

# CHAPTER 1 – [www.eisourcebook.org](http://www.eisourcebook.org)

## 1.2 The Supply of Knowledge

Ironically, in this shifting context of knowledge demand, there remain common, almost universal problems which face most, if not all, countries engaging in the exploration for and development of extractive resources. Some of the fundamental challenges have not changed for many years, and ways of addressing them are long settled. For example, much scholarship and applied knowledge is available about the principal forms of state contract which allow states to cooperate with foreign investors in the activities associated with oil, gas and mining industries. The main provisions of a mining or a petroleum law which allow states to set out a stable framework for these activities are also easy to identify. There is a consensus too about the main issues which governments will need to tackle when designing a fiscal regime to achieve a fair share of the benefits or an impact assessment to ensure protection of their environment<sup>1</sup>.

The *established* character of such knowledge is likely to be evident in each of the five areas identified earlier as being essential for governance of the extractive sector: policy and legal framework; organization and administration of the sector; fiscal design; revenue management and implementation of sustainable development. Transforming natural resource wealth into real benefits (such as poverty reduction and sustainable development) for a state's development requires access to the very best available knowledge of policy and operational options. This is the fundamental legitimacy of the extractive industries' engagement with the sustainability dialogue. *Since oil, gas and mining resources are not renewable, and amendable to sustainable off-takes, the conversion of non-renewable natural capital into other forms of capital (renewable) is the fundamental objective.*

There are many commonly used expressions for the body of principles and industry practice in its guise as a knowledge benchmark: it can be good practice, best practice or even good-fit practice. The authors of the *Source Book* generally prefer the term 'good practice' since governments will be the proper judges of what is best for them in their own unique contexts. The very best knowledge of welfare-promoting policies, institutions and governance, demonstrated by international experience, will still need to be applied to a particular context.

---

<sup>1</sup> Environmental assessment is not only present at the project proposals stage. It will typically be applied to policy choices and to regional planning (to assess the cumulative impacts of numerous projects within the same catchment area).

Yet such knowledge is being continually tested in more than a hundred different countries around the world, yielding lessons that may influence or change current thinking. It has a dynamic to it as a result. Experience also shows that the successful application of this evolving body of generally accepted principles and techniques is heavily influenced by contextual factors, such as institutional framework or political economy. *It is increasingly being shaped by the growing number of countries using the extractive industries as a development vehicle and the new thinking about development policy which they are exposed to from donors, civil society and media.*

Yet supply of this kind of knowledge has become highly fragmented in character, with a burgeoning number of organizations offering contributions to resource-rich states. They include international financial institutions, development aid agencies, civil society groups, think-tanks and universities<sup>2</sup>. The various institutions set priorities appropriate to their own objectives and their constituencies. Their educational programs and publications inevitably reflect these. For some suppliers, it is the economic issues of fiscal design and revenue management that are of paramount importance; for others, it is the issues of revenue or contract transparency that have the greatest urgency. A significant theme in the literature is the need for states to take the kind of measures that will avoid the 'resource curse'. Similarly, they are likely to emphasize and advocate 'inclusiveness' in decision-making by governments. The result is that knowledge of EI development available to a resource-rich state has vastly increased but has also become more fragmented and potentially, confusing.

A major benefit of these new sources of supply is in facilitating comparisons between policies adopted by different resource-rich states. A crucial element in the learning process of any government will be to absorb lessons from its neighbours and sometimes farther afield – identifying ones that appear to have delivered positive outcomes and avoiding those which have had negative results. This requires a critical, comparative perspective to filter what must sometimes seem like an ocean of data, offering contradictory assessments. Access to at least some of this body of comparative knowledge has typically been more challenging to a resource-rich government than to an internationally operating company in the extractives sector. The capacity to form an integrated view, to extract lessons appropriate to one's own circumstances and apply knowledge to problems that are in practice familiar in countries engaged in the development of oil, gas or minerals, will still not be readily available to some states, or even to those many other bodies we have identified as constituting new sources of demand, such as

---

<sup>2</sup> A few examples would include: Norad; AusAid, Canadian International Development Assistance, Commonwealth Secretariat, The UK Department for International Development, and ACET.

civil society groups at the national and levels or parliaments, despite what may well be an urgent need for such knowledge.

International norms and standards have also burgeoned in recent years, with the EITI Standard as only one of many dozens of examples. They affect not only governments but also the investors they will typically work with. Efforts to document or map the diversity of initiatives to make them more accessible to governments and limit duplication are also underway.

**The aim of the *Extractive Industries Source Book* is to synthesize cutting-edge research with direct experience in tackling the major issues in oil, gas and mining development and to link the results to the holistic and integrated scheme of the EI Value Chain. Taking context into account, it examines the tool-kit available to policy makers and their advisers to tackle these issues, and reviews the options generated from successful resource experiences and those less likely to achieve positive outcomes.**

For many of the new seekers of knowledge, access is likely to be most effective by means of electronic media. In many countries access to electronic media is easier and faster than access to a printed copy. An online supply will offer resources of knowledge far greater than any printed version. However, the supply of data in this form is likely to be a patchwork and adds to the modern dilemma of a potential information surplus and an understanding deficit. For local communities, civil society groups, and indigenous peoples, the supply of knowledge needs to be accompanied by a program of education. Publication of a production sharing contract between a government and a foreign investor will not in itself lead to understanding or an ability to critically evaluate the contents of such a contract (although it may well be a prerequisite). The reader needs to be equipped with an understanding of the key issues which such a contract will typically have to address and acquire the basic tools for critical engagement with them.

The links in the chain of resource management require a grasp of the inter-relations between several disciplines and a channelling of law, economics and institutional design into policy-making. Environmental criteria too must be included to underwrite the sustainability of the development. Knowledge of these links and their relations will be crucial in determining whether a government can meet the major challenges in managing global extractive resources in a long-term, sustainable manner. Each one of the key levers for success is crucial and presents challenges to governments and peoples around the world. However, a failure to understand and think through the linkages with other levers is likely to have adverse consequences. In particular, proper weight has to be given to the role of law, contract and regulation, as well as the links that address economics and environmental and social sustainability. This link has too often been given only token recognition in the study of extractives-led development.

**The central premise of the *Extractive Industries Source Book* is that sound technical knowledge and awareness of practical options can lead to better political, economic, and social choices with respect to sector development and the related risks and opportunities. Such choices will only be effective however if they are closely linked to institutional capacity and country context<sup>3</sup>.**

There is nonetheless a necessary caveat to the above remarks about the supply of knowledge in this field. Throughout, the assumption is made that the main players on the governance stage and governments in particular, *are able to recognize their need for greater knowledge of the EI sector and are willing to do something about it*. A great deal is known about how to avoid the negative effects of oil, gas and mining development, and even more knowledge is now in the mainstream about how to tackle legal, contractual, fiscal and revenue management issues. However, there will always be some who will prefer opaque arrangements which leave scope for the conclusion of deals on terms that are rarely published. Such arrangements may be concluded by certain governments and certain companies or individuals within them for short term or personal advantage. They are unlikely to prove sustainable or capable of delivering benefits to the country or its people(s). The *Extractive Industries Source Book* is not intended for those who are unwilling to harness specialist knowledge in the interest of sustainable economic and social development.

CEPMLP

Centre for Energy, Petroleum and Mineral Law and Policy

---

<sup>3</sup> Recommendations for environmental and social impact assessment, for example, will make little sense if they are submitted to governments with no capacity to implement them.