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6.3 Summary and Recommendations

A key element in well-designed sector organization is clarity with respect to the roles and responsibilities of sector agencies in policy, rule-making and monitoring. This includes clarity in their relations with agencies in other, non-extractive sectors.

Four sub-elements in achieving this clarity are: ensuring that appropriate institutional *capacity* is available at each stage in the EI value chain; ensuring that *capabilities* are available, in the sense of specialist skills, training, adequate resources and compensation, as well as insulation from political interference; setting *non-overlapping mandates* so that each ministry or agency has a clear and non-overlapping mandate, with clearly defined competences and responsibilities, and the resources and staff to fulfil its mandate; and *consistency of approach*, so that all government bodies are working to achieve extractives development in a sustainable manner.

The organizational neatness and practical effectiveness of the Norwegian approach to sector organization has been influential in the hydrocarbons sector as an aspiration. However, attempts to follow its main features have so far underlined the challenges of institutional adaptation in established resource-rich countries.

By contrast, the mining sector has led the field in exploring ways of adapting institutions to community needs, gender issues, and small-scale activities.

A convention has developed in the hydrocarbons sector that a national resource company is an essential tool in sector organization. The assumptions on which this is based may be challenged. However, if a national resource company is necessary, there is a body of good practice or at least good guidance for states seeking to take this route.

The growing importance of the environmental and social aspects of extractives development should not obscure the continuing importance of sector organization carried out largely by the commercial and financial needs of the investors. The scale of this and its linkage to globalization mean that governments have an interest in understanding its character and where appropriate, monitoring it. *Much organizational activity is carried out by contract in the hydrocarbons and mining industries.* Knowledge of this is readily available.

In contrast to oil, the gas producer has to worry about a much longer chain in which each successive link is connected by physically fixed investments. Any one of these links may turn into a bottleneck and act to limit the capacity to provide and acquire gas. Any major break in one of the links will have potentially serious consequences for the entire chain, with the links down the line experiencing supply problems and the links upstream experiencing cash problems. At the end of the chain, gas has to compete with substitute fuels, limiting the price that consumers are willing to pay for it. The successful financing of a gas project requires an assurance that all of the links are sound and secure. Without such assurance it is unlikely that the large amounts of finance required to develop a gas field will become available.

At key points in sector organization the importance of transparency is evident. Many model contracts are publicly available; openness in the operations of NRCs is widely regarded as desirable even if not always observed and publication of reports and data by government bodies is seen as closely linked to efficiency in performance.

Appropriate institutional capacity at each stage in the EI value chain is *critical to overall EI sector management success*. Targeted skills, training, adequate resources and compensation, and insulation from political interference are essential. Technical assistance and the engagement of professional advisers can contribute importantly to capacity building.

Revenue Flows. In petroleum-producing states, where government petroleum sector income can come from a variety of different and often unrelated sources (including PSAs, bonus payments, NRC dividends, and income taxes), all petroleum sector payments to the government should ideally flow into a single treasury account at the central bank.

In mineral producing states, where government income from the mining sector is often much smaller relative to the size of the economy than petroleum sector income, the main income is generally from income taxes, employment taxes, and dividend withholding taxes. General good practice is for such payments to go directly into the state's general revenue account unless there are special provisions for windfall profits taxes because of price volatility.