



## *Resource governance*

# Strengthening good governance in the extractive sector

### **The challenge**

Today, some three quarters of the world's poor live in countries whose economies are dominated by extractive resources. This despite the fact that these resources could potentially drive a country's development, reduce its financial dependency on donors and increase the population's prosperity. In many countries, however, they have the opposite effect: state structures are weakened, the environment destroyed and social conflicts created or exacerbated. Although the extractive sector makes a major contribution to gross domestic product and holds huge potential for increasing public revenues, sustainable development effects for the poor population often fail to materialise. This is due mainly to weak governance structures. The challenges involved include:

- an inadequate fiscal regime
- a lack of both capacities and clear definition of responsibilities within and between state institutions
- the absence of a uniform legal framework for the extractive sector; instead we see individual contracts, contradictory legislation, poor transparency and competition between individual ministries
- inadequate regional harmonisation and cooperation between governments of countries that share resources
- negative impacts in extractive regions caused by lack of involvement of municipalities in designing the frameworks for resource extraction
- excessive expectations of the population regarding the benefits of extraction
- inefficiency and mismanagement caused by corruption
- failure to meet human rights obligations.

### **Our approach**

To improve governance in the extractive sector we provide advisory services along the entire value chain. We deliver the services to governmental institutions such as ministries for mining, energy, economic and financial affairs, mining authorities, tax authorities and environmental agencies, civil society organisations and private companies. To strengthen regional cooperation and harmonisation we also support regional organisations, such as the Mano River Union in West Africa or the Economic Commission for Latin America and the Caribbean.

When cooperating with governmental institutions and civil society we focus on capacity development at the level of individuals, as well as technical and process management advisory. We advise private companies on compliance with international standards and sustainable activities in extractive regions. These include human rights, social and environmental standards, as well as integration of the local economy.

### **Our services**

We tailor our services to suit the individual needs of our partners and clients in the context and country concerned. Our services include:

- improving institutional frameworks through strategic advice and organisational, human-resource and network development to enhance the performance of state sector institutions
- capacity development in ministries for mining, energy and financial affairs, as well as subordinate authorities such as tax authorities and the supreme audit body
- support of EITI implementation processes, including training programmes for relevant stakeholders
- advice on mining legislation and legislation for oil and gas extraction, to shape the legal framework for the extractive sector



- support of regional organisations as key actors in regional resource governance
- capacity development on contracting processes that take account of the interests and rights of all stakeholders when resource contracts are drafted
- advice on corporate social responsibility, community benefit schemes, SME promotion and local content for sustainable mining at the municipal level
- cooperation with the population and government institutions to protect human rights in the extractive sector, and with the private sector to uphold human rights and to support implementation of voluntary codes of conduct
- advice on formulating communication strategies, country mining visions and expectation management to reduce conflict
- capacity development for anticorruption in the extractive sector by networking government institutions, civil society and the media.

### The benefits

Through our support, we enable state institutions to perform their governance and administrative tasks efficiently and on a development-oriented basis. We help strengthen the performance and legitimacy of the state through an effective and transparent system of taxes and duties, regional harmonisation of legislation, and a comprehensive and uniform statutory framework.

Rising revenues from the extractive sector, efforts to stem illegal extraction and trade in resources, and the integration of municipalities into decision-making on extractive activities support sustainable development in resource-rich countries. The lives of the population in extractive regions are improved by compliance with social and environmental standards, respect for human rights, the strengthening of

anticorruption and the use of additional revenues for pro-poor investment. At the same time, the creation of a standard legal framework and clear regulations improve the investment climate. These processes are underpinned by the transparency created through the EITI. Our EITI training measures increase the capacities of stakeholders to implement the transparency standard, and create awareness of the links between resource revenues and broader reform processes. All this strengthens good governance in the extractive sector and ensures that extractive resources make a sustainable contribution to a country's development and to improving the quality of life of its population.

### An example from the field

In Guinea, GIZ advises the government on mobilising revenues from the mining sector. The project aims to strengthen coordination and the exchange of information between the ministries of mining, finance and budget and the central bank. The project also supports Guinea in the installation of a database and automated data exchange on income from the mining sector and the establishment of a mining inspectorate at the Ministry of Mines. If mining inspectors are able to check production and export the tax burden on mining companies can be assessed correctly. To ensure that the increased revenues also benefit sustainable development, GIZ advises the Guinean government on promoting transparency and accountability. GIZ supports civil society organisations and the national EITI secretariat in implementing the new EITI standard and in disseminating and publicising the initiative, particularly in mining regions.

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