EXTRACTIVE INDUSTRIES VALUE CHAIN

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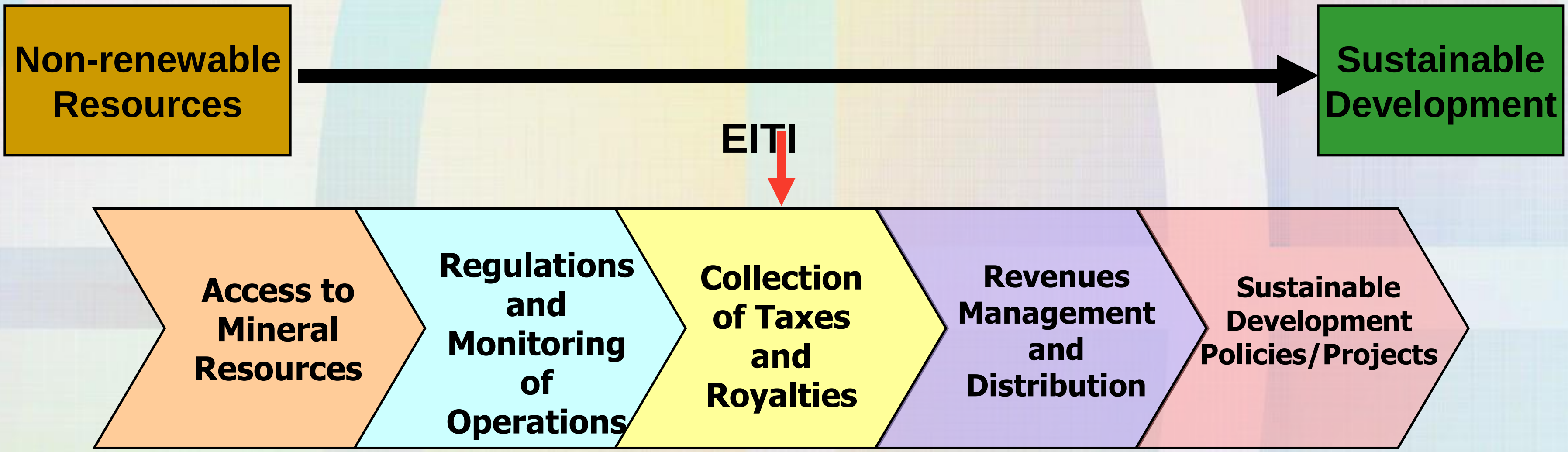
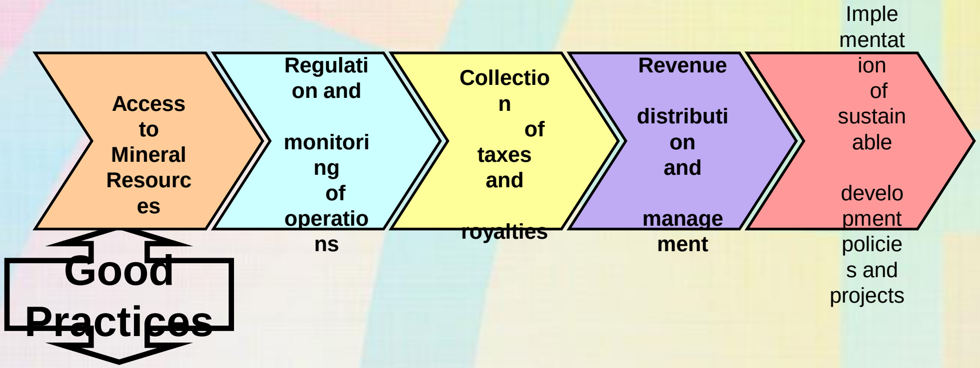
The Value Chain– the "++" Approach -



- The need for a more integrated approach to improve management, transparency and accountability of EIs
- The need for resource rich countries to integrate EIs into their Poverty Reduction Strategy



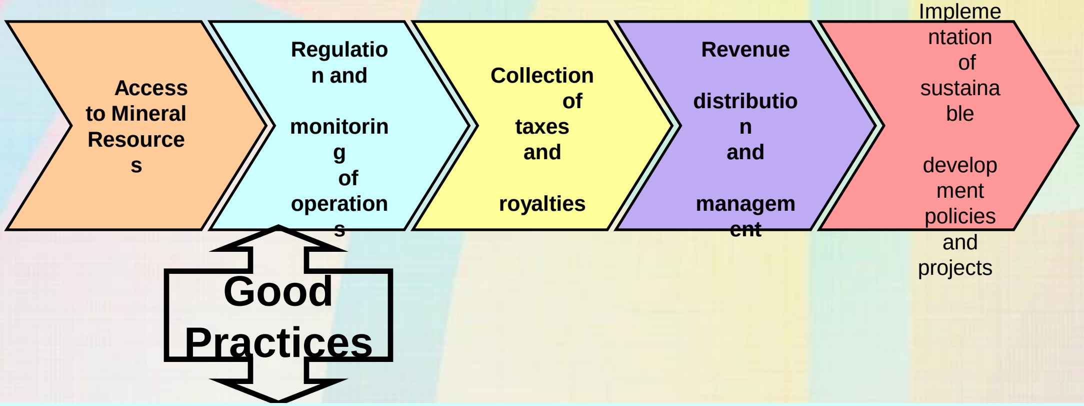
Policy, legal and institutional frameworks

Transparent procedures

Communication and information

1- Access to Mineral Resources:

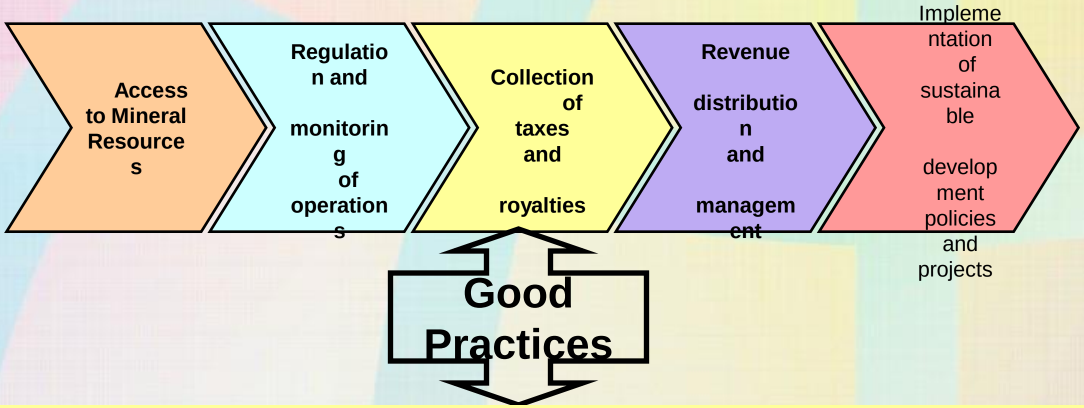
- Constitutional rights: to whom belong mineral resources: State? Traditional land owners?
- Clear policy framework:
  - Role of the State, Communities and Companies
  - Benefits for the different actors
- Legal and regulatory framework:
  - Predictable fiscal regime – coping with changes in commodity prices and linked to project profitability
  - Security of tenure
  - Protection of communities
  - Protection of the environment
  - Consultation/conflict resolution mechanisms
- Institutional framework:
  - Mining cadastre: mineral rights management
  - Geological survey: mineral resources information publicly available/ land use conflict management
  - Environmental office: ESIA evaluation
- Communication mechanisms



Technical, social and environmental regulations
Capacity building
Communication and information

2- Regulation and monitoring of operations

- **Internationally recognized and adequate technical, economic, social and environmental regulations.**
- **Competent authority to monitor social and environmental management plans and enforce compliance.**
- **Communication mechanisms**
- **Coordinated procedures among different government entities to provide for an effective monitoring of operations, and related fiscal and financial flows.**
- **Operators should be encouraged to implement corporate social responsibility policies and projects using participatory planning and monitoring, closely involving local communities.**
- **Transparent procedures and regular audits,**
- **Development of local SMEs**
- **Procurement of local goods and services.**
- **<u>The technical capacity of the government agencies entrusted with the regulation, monitoring and oversight of the sector is critical for the effective, efficient and sustainable implementation of the government's policies</u>.**



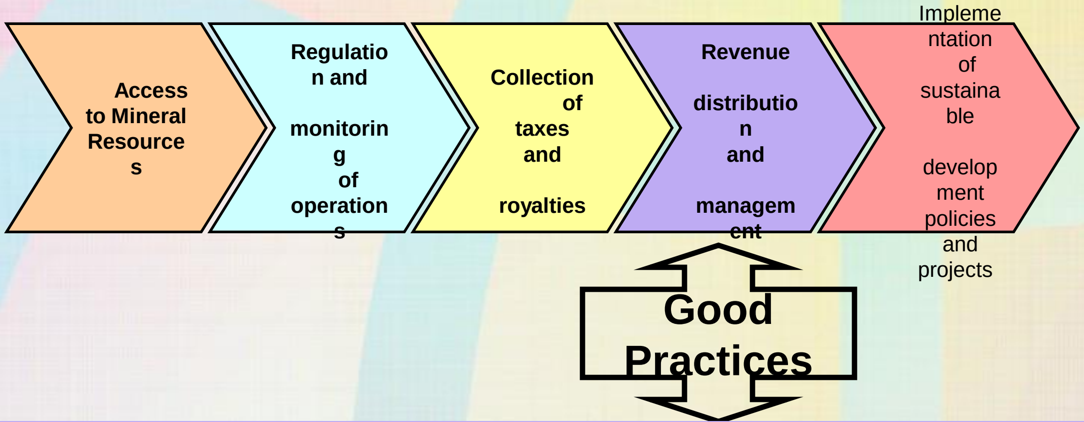
Efficient fiscal regime

Transparent rent collection procedures

Communication and information

3- Collection of Taxes and Royalties

- **Choice of fiscal regime is critical to ensure contract stability and fair rewards, and should consider government capacity to assess and collect taxes and duties under more or less sophisticated provisions.**
- **Fiscal terms set by law.**
- **Clear legal definition of accounting procedures to determine royalties, income taxes, dividends, social contributions and other fiscal related terms.**
- **Provisions related to the determination, assessment and payment by the investors of third parties' taxes (e.g. withholding tax) should be carefully considered.**
- **All transactions should be clearly traceable. Payments by private companies should be made to a Treasury account at the Central Bank. Audits and reconciliations of the Treasury's accounts and of the companies' financial statements should be performed regularly.**
- **Efforts to build capacity and coordinate procedures among the sector and financial authorities involved in the collection of royalties and taxes are important.**
- **Revenues generated by EI activities should be regularly published by the government. Disclosure mechanisms like EITI – involving civil society organizations – are important to improve citizens' understanding on the EIs and their impact.**



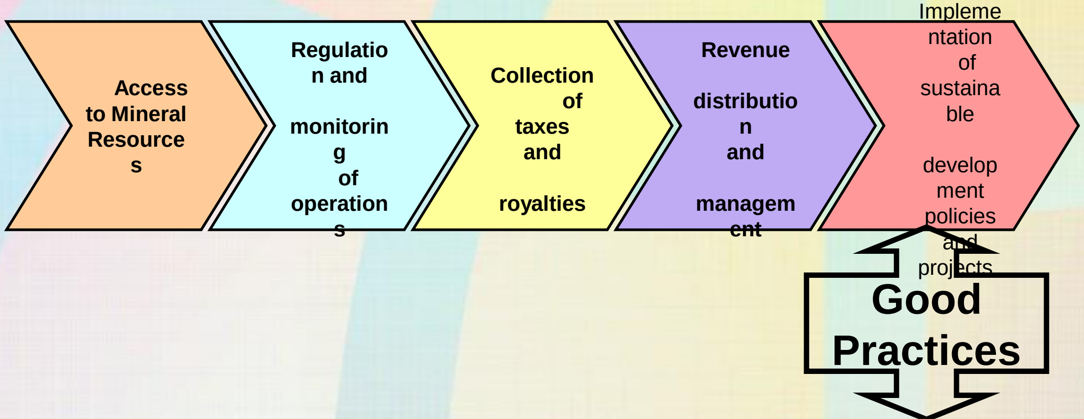
Macro fiscal framework to volatile and finite resources

Transparent saving mechanisms

Communication and information

4- Revenue Distribution and Management

- **EI resources and revenues should be administered within an overarching macro-fiscal framework that recognizes the volatility, uncertainty and cyclical nature of their prices and their exhaustibility**
- **Due attention should be given to long-term fiscal sustainability, and to policy measures to mitigate Dutch Disease. In particular, consistent links should be established to annual budgets and to medium-term economic framework**
- **Transparent decisions shall be made on: (i) how much revenue is used now for current and capital spending priorities, for debt reduction or set aside for stabilization, expenditure smoothing, saving for future generations or other precautionary measures, and (ii) how to design revenue saving mechanisms – including institutions - to foster their transparency and sound governance.**
- **The operation of "oil and/or mineral funds" (or any saving arrangement) should have transparent procedures and an adequate governance structure.**
- **Sharing of revenues between the central government and the sub-national governments is generally established in Constitution or by law. The use of rule-based, transparent, simple and equitable allocation criteria is recommended.**
- **Effective revenue management mechanisms often need complementary public finance reforms and institutional capacity building up efforts – including at sub-national level.**



Investments in line with a poverty reduction strategy

Special attention to sustainable development in producing regions

5- Implementation of sustainable development policies and projects

- **All expenditures need to consider the non-renewable nature of mineral resources, the need for smoothing spending, and the importance of diversifying and decentralizing the economy: prioritization of investments based on national development objectives and plans; and poverty reduction strategy.**
- **Appropriate spending choices - e.g. social vs. physical infrastructure - need political consensus.**
- **Government can complement gains from appropriate public investments with policies that encourage private investment.**
- **Tripartite partnerships (government, industry and community actors), especially at producing region and at sub-national levels, are key to forge sustainable consensus, compensate for EI social and environmental impacts and share benefits.**
- **Appraisal of projects should include expected socio-economic benefits, environmental impacts and long-term sustainability issues.**
- **Attention should be paid to utilizing existing (not always government) implementation capacity and strengthening capacity where needed.**
- **Reporting on spending and a regular auditing of expenditures are important instruments to avoid ramping up spending. Effective monitoring system to generate feedback into projects design and investment policies.**

Thank you