

Measurement and Assessment of Natural Resource Governance

Benchmarking and Ranking to Identify Reform Priorities

KEY MESSAGES

- The success or failure of resource management rests on getting governance and economic management right across a whole chain of decisions. Therefore, each step in the chain must be carefully considered.
- NRGI provides two measurement and assessment tools to help countries identify their strengths and weaknesses: the Resource Governance Index and the Natural Resource Charter Analysis Framework.
- These frameworks can help resource-rich countries identify and address weaknesses and inform comprehensive sector reforms or strategies.

“Countries ought to initiate a strategy process as early as possible; the process should guide decision making yet remain adaptable to changing circumstances.”

– Natural Resource Charter, Precept 1

ASSESSING THE QUALITY OF NATURAL RESOURCE GOVERNANCE

For different and complementary purposes, the Resource Governance Index (RGI) and the Natural Resource Charter Analysis Framework represent two of the leading tools for assessing the quality of natural resource governance. These tools—in particular the charter analysis framework—can serve to organize the discussion and development of national strategies for how to maximize benefits from natural resources. This reader will describe both tools and provide information about how they differ from and complement each other.

RESOURCE GOVERNANCE INDEX (RGI)

The RGI is a measure of transparency and accountability of the oil, gas and mining sector in 58 countries produced by NRGI. To compile the index researchers use a specially designed questionnaire to collect data. The RGI is a hybrid index, using a mix of primary and secondary data. The primary data collected through the questionnaire assesses the governance and transparency in the extractive sector. To include information about the general country context (under a component called *enabling environment*), the index uses data gathered from more than 30 external sources including the Economist Intelligence Unit (EIU), International Budget Partnership, Transparency International (TI) and Worldwide Governance Indicators (WGI). The RGI is not a survey of opinions, but instead looks at whether a country meets a set of standards, primarily by assessing whether the country publicly discloses information about a specific issue in the governance of natural resources.

This reader is intended for use in conjunction with the Natural Resource Charter.

The RGI evaluates four key components of resource governance in each country. It assigns a numerical score to each country and divides them into four performance ranges—satisfactory, partial, weak and failing.

The four components (with indicators) from the 2013 RGI are in Figure 1.

Institutional & Legal Setting (20%)	Reporting Practices (40%)	Safeguards & Quality Controls (20%)	Enabling Environment (20%)
10 Indicators	20 Indicators	15 Indicators	5 Indicators
Indicator	Indicator	Indicator	Indicator
Freedom of information law	Licensing process	Checks on licensing process	Accountability & democracy (EIU Democracy Index & WGI voice and accountability)
Comprehensive sector legislation	Contracts	Checks on budgetary process	Open Budget (IBP Index)
EITI participation	Environmental and social impact assessments	Quality of government reports	Government effectiveness (WGI)
Independent licensing process	Exploration data	Government disclosure of conflicts of interest	Rule of law (WGI)
Environmental and social impact assessments required	Production volumes	Quality of SOC reports	Corruption (TI Corruption Perceptions Index & WGI control of corruption)
Clarity in revenue collection	Production value	SOC reports audited	
Comprehensive public sector balance	Primary sources of revenue	SOC use of international accounting standards	
State Owned Company (SOC) financial reports required	Secondary sources of revenue	SOC disclosure of conflicts of interest	
Fund rules defined in law	Subsidies	Quality of fund reports	
Subnational transfer rules defined in law	Operating company names	Fund reports audited	
	Comprehensive SOC reports	Checks on fund spending	
	SOC production data	Government follows Fund rules	
	SOC revenue data	Fund disclosure of conflicts of interest	
	SOC quasi fiscal activities	Quality of subnational transfer points	
	SOC board of directors	Government follows subnational transfer rules	
	Comprehensive fund reports		
	Fund rules		
	Comprehensive subnational transfer reports		
	Subnational transfer rules		
	Subnational reporting of transfers		

Figure 1. Categories for evaluating countries in the Resource Governance Index

RGI key findings (2013)

The RGI shows a **striking governance deficit in natural resource management world-wide**. Only 11 countries earn an overall score of above 70. The vast majority of countries exhibit serious shortcomings in resource governance.

The governance deficit is largest in the most resource-dependent countries. Of the 58 countries in the RGI, 41 are classified as resource-rich by the International Monetary Fund. Only five of the 41 countries (Norway, Mexico, Chile, Peru, and Trinidad and Tobago) have satisfactory standards of resource governance (a composite score of 70 or more).

The governance deficit affects nearly 450 million poor people in the most resource-dependent countries. The share of the population living on less than \$2 a day is higher at the bottom half of the RGI ranking. In 26 resource-rich countries with weak and failing performance, more than 300 million people (or 50 percent of their combined populations) live on less than \$2 a day.

NATURAL RESOURCE CHARTER ANALYSIS FRAMEWORK

The Natural Resource Charter Analysis Framework is an assessment tool to help government officials and other stakeholders measure how well a country is doing at developing policy on the management of extractive resources. Based on the 12 precepts of the Natural Resource Charter, the framework features analytical questions and guidance to help researchers carry out detailed country-specific analyses that take into account the full range of issues involved in effective resource management. The framework can be employed in a variety of ways, from complex and detailed national planning exercises that look at the whole decision chain to short research projects that only look at one specific link in the decision chain.

Questions and guidance in the framework have been designed to analyze two different aspects of government policy making in extractive resources. *Policy analysis* questions look at how effective current government policies and practices are. They seek to assess the impact of current policies on the management of extractive wealth and whether the government employs appropriate policies. While the RGI questions focus on whether a country meets standards, the charter assessment questions look at implementation and impact of policies.

Governance questions, by contrast, look at the wider governance environment in which government policy is being developed. Importantly, these questions assess whether a country has in place the appropriate rules, institutions, feedback, oversight and accountability mechanisms for government to identify and correct bad policy where appropriate and adapt policy to changing circumstances and new information.

Different uses of the Natural Resource Charter Analysis Framework

NRGI employs the charter analysis framework in many different aspects of the organization's work. The intended use of the framework dictates the depth of research and the number of stakeholders involved. Possibilities include:

- **National benchmarking exercises.** NRGI has supported the governments of Tanzania and Sierra Leone, and a group of civil society experts in Nigeria to use the framework to carry out detailed national diagnostic exercises. Repeated over time, these reports are a good tool to monitor reform progress.
- **Country strategy notes.** The framework has been used as the basis of contextual analysis to underpin NRGI's country strategies.
- **Workshops.** The framework can be used to guide discussion, analysis or exercises prior to, during or after a workshop or series of workshops. Questions from the framework can be used to orient participants at NRGI courses to better appreciate the charter decision chain.
- **Specific research projects.** The framework can be used as a starting point to build terms of reference for specific research work and to orient consultants on specific issues they should tackle in their research.
- **Basic gap analyses.** The framework and allied checklists have been designed to help map knowledge against the charter, and to determine where knowledge gaps exist.

FACILITATING COMPARISONS AND RESEARCH

The data produced by the RGI is publicly available, as are a number of data tools available on the website. These tools allow the user to see the data broken down by various categories to create comparisons based on geography or economic characteristics. The large data pool can facilitate more research in the sector and foster general theories about how to improve governance in the sector.

Similarly, as results from national exercises that use the charter analysis framework become available, public reports with detailed information about the management of extractives are coming into the public realm. While the information from the charter analysis framework provides a more detailed picture of where a country can focus to improve its extractive governance, the RGI allows an easier comparison of progress between countries and regions.

Case study: Nigeria

The RGI and benchmarking assessment produce different types of information about a country. Consider below the information about Nigeria produced in the summary from the RGI and the benchmarking exercise.

Nigeria's performance on the 2013 Resource Governance Index

Nigeria received a "weak" score of 42, ranking 40th out of 58 countries. Relatively strong performance on the institutional and legal setting component contrasted with a poor enabling environment score. The RGI country page (<http://www.resourcegovernance.org/countries/africa/nigeria/overview>) allows users to consider the score for each component as well as individual indicators. The RGI data tool (<http://index.revenuewatch.org/rgi/data-tool/>) allows users to compare Nigeria's performance to that of other countries.



Figure 2. RGI score for Nigeria

Natural Resource Charter Benchmarking of Nigeria (2014)

For each of the 12 Natural Resource Charter precepts, a series of questions was devised and answered by an expert panel using publicly available information. A "traffic light" system was adopted to assess whether each answer was positive (green), negative (red) or partial (amber). Where change has been observed from previous the report, the report uses upward and downward arrows to signify policy or governance improvements or deteriorations respectively. An equal sign is used where no change has been observed. This visual approach enables users to quickly identify strengths and weaknesses across the 12 precepts of the charter and track where change has occurred. The full 2014 report is available at <http://nigerianrc.org/content/2014-nnrc-benchmarking-report>.

Precept 1: Securing benefits for all Sector prioritizes short-term commercial aims over longer-term socio-economic ones	=	Precept 7: Investing for growth Recurrent to capital expenditure ratio remains high	=
Precept 2: Transparency and Accountability Murkiness prevails, e.g. "missing \$20 billion"	=	Precept 8: Stabilizing Expenditure Sovereign Wealth Fund versus Excess Crude Account. SWF still competing for legitimacy	=
Precept 3: Fiscal regime and contractual terms Losses persist due to weak regulation of costs	=	Precept 9: Efficiency and equity of public spending More "expenditure switching" for security, poor Subsidy Reinvestment and Empowerment Programme	↓
Precept 4: Award of contracts and sector roles Discretion and political influence play major roles	=	Precept 10: Private sector investment New projects like \$9 billion Dangote refinery and petro-complex	↑
Precept 5: Managing local impacts Local content increases, high environmental costs persist	=	Precept 11: Role of companies' home governments Communities seek redress abroad, transparency gains	↑
Precept 6: Nationally owned resource companies NNPC politically influenced, needs restructuring	=	Precept 12: Role of private sector companies Indigenous petroleum companies should follow international best practices	=

Figure 3. Nigeria Charter Benchmarking report (2014)

QUESTIONS TO ASK:

- How does my country perform on the Resource Governance Index? How does it compare to other countries in my region? Countries with similar economic characteristics?
- Are there ways to use the information from the RGI as an advocacy tool in my country?
- Has my country conducted an assessment using the charter analysis framework? If so, what are the areas of decision making where my country does well? Where can we do better?
- If my country hasn't conducted used the charter analysis framework, would it be useful? Who should be involved to make the most impact?

ADDITIONAL RESOURCES

NRC Analysis Framework (forthcoming, summer 2015).

Nigeria Natural Resource Charter benchmarking framework, available at: <http://nigerianrc.org/content/2014-nnrc-benchmarking-report>.

Resource Governance Index, available at: <http://www.revenuewatch.org/rgi>.

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

