NRGI Reader
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Natural Resource Governance Institute

The Natural Resource Charter Decision Chain

Converting Resources into Development

KEY MESSAGES

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

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

— Natural Resource Charter, Introduction

THE DECISION CHAIN

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

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

Decision chain and value chain

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

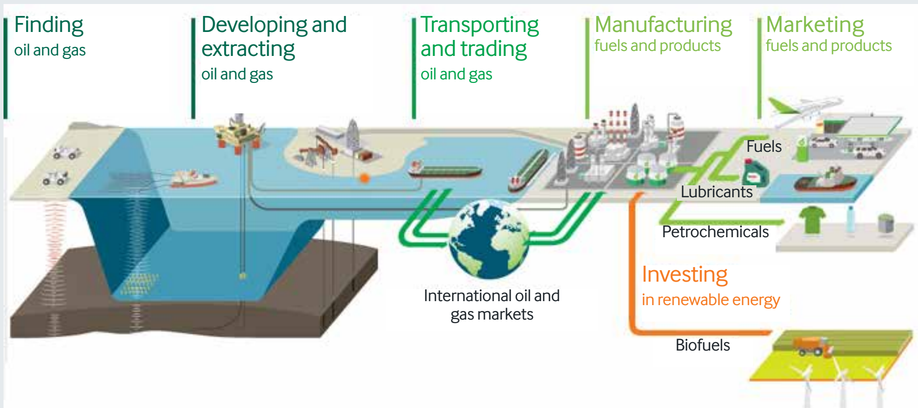

Figure 1. Oil value chain describing BP's business model.

Source: BP value chain image, available at: http://www.bp.com/en/global/corporate/about-bp/company-information/our-business-model.html

THE NATURAL RESOURCE CHARTER PRECEPTS

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

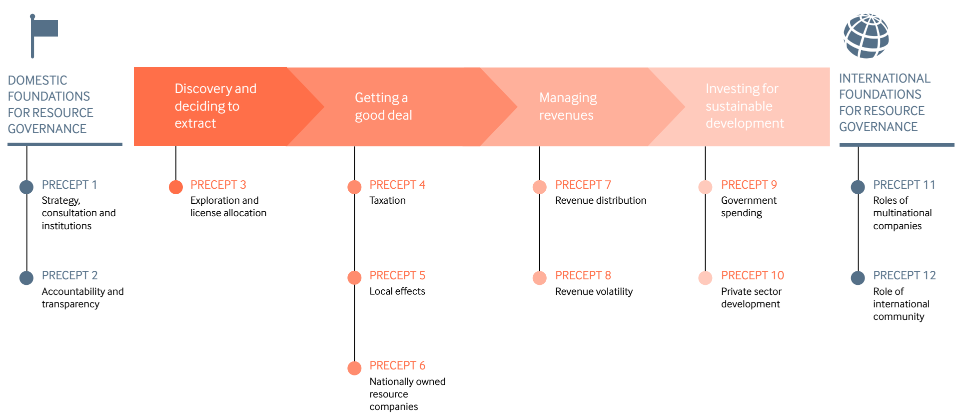

Figure 2. The Natural Resource Charter

Source: The Natural Resource Charter, available at: http://resourcegovernance.org/sites/default/files/NRCJ1193_natural_resource_charter_19.6.14.pdf

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

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

Some countries, such as Nigeria, Sierra Leone and Tanzania, are using the charter to evaluate their decision-making processes and learn where they can improve their governance. This benchmarking process is time-consuming and requires strong political will. Once it is completed, however, the government can create a relevant action plan for how to improve resource governance. For more information, see the reader on the measurement and assessment of natural resource governance.

NRC PRECEPTS

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

Charter precept	Primary questions covered by the precept
Precept 1. Resource management should secure the greatest benefit for citizens through an inclusive and comprehensive national strategy, clear legal framework and competent institutions.	**1.1 Strategy and coordination**. Does government use a comprehensive, coordinated and long-term strategy to guide extractive resource management? **1.2 Legal and institutional framework**. Is the legal and institutional framework sufficiently developed to govern extractive resources?
Precept 2. Resource governance requires decision makers to be accountable to an informed public.	**2.1 Transparency and availability of information**. Is there sufficient transparency and availability of information on the management of natural resources to hold officials from the government, private sector and civil society to account? **2.2 Official oversight**. Are official oversight bodies able to hold officials involved in the management of natural resources to account? **2.3 Informed public**. Is the public able to hold the government to account for the management of natural resources?
Precept 3. The government should encourage efficient exploration and production operations, and allocate rights transparently.	**3.1 Geological information.** Does government manage geological information in a way that enhances competition and improves its negotiating position? **3.2 Deciding to explore**. Where the government has decided to allow exploration and production, is this in line with local and national priorities? **3.3 Choosing companies**. Does the government allocate rights to the most financially and technically competent companies? **3.4 Development plans**. Does the government ensure that development plans are consistent with the local and national priorities?
Precept 4. Tax regimes and contractual terms should enable the government to realize the full value of its resources consistent with attracting necessary investment, and should be robust to changing circumstances.	**4.1 Setting taxes.** Has the government established fiscal terms that apportion risks and returns from extractive projects and secure optimal value for the country in the long term? **4.2 Collecting taxes.** Do authorities collect taxes and other payments owed to them? **4.3 Fiscal accountability.** Is the government held to account for setting and collecting taxes and other payments?

Precept 5. The government should pursue opportunities for local benefits and account for, mitigate and offset the environmental and social costs of resource extraction projects.	**5.1 Risk identification.** Does government work with local communities to identify the environmental and social risks associated with extraction? **5.2 Environment and social protection.** Does government protect the environment and local communities from potentially harmful effects of resource extraction? **5.3 Compensation and national benefits.** Does government provide reasonable compensation and/or participation in national benefits for affected communities? **5.4 Local benefits.** Does the government help local communities benefit from resource extraction? **5.5 Artisanal and small scale mining.** Does the government manage the artisanal and small scale mining sector in a way that is compatible with both national and local priorities?
Precept 6. Nationally owned companies should be accountable, with well-defined mandates and an objective of commercial efficiency.	**6.1 State owned enterprises' role.** Do the extractive sector state-owned enterprises have clearly defined roles? Are these roles followed in practice? **6.2 State owned enterprises' funding and financing.** Do the extractive sector state-owned enterprises have appropriate funding and financing models? **6.3 Political interference.** Are there constraints on political interference in extractive sector state-owned enterprises' technical decisions? **6.4 State owned enterprises' accountability.** Are extractive sector state-owned enterprises transparent and subject to oversight?
Precept 7. The government should invest revenues to achieve optimal and equitable outcomes, for current and future generations.	**7.1 Consume or Invest.** Is the country targeting the right balance between consumption and investment? **7.2 Balanced budget.** Does the government save a part of its resource revenues? **7.3 Saving vs. domestic investment.** Does the governments adequately manage the rate at which surplus funds are spent in the domestic economy vs. aboard? **7.4 Domestic distribution of resource revenues.** Does the government distribute and spend revenue in an efficient and equitable manner?
Precept 8. The government should smooth domestic spending of revenues to account for revenue volatility.	**8.1 Volatility management performance.** Is the government managing resource revenue volatility effectively? **8.2 Fiscal rule.** Does the government use a suitable fiscal rule? **8.3 Savings Fund.** If a saving fund is used, is it well designed and governed? **8.4 Debt management.** Does the government borrow against resource wealth? Is this leading to over-indebtedness?
Precept 9. The government should use revenues as an opportunity to increase the efficiency of public spending at the national and sub-national levels.	**9.1 Public financial management systems' reform.** Is the government improving public spending systems to handle future budget increases?

Precept 10. The government should facilitate private sector investments to diversify the economy and to engage in the extractive industry.	**10.1 Diversification and Dutch disease.** Does the government mitigate Dutch disease impacts of resource extraction and seek to diversify the economy in the long-run? **10.2 Economic bottlenecks and absorptive capacity.** Has the government ensured that higher public spending will not cause significant inflation and high project costs? **10.3 Local content and employment in the extractive sectors.** Does the government ensure that local businesses and workers have the opportunity to operate in the extractive sector? **10.4 Extractive sector-related infrastructure.** Does the government manage the provision of extractive sector-related infrastructure appropriately and explore shared use of this infrastructure? **10.5 Domestic use of the commodity.** Is domestic supply of the commodity efficient and its price reflective of market fundamentals?
Precept 11. Companies should commit to the highest environmental, social and human rights standards, and to sustainable development.	**11.1 Advancing global norms.** Do international extractive companies seek to rectify governance deficiencies and adhere to the highest environmental, social and human rights standards?
Precept 12. Governments and international organizations should promote an upward harmonization of standards to support sustainable development.	**12.1 Advancing global norms.** Does the international community advance global norms to support country level efforts to benefit from resource extraction?

QUESTIONS TO ASK

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

ADDITIONAL RESOURCES

Natural Resource Charter, http://naturalresourcecharter.org

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