival of participants	Welcome remarks <b>Adams Fusheini</b>	Political processes behind an oil and gas strategy in Norway <b>Einar Steensnæs</b>	Policy options to manage fiscal responsibility in Ghana <b>Joe Amoako-Tuffuor</b>	Strategic gaps & opportunities for Ghana <b>Dr. Mohammed Amin Adam</b>
10.00-11.00		Expectations of policy process <b>IDEA</b>	State participation in the oil & gas sector <b>Panel discussion</b>	Teams discuss their respective party policy positions <b>IDEA &amp; NNGI</b>	Identifying internal and external stakeholders, available capacity and resources <b>IDEA</b>
		Discussion on internal party preparedness <b>IDEA</b>			
11.30-13.00		Review the party's overall political vision <b>NRGI</b>	Teams discuss their respective party policy positions <b>IDEA &amp; NNGI</b>	Optimizing transparency and accountability <b>Dr. Steve Manteaw &amp; Sam Bekoe</b>	Teams finalize drafts policy positions
14.00-15.00		Extractives for development: a vision for implementation <b>Tony Paul</b>	Beyond PRMA review: outstanding revenue management issues <b>Mark Evans</b>	Teams discuss their respective party policy positions <b>IDEA &amp; NNGI</b>	Closing remarks and way forward <b>Frank Kayitare &amp; Femke Brouwer</b>
15.30-17.00		Teams discuss their respective party policy positions <b>IDEA &amp; NNGI</b>	Teams discuss their respective party policy positions <b>IDEA &amp; NNGI</b>	Teams compile coherent drafts of their respective party policy positions on revenue management and transparency & accountability	
19.30					
	Indicates general (dialogue) sessions for all political parties				
	Indicates parallel discussion sessions for each individual party				
	Indicates content oriented sessions for all political parties				

Resource wealth brings a unique set of challenges often known as the ‘resource curse’—challenges which political parties with informed and comprehensive policy positions are well positioned to help address. Political parties have an important role to play in ensuring that natural resources are managed transparently, accountably and in the long-term best interests of their countries.

According to research by the International Institute for Democracy and Electoral Assistance (International IDEA) and the Natural Resource Governance Institute (NRGI), where there is free and equal access to political power, there are stronger laws, institutions and practices in place to help realize the full value of resource extraction and to manage the resulting revenues.

The purpose of this Guide is to examine the role that parties have and can play in resource governance, and to assist political parties looking to develop strong policy positions across a wide range of political and technical topics. The report builds on the lessons from a 2015–16 project in Ghana on the development of resource policy positions for political parties, and is informed by six country case studies as well as a broad body of good practice in party engagement and resource governance.

The Guide is the product of a collaboration between International IDEA and NRGI. Both organizations are committed to supporting political parties to develop and follow through on evidence-based resource policy positions.

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