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Analytical Note 3: Capturing Natural Resource Revenue in the PEFA Framework

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This analytical note is an updated version of the note of 24 May 2013 with the same title

LIST OF ABBREVIATIONS

AFS	annual financial statement
AGA	autonomous government agency
DSA	Debt Sustainability Analysis
EI	extractive industry
EITI	Extractive Industries Transparency Initiative
EBF	extra-budgetary fund
EU	European Union
FAD	Fiscal Affairs Department of the IMF
FT	Fiscal Transparency
GDP	Gross Domestic Product
GFS	Government Financial Statistics
IMF	International Monetary Fund
NGO	non-government organization
NPV	net present value
NRC	natural resource company
NRF	natural resource fund
OECD	Organisation for Economic Cooperation and Development
PE	public enterprise
PEFA	Public Expenditure and Financial Accountability
PEWG	Public Expenditure Working Group
PFM	Public Financial Management
PI	Performance Indicator
PPP	private-public partnerships
PR	Performance Report
PSC	production sharing contract
QFA	quasi-fiscal activities
RR	resource revenue
ROSC	Report on Standards and Codes
RWI	Revenue Watch Institute
SAI	supreme audit institution
SEC	Securities and Exchange Commission
SECO	Swiss State Secretariat for Economic Affairs
SN	sub-national

1. Executive Summary

Most literature concerning the extractive industry (EI) and related natural resource revenue defines natural resources as comprising non-renewable resources - usually covering extraction of hydro-carbons (oil and natural gas) and minerals. This is also the definition adopted in this note.

Revenues generated by natural resources present great economic opportunities but also pose significant challenges. The endowment of natural resources can promote growth, employment and raise living standards – if used wisely. For many countries, however, the blessing has become a 'resource curse' - a complex phenomenon through which abundant revenue from natural resources leads to waste, corruption, conflict and economic stagnation.

Most PFM literature focuses on adoption of special operational mechanisms for managing resource revenue, such as natural resource funds for saving or price stabilization, earmarking of revenue for particular types of expenditure, separate investment bodies, separate oversight bodies and special legal frameworks. Research on cross-country experience suggests that success of such measures is mixed and closely related to the countries' conditions and institutions in place before the resource revenue comes on stream – i.e. that successful resource revenue management is conditioned on having a well-functioning PFM framework, rather than establishing separate and parallel institutions.

On the other hand, international norms and standards for management of resource revenue are well developed as concerns transparency, and the existing transparency initiatives are closely linked and mutually supporting. The most comprehensive coverage of transparency throughout the resource management value chain is provided by the IMF's Guide on Transparency in Resource Revenue. Therefore, the comparison in this note of the PEFA Framework to international standards in resource revenue management is mainly focused on the practices included in the IMF's Guide.

Through this comparison gaps in coverage by the PEFA Framework have been identified, along with areas that need clarification even where in principle PEFA covers the subject. On that basis the following recommendations are made for enhancement of the PEFA Framework:

- **two entirely new, generic indicators** on controls of non-tax revenue and of assets management respectively;
- **two additional indicator dimensions** to apply only in assessments of resource-dependent countries, namely one for each of indicators PI-5 and PI-6;
- **one substantially amended indicator** in respect of PI-9;
- **one substantially amended indicator dimension** in respect of PI-12(ii);
- **minor changes** to institutional coverage or content to indicators PI-7, PI-17, PI-21, PI-25, most of which can be handled by amendments to the Fieldguide rather than the PEFA Framework proper;
- **enhanced guidance** in the PEFA Fieldguide for content of PFM-PR sections 1 and 2 and indicator PI-3 in the case of resource-dependent countries;
- **elimination of sub-section 3.8** of the PFM-PR.

Several of these recommendations overlap with the recommendation in Analytical Note 2 on Transparency and Accountability or with other parts of the eight 'environmental changes to the PEFA Framework' discussed in Analytical Note 1. Only the proposals regarding two additional indicator *dimensions* would represent changes to the Framework for the sake of resource-dependent countries only.

2. WHY FOCUS ON RESOURCE REVENUE

2.1. What Constitutes Natural Resources?

Most literature concerning the extractive industry (EI) and related natural resource revenue defines natural resources as comprising non-renewable resources - usually defined to cover extraction of hydro-carbons (oil and natural gas) and minerals. This is also the definition adopted in this note as there is broad consensus on these being the core natural resources that lead to special issues in public sector and financial management. In some institutional contexts, however, resources with long regeneration periods - such as forest and fish resources - are also included in the definition of natural resources[1]. Due to lack of consensus on the need for special attention to be accorded to those natural resources, the latter are not covered in this note. Should it later be decided by the PEFA Steering Committee to widen the definition of natural resources in the coverage of the PEFA Framework, the recommendations of this paper still stand as the issues are largely identical. Such a decision may also be left to country level stakeholders when planning a PEFA assessment, and be expressed in the related concept note or terms of reference for the assessment.

2.2. The Context of Natural Resource Revenue Management

Revenues generated by natural resources present great economic opportunities but also pose significant challenges. The endowment of natural resources can promote growth, employment and raise living standards – if used wisely. For many countries, however, the blessing has become a curse. This, so-called ‘resource curse’ is a complex phenomenon through which abundant revenue from natural resources - in this note referred to as resource revenue (RR) – leads to waste, corruption, conflict and economic stagnation. Some of the challenges derive from the macroeconomic and budgetary difficulties of managing large and volatile funds. Yet other challenges derive from the way in which resource revenues are generated. Because they derive from depleting an exhaustible asset and can, in some cases, be generated without the scrutiny of taxpayers, donors, and lenders, resource revenues may pose important intergenerational, political economy and governance challenges[2].

As at 2005, 50 countries were considered natural resource-rich[3] - defined as countries that derive more than a quarter of fiscal revenues and/or a quarter of commodity export revenue directly from the natural resource extractive sector. The number is increasing with the most recent estimate being 58 countries[4]. The characteristics of the current set of natural resource-rich countries differ widely in terms of natural resource dependence, as well as their economic, human, political and institutional development. Despite this diversity, governments of these countries face similar benefits and challenges in managing RR, although their capacity to exploit opportunities and deal with challenges differs significantly.

Governments derive RR in different ways, including through taxes, royalties, bonuses and dividends from state-owned and private natural resource companies (NRC). RR can provide important advantages to government over other types of revenue, such as:

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[1] For instance a EU draft directive on disclosure of payments of October 2011 included timber in its coverage of extractive industries (though timber was eventually removed). In some countries, the sale by the government of crown land to private investors has played a role – for better or worse – similar to the one of RR discussed in this note, with the difference that the assets remain in the country and may subject to future taxation.

[2] Adapted from IMF 2013

[3] IMF 2007

[4] RWI covers 58 countries in its 2012 Revenue Watch Index

- RR is generated from sub-soil assets, whose discovery translates into expansion of the country's net wealth. This wealth can then through extraction be translated into an expansion of the country's economic activity and the government's fiscal revenue;
- Collection of RR is not subject to conditions often imposed on recipient governments by donor agencies and lenders for their financial support;
- Due to the enclave nature of EI in many countries, it is possible to generate RR under extremely challenging circumstances (e.g. civil war)

On the other hand, the overarching challenge is to avoid the resource curse. Daban and Helis[5] suggest that the main mechanisms leading to the resource curse consist of:

- The Dutch Disease – a set of negative macroeconomic effects including inflation, exchange rate appreciation, production shifts to non-tradable goods and erosion of competitiveness in the non-resource sector of the economy, thus further increasing natural resource dependency;
- Extreme volatility of RR – leading to waste, boom-and-bust cycles and excessive borrowing;
- Depletion of a non-renewable, non-financial asset – as RR derives from the consumption or sale of an existing asset. If the related RR is not (at least partly) saved or used for the production or acquisition of other forms of reproducible and productive capital (whether physical or financial), the use of RR can reduce the government's net worth for future generations;
- Excessive reliance on RR can transform a country into a 'rentier state' i.e. a state that is not compelled to promote productive wealth creation for future taxation; is less accountable to its citizens, who do not or to a lesser extent contribute directly to government revenue; and is more likely to see the RR captured by narrow elites or interest groups.

A further challenge is:

- The magnitude of RR transactions and their technical complexity which provide a high exposure to risks of malpractice in many countries. In developing countries, this situation is often combined with a lack of technical capacity and political failure to address risks adequately.

Thus, the non-renewability and volatility of RR poses a number of challenges for medium-term and long-term fiscal management. An extensive literature has developed on whether natural resource dependence/endowments are associated with disappointing development outcomes. While this conjecture continues to be debated, there is a growing consensus that the quality of institutions and the prevailing political-economy of both resource rent extraction and use is critical to determining the ultimate performance of individual governments.

2.3. Characteristics of Resource Revenue Management

Based on the context described above, the reasons for special attention to RR in fiscal management may be characterized by:

- Conversion of an exhaustible physical asset into revenue flows, the utilization of which gives rise to inter-generational income/wealth distribution issues;
- Volatile revenue due to rapid fluctuation in world market prices, unstable production environments, etc. – often to be mitigated by price stabilization funds, which are commonly extra-budgetary and non-transparent;
- Complex[6] and non-transparent fiscal regimes;

[5] Daban and Helis 2013

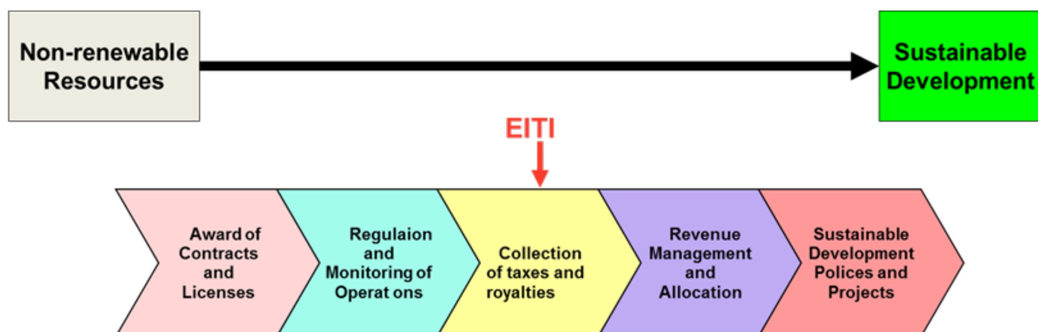
- Contracts (for exploration and extraction) with significant and long-term fiscal implications, often awarded by non-transparent processes;
- Natural resource companies (NRCs) undertaking quasi-fiscal activities (QFA) as they may build local infrastructure (roads, power, water, telecommunications) especially in remote areas, and provide services (education, health) to local communities - often as compensation for the disruptive or environmentally damaging impact of extraction. QFA may also comprise hidden price subsidies funded by state-owned NRCs e.g. fuel price subsidies;
- The sheer volume of RR in some countries, where RR outsize any other revenue sources;
- Common association with corruption, social unrest, civil war, and environmental degradation.

Few if any of these issues are exclusively associated with a country's dependence on economic activity and revenue generated by EI. Volatility is also very common in world market prices for agricultural produce and many attempts have been made to mitigate price fluctuations through stabilization funds. Tourism revenues can be very volatile, fluctuating not only with international economic conditions but also with abrupt natural disasters, political events and security concerns. Other large government contracts may similarly be awarded through non-transparent processes, whether this concerns procurement of goods and services (say defense systems) or sale of public assets (including airwaves for mobile phone networks or privatization of public corporations). Not only NRCs build infrastructure and provide social services to the public outside government institutions – other public corporations, NGOs and donor agencies may do the same. Hidden price subsidies may as well be provided by other public enterprises (PE) e.g. utility corporations. Other sectors may provide a single dominant source of income. And corruption, social unrest, civil war and environmental degradation may have many other reasons.

However, the complexities of the fiscal regimes concerning EI activities are arguably not matched in any other economic activity, and the inter-generational issue in management of public finances related to the non-renewable nature of the resource that is being converted into revenue streams through the extraction process is hardly found in any other economic sector. In addition, the long-term effects and often large share of RR in total revenue make natural resource management particularly sensitive to the other factors. Overall, the combination of all of the above characteristics in one industry is unique.

In order to ensure that a country maximizes the benefits from natural resource extraction and converts the revenue streams into sustainable development, it is necessary to consider all links in the value-chain, as illustrated in Figure 1.

Figure 1. Value Chain Approach to World Bank EITI ++ (Source: World Bank)



[6] E.g. in relation to defining taxable profits, transfer pricing, production sharing contracts, investment in public-private joint ventures.

3. International Initiatives for Improving Management of Resource Revenue

3.1. International Initiatives on Transparency

During the past decade a number of international initiatives have been launched for the purpose of strengthening RR in resource-dependent[7] countries. Most of these initiatives have focused on transparency in the management of EI and RR with standards for good practice in transparency emerging from these initiatives:

- *The Extractive Industries Transparency Initiative (EITI)* was launched by the UK government in 2002 and has developed into an international organization with wide institutional membership. EITI has developed standards for disclosure and reconciliation of what companies pay and what governments receive i.e. a distinct but crucial stage in the value chain, ref. figure 1. A set of requirements must be fulfilled for a country to become an EITI Candidate and to maintain that position. The standards include obligations for both the government and for natural resource companies (NRCs) in a candidate country, and involve an independent institution as auditor or 'reconciler'. Currently 39 countries implement the requirements of which 23 are considered to be 'EITI compliant'. An update of the EITI Standard and requirements was issued in May 2013 (listed in summary in Annex A) and includes a new requirement for comprehensive description of transparency in licensing, contracting, production data, channeling of RR to the government as well as distribution and earmarked use of the funds.

- *The IMF* offers resource-rich countries a range of guidance to improve public financial management. In 2005 the IMF issued the first version of the *Guide on Resource Revenue Transparency*[8] which provides a comprehensive framework for assessing transparency and accountability across the whole value chain. The Guide on Resource Revenue Transparency is a companion document to the Fiscal Transparency (FT) Code and ROSC, and was re-issued in 2007 in connection with the revision of the FT Code and ROSC in the same year. It constitutes 24 good practices, arranged under the same four headings as the FT Code (listed in Annex B). As the FT Code and ROSC are currently undergoing a revision, it would be expected that the Guide on Resource Revenue Transparency will be re-issued in 2014.

- *The Revenue Watch Institute (RWI)* is a non-profit policy institute and grant-making organization that promotes the effective, transparent and accountable management of oil, gas and mineral resources for the public good. It was established as an independent institution in 2006. The RWI developed the Revenue Watch Index to measure government disclosure in the management of revenue from oil, gas and minerals extraction. It was first applied in 2009/10 in 41 countries[9]. The second report on the Revenue Watch Index covers 58 countries and was released in May 2013. The Index is based on 55 questions under seven clusters (ref. Annex C) and is described by the

[7] The terms 'resource-rich' and 'resource-dependent' are often used interchangeably in the literature. In this Note the term 'resource-dependent' is preferred as it is the dependency on RR for financing government operations that is at the heart of 'resource curse' and the justification for special consideration in PEFA assessments.
[8] IMF 2007 III
[9] RWI 2010

RWI[10] as largely a quantification of compliance with the good practices promoted by the IMF Guide on Resource Revenue Transparency.

Whilst the above initiatives have global reach and are applied on a voluntary basis, two legislative initiatives of a mandatory nature have been taken by the USA and the EU:

- In the USA, the U.S. Securities and Exchange Commission (SEC) is supposed to implement Section 1504 of the Dodd-Frank Act (2010) requiring companies registered on US stock exchanges to publicly report how much they pay governments for oil, gas and minerals. Rules have been issued by SEC but have not yet taken effect[11];
- On April 9, 2013 the European Parliament and European Council agreed to include strong rules governing disclosure of extractive company payments to resource-rich countries. The rules were incorporated in the EU's Accounting and Transparency Directive, which were approved by the European Parliament on June 12, 2013[12].

The rules will require US and European public and private companies to publish what they pay governments around the world for natural resources, country-by-country and project-by-project. In this way the legislation supports the voluntary EITI requirements.

All of the above initiatives are mutually supporting and reinforcing and has led to a high degree of consensus on good practices in transparency of RR. They are also supported by other groups such as the PublishWhatYouPay coalition of NGOs and The Natural Resource Charter developed by an international group of experts[13].

3.2. Standards for PFM Systems in Resource-Rich Countries

The World Bank has been strengthening its engagement in resource-rich countries to help meet their growth and poverty reduction objectives by adopting a comprehensive value chain approach (also called "EITI++") in seeking to assist countries dependent on natural resources. The assistance covers the entire chain of managing extractive industry resources - from how access to those resources is granted, to monitoring operations, to collecting taxes, to sound macroeconomic management and distribution of revenues, and to spending resources effectively for sustainable growth and poverty reduction[14]. Assistance is tailored to the specific country context and needs. No international norms and standards for

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[10] RWI 2013

[11] In August 2012 SEC issued a set of final rules. However, the rules were challenged by the American Petroleum Institute. The District Court's ruled on July 2, 2013 in the litigation. The ruling vacates and remands to the SEC rules. Section 1504 remains in place as law, but the remand means the SEC will need to determine the most effective way to implement the law following the Court's ruling.

[12] Ref. http://ec.europa.eu/commission_2010-2014/barnier/headlines/speeches/2013/06/20130612_en.htm

[13] The Natural Resource Charter is a global initiative with no political heritage or sponsorship. The expert group issued The Charter in November 2010. It provides a set of principles and guidelines for all stakeholders of natural resource management with strong emphasis on transparency. The twelve high level precepts of the Charter are listed in Annex D.

[14] EITI++ Fact Sheet - http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21727813~pagePK:64257043~piPK:437376~theSitePK:4607,00.html

PFM systems in resource dependent countries have been developed - beyond the transparency issues mentioned above[15].

Apart from promotion of transparency, most PFM literature focuses on adoption of special operational mechanisms for managing RR, such as natural resource funds for saving or price stabilization, earmarking of revenue for particular types of expenditure, separate investment bodies, separate oversight bodies and special legal frameworks. Such mechanisms may be favored in order to create visibility of the government's RR policies or as a way of bypassing existing weak PFM systems. The experience with such mechanisms is mixed, and whilst there may be some good practices that may be universally beneficial, particularly regarding the detailed features of those special mechanisms when their establishment has been decided in principle[16], many other features are recommended in the literature only under certain country circumstances[17]. In recent research on cross-country experience, Daban & Helis[18] argue that success of special operational mechanisms in RR management is closely related to the countries' conditions and institutions in place before the RR comes on stream - i.e. that the establishment of special mechanisms do not necessarily improve the prospects of avoiding the resource curse - and that successful RR management is conditioned on having a well-functioning PFM framework, rather than establishing separate and parallel institutions. On that basis they suggest that the focus of reform should be on improvement of the general PFM system and its institutions, with RR managed within that system.

However, one specific issue may deserve special attention, according to a paper on 'Fiscal Regimes for Extractive Industries' by the IMF's Fiscal Affairs Department[19]. This concerns the frequent fragmentation or opaque distribution of roles and responsibilities in administration of revenue collection from extractive industries[20]. The ideal of having an integrated revenue administration responsible for collection of all types of tax and non-tax resource revenue may have been implemented in only a few resource rich countries, but as a minimum the distribution of roles and responsibilities should ensure that collection efforts are coordinated, data is shared and that each institution involved avoids conflict of interests. Whilst this issue is pronounced in resource rich countries, the principle also applies to other sectors with complex operations for taxation purposes (the examples of banking and telecommunications are mentioned) and therefore is not limited to applicability in resource rich countries.

3.3. Comparison of the PEFA Framework with International Standards for RR Management Systems

As concluded above, international norms and standards for management of RR are well developed as concerns transparency, but generally not for other institutional or process features. Moreover, the different transparency initiatives are closely linked and mutually supporting. The mandatory US and EU initiatives support the EITI whilst focusing only on a very specific aspect. The RWI Index draws extensively on the IMF's Guide on Transparency in RR – both of them incorporating the core standards of EITI. *Therefore, the comparison of the PEFA Framework to international standards in RR management has been limited to the practices included in the IMF's Guide.*

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[15] According to Anwar Ravat, Operations Adviser at the World Bank Oil, Gas, and Mining Unit who also kindly contributed comments on an earlier version of this analytical note.
[16] See e.g. Daniel 2007
[17] See e.g. Bacon & Tordo 2006 on analysis of experience from twelve natural resource funds
[18] Daban & Helis 2013
[19] IMF 2012
[20] Risk based tax audit of EI operations is another generally recommended practice that is recommended in the paper, but this function is already covered by PEFA in PI-14(iii) and fits with other aspects of general strengthening of the PFM system as recommended by Daban & Helis.

Details of the comparison are provided in Annex B. The comparison has identified the following **GAPS** in the coverage of the PEFA Framework compared to the IMF Guide:

Fiscal Policy and Budget Formulation

a) Disclosure of the government's policy framework for taxation of or production sharing agreements with NRCs, including the rate of natural resource extraction and management of RR as part of the government's overall fiscal and economic objectives, considering long-term fiscal sustainability;
b) Statement of mechanisms for coordinating the operation of any natural resource revenue funds (NRF) with other fiscal activities;
c) Statement in annual budget documents on investment policies for assets accumulated in NRFs;

Budget Execution

d) Internal controls for the management of non-tax RR;
e) Internal audit functions in autonomous government agencies (AGAs) managing RR;
f) Sector specific standards and procedures for RR in the tax administration;

Accounting and Reporting

g) Identification of and reporting on RR – distinguished from other revenue receipts – including specification of receipts from NRCs;
h) Disclosure of government guarantees issued as well as other contingent liabilities from resource extraction activity (except in cases of governments reporting accounts on accrual basis which is already covered by PEFA);
i) Estimation and disclosure of the net worth (NPV) of natural resource assets;
j) Disclosure in annual budget documents of fiscal risks associated with RR and government involvement in NRCs;
k) Compliance by international and national NRCs with standards for accounting, auditing and publication of accounts;
l) Reporting to the legislature by external auditor on RR flows between NRCs and the government, including disclosure of discrepancies.

In addition, the comparison highlights some aspects of RR management that in principle are covered by the PEFA Framework but may require **additional guidance** in order to ensure that those aspects are adequately covered in PEFA assessments in resource-dependent countries:

m) Description of the relevant laws – or lack of laws - pertaining to natural resource management. In general PEFA does not assess and rate the content of laws (in performance indicators) such as clarity and comprehensiveness;
n) Government involvement in resource companies including ownership structure and fiscal role vis-a-vis resource sector ministry and finance ministry;
o) Inclusion of quasi-fiscal activities of resource companies (private or public) in assessment of unreported government operations;
p) The (primary) non-resource fiscal balance as the most relevant fiscal balance to disclose in resource-dependent countries;
q) Inclusion of collateralization of future resource extraction in debt management reports;
r) Clarification of the institutional coverage of PEFA assessments in order to ensure that *all* extra-budgetary *operations* relating to the government sector are included and that *all types* of extra-budgetary activity is covered (i.e. also quasi-fiscal activities implemented through public enterprises and private companies under contracts with the government).

In summary, the comparison revealed 12 areas where the PEFA Framework is missing important content that is covered by the IMF Guide on Resource Revenue Transparency. Eight of these areas would also be relevant to other fiscal activities than those related to resource extraction. The eight areas of assessment are:

- statements of government policy,
- long-term fiscal sustainability reporting,
- coordination between extra-budgetary funds and other fiscal activities,
- assets management and disclosure of non-financial assets,
- disclosure of contingent liabilities and fiscal risk,
- internal control of non-tax revenue,
- internal controls and internal audit in AGAs outside budgetary central government.

These gaps would best be addressed by enhancing the PEFA Framework in general so that the enhancements would benefit PEFA assessment in all countries, and not the resource-dependent ones exclusively. In fact most of those gaps identified here overlap with gaps identified in Analytical Note 1 on 'Environmental Changes' and Analytical Note 2 on 'Transparency, Oversight and Accountability'[21].

Four gaps are very specific to RR management and cannot easily be covered by generic performance indicators relevant to any country. The last two gaps on the list of gaps – i.e. (k) and (l) – are closely linked to the EITI standards without directly mentioning EITI. Another two gaps are also very specific to the RR, namely (g) the standard of identifying and reporting separately revenue from a particular industry/economic sector, and (f) sector specific standards and procedures of the tax administration.

Of those four gaps, gap (g) needs to be covered by PEFA since identification of RR is a pre-requisite for many other aspects of transparency and accountability for RR. Gap (f) is arguably at too detailed a level to justify inclusion in PEFA, but could perhaps be covered by a more generic reference to large tax-payer units. However, the issue of clear delineation of roles and responsibilities in revenue collection, avoiding conflict of interest by institutions involved as well as coordination of collection efforts, as recommended by the IMF/FAD paper 2012, may be sufficiently generic to fit into the PEFA Framework.

The EITI related gaps (k) and (l) are also difficult to include in the PEFA Framework because they go beyond the normal coverage of a PEFA assessment. Whilst standards for accounting, auditing and publication of accounts by state-owned NRCs fall within the oversight of state-owned enterprises (in PI-9), the corresponding performance of private companies (whether local or international) reaches beyond the public sector. Even if the government is in a position to regulate such local companies and insert corresponding conditions into contracts with international ones, such coverage by PEFA would beg the question why private companies in other sectors shouldn't be assessed similarly. Such additional coverage would complicate the assessment work. It could be argued that PEFA assessors could simply rely on existing reports on the country's EITI status, but that only works in countries that are EITI candidates/compliant and therefore would not cover the 40% of resource-dependent countries that do not participate in EITI. Making exceptions to the fundamental scope of PEFA due to one special international initiative – in terms of promoting it or relying on its data - could set precedence for similar exceptions for other international initiatives of which there are many with potential links to PEFA[22]. The basic principle should be to assess the extent of good PFM practices within the government (or public sector) irrespective of participation in special international initiatives. Such good practices will be assessed by the

[21] EU/IBF 26 February and EU/IBF 25 April 2013 respectively
[22] For example, including an indicator on corruption by using Transparency International's Corruption Index has been proposed on earlier occasions and has been applied in a couple of country PEFA assessments on ad hoc basis.

standard PEFA indicators for which information from EITI reports in resource-rich countries will constitute an important input. Due to the requirements in the recently revised EITI standard to include extensive information on public finance management, a note[23] was commissioned by SECO as part of the inputs to the Framework revision. The note reviewed the changes in the EITI standard as issued in May 2013 and concluded that the changes to the EITI standard implies a new requirement of disclosing contextual information in EITI reports, but that this information would not have any direct implications for the revision of the PEFA Framework. However, EITI reports prepared under the new standard will be of greatly improved usefulness to PEFA assessors in the future both for the descriptive parts of the PFM-PR and for provision of evidence for several of the existing performance indicators. The note for SECO recommends that EITI reports be cross-referenced in both country PFM-PRs and in general in the guidance to assessors issued by the PEFA Secretariat.

Finally, the comparison identified six areas where clarification of the PEFA Framework is needed, though as with the gaps, most of the clarifications may be made to benefit PEFA assessments in any country. Only two clarifications would be quite unique to resource-dependent country, namely those pertaining to (q) ‘collateralization of future resource extraction’ and (p) calculation and disclosure of the ‘non-resource fiscal balance’.

[23] Oxford Policy Management 2013

4. Alternative Approaches to Capturing Resource Revenue Management in the PEFA Framework

4.1. PEFA experience so far

The need for additional background information and possibly performance indicators related to the specific circumstances in natural resource-rich countries has already been recognized in the original issue of the PEFA Framework – one of the main reasons for including a section 3.8 on 'country specific issues' in the PFM Performance Report format. So far, almost 40 of the 50 natural resource rich countries mentioned above have undertaken a PEFA assessment; corresponding to about 30% of all countries that have had a PEFA assessment. However, the way in which RR management is reflected in the PFM Performance Reports varies considerably.

The PEFA assessment for Norway included a 'section 3.8' description of petroleum revenue management, but this is an exception as very few PFM Performance Reports utilize this feature[24] whereas reports on e.g. Kazakhstan, Kuwait and Timor Leste have dealt with the issue by incorporating relevant elements in the background section and under individual indicators, but again, not in a uniform way.

Whilst ease of reading and finding RR related information in PFM-PRs across countries may be useful, the main issue is that PFM Performance Reports will be less valuable if important PFM functionality in resource rich countries is omitted as a result of leaving it entirely to assessors to decide what to cover and how to present the information in an 'open' section 3.8. It would therefore be useful to ensure a more systematic and comprehensive coverage of the relevant aspects of resource revenue management for PEFA assessments in natural resource rich countries.

4.2. Options for Strengthening Capture in the PEFA Framework

There are three options for enhancing the content and consistent coverage of RR management issues in PEFA assessments:

Option A: Issue a **companion guide** to the PEFA Framework – for use in countries with high RR dependency – but with no change to the Framework proper.

Option B: Establish a set of **additional/optional indicators** to reflect recommended good practices in resource-dependent countries and specific features of PFM systems for RR management – indicators that would be applicable only in countries where resource-dependency is above a certain threshold.

Option C: Revise the PEFA Framework to cover the content gaps identified in section 3.3 above, but as far possible **in a generic fashion** that will benefit PEFA assessments in all countries.

These options are not mutually exclusive, but there are specific advantages and disadvantages of leaning towards one option or the other.

A companion guide[25] on issues related to resource extraction and RR management (option A) would have been beneficial already for the PEFA Framework as it is today, given the many PEFA

[24] Ref. PEFA Secretariat 2010

[25] Whether as a stand-alone document or incorporated into the 'PEFA Fieldguide'.

assessments already undertaken in resource-dependent countries and the inconsistent coverage of the issues in PFM-Performance Reports (PFM-PR). Even if a set of specific performance indicators on RR management issues were introduced (under option B), it is unlikely that those additional indicators would cover all RR management related aspects of a PFM assessment, so many of the existing indicators would also cover RR management aspects and therefore continue to benefit from a companion guide. If the identified gaps are addressed by a generic enhancement of the PEFA Framework (option C) the main Framework document could hardly include guidance narrative pertaining to the special case of RR management across all indicators and other PFM-PR sections, so a companion guide would still be useful – probably incorporated in the PEFA Fieldguide (section by section and indicator by indicator) as the most user friendly solution.

Introduction of a few additional indicators on RR management (option B) has been suggested on several occasions since PEFA assessments gained momentum and the reports from assessment of major resource-dependent countries[26] were received and analyzed by the PEFA Secretariat. Similar to the three donor-indicators, it was suggested that the RR indicators would not be applied in countries with little or no dependence on the subject – in this case revenue from natural resource extraction[27]. Any new indicators would need to meet the same standards for specificity and evidence-basis as the PEFA indicators at large, and the practices contained therein would have to be based on broad international consensus of good practice for government PFM globally. There are several arguments, however, that can be made against special indicators for resource-dependent countries:

Firstly, if special indicators are made for resource-dependent countries, there may be other specific country contexts that would merit special indicators. Donor-indicators for donor-dependent countries already constitute such an issue, as does the special HLG-1 indicator for assessments of sub-national government. The PEFA Framework revision would be well advised to broaden the applicability of the current donor indicators[28] to cover grants and concessional borrowing from all sources - a more universal feature including transfers from higher levels of government and international transfers not described as development aid[29] - rather than the narrow coverage of donors and development aid.

Secondly, most of the gaps and need for additional guidance identified above concern subjects that are not only relevant in resource-dependent countries, but equally so in most other countries. If those gaps are addressed in a generic manner across the PEFA Framework, very few gaps and guidance needs would remain to be covered by special indicators for resource-rich countries, and those remaining subjects may not be particularly significant, eliminating the need for separate indicators.

Thirdly, apart from transparency issues, there are few features of PFM systems that are recommended for resource-rich countries at large – based on international consensus of good practice ref. section 3.2 above. So if an RR specific indicator was introduced to e.g. assess the management of resource funds, this indicator may turn out to be irrelevant in some resource-dependent countries that have not

[26] Arguably from 2007

[27] It could be argued that it is the estimated value of natural resource assets that should set the threshold for when to apply the RR indicators, since low RR (or even low resource exports) may be a result of poor management and recording of resource extraction. In such cases, however, the value of natural assets is hardly available from any official source and a 'hard' threshold may not be feasible to apply. The terms of reference for each assessment should determine whether resource extraction and RR management is a significant issue in each country case.

[28] And change their names accordingly

[29] Thus making the special indicator HLG-1 for sub-national government superfluous; and covering inter-regional transfers through regional economic bodies such as the EU.

established a NRF – as it will not be possible to give a low performance rating for absence of a NRF, since there is no consensus that a NRF is necessary for good management of RR flows.

Finally, a generic enhancement of the Framework to cover the gaps identified through the 'eight environmental changes to the PEFA Framework' may itself demand some additional performance indicators and may take place irrespective of the particular needs of resource-rich countries. Since there appears to be agreement among PEFA partners that additional indicators to the current 31 should be avoided or be strictly limited, there would be a trade-off between new indicators of a generic nature and new indicators for resource-dependent countries only. The space for additional indicators would be better used to benefit all countries than only the third that are resource-dependent.

Those arguments, lead to the conclusion that the **most useful way forward is to focus on option C i.e. a generic enhancement of the PEFA Framework based on gaps and guidance needs identified above**. This approach would improve the PEFA Framework for all countries. There are a few subjects that may not fit that approach entirely as they are too RR specific. The idea would be to incorporate those few subjects in the Framework proper, if they are sufficiently important and can be accommodated without major difficulties. Even in this case, however, the PEFA Fieldguide may still benefit from specific guidance to assessors on how to ensure that RR management issues are adequately covered in resource-dependent countries.

On this basis, recommendations are set out in the next chapter for enhancements of the PEFA Framework, comprising:

- Justification and outline of content for a new performance indicator on non-tax revenue
- Justification and outline of content for a new performance indicator on assets management
- Changes to existing performance indicators and the accompanying guidance
- Changes to the narrative sections of the PFM Performance Report.

The two new indicators proposed would increase the number of indicators in the PEFA Framework from 31 to 33. The benefits of adding indicators to the PEFA Framework on both of these two subjects were first discussed in Analytical Note 1 on 'Environmental Changes' as the subjects were among those listed as 'issues insufficiently covered'.

5. Suggestions for Changes to the PEFA Framework

5.1. Justification and outline of a new performance indicator on Non-Tax Revenue

RR comprises a wide range of instruments, such as[30]:

i. The host government's production entitlement (such as profit oil).
ii. National state-owned enterprise production entitlement.
iii. Profits taxes.
iv. Royalties.
v. Dividends.
vi. Bonuses, such as signature, discovery and production bonuses.
vii. Licence fees, rental fees, entry fees and other considerations for licences and/or concessions.

The assessment and collection of standard and special taxes from resource activities are in principle covered by PEFA indicators PI-13, PI-14 and PI-15. It may be sufficient to remind assessors in guidance material that the significance of special taxes on resource activities need to be established and that the evidence for the three indicators should include taxes on the resource sector accordingly.

This leaves the question of how to address non-tax revenue in general and in the resource sector in particular. Non-tax revenue may be of particular importance in resource-dependent countries, but the significance of non-tax revenue may also be high in other country contexts[31]. Significant non-tax revenue outside the resource sector(s) may originate from:

- User charges and fees that in principle cover the cost of providing a related service
- Social contributions
- Property rent and usage rights
- Interest and dividends from investment
- Fines and penalties
- License fees (business, airwave, drivers, professional)
- Grants
- Sale of assets (when reporting on cash basis)

To cover non-tax revenue, the questions are:

a) Should the existing PIs be expanded to cover non-tax revenue or should a new non-tax revenue administration indicator be added?
b) Should non-tax revenue be covered only as regards resource revenue in resource-dependent countries, or should non-tax revenue be covered irrespective of what sector it originates from?

Arguments for a separate non-tax administration indicator are:

- Non-tax revenue is often subject to retention schemes that allow the collecting agency to retain a certain percentage of the revenue to directly finance its operations without having to transmit the

[30] As listed in EITI 2013 under requirement 4.1.b
[31] E.g. where timber logging or fisheries are important revenue resources covering several of the same types of revenue, but typically excluded from the concept of RR (ref. section 2.1)

revenue to the Treasury and await re-issue of the funds. This is particularly important for MDAs operating primary service delivery units and typically not foreseen for taxes;

- By covering multiple taxes, the three tax administration indicators are already quite complex in content and demanding on evidence. Inclusion of non-tax measures may lead to overloading (aggregating on the basis of too many different measures) so that evidence does not cover anything with sufficient detail;
- Non-tax revenue is often managed by different institutions from tax revenue, so that aggregation in the existing indicators would not only cover many revenue measures but also many different institutions;
- Due to the above features, combining tax and non-tax measures in the same indicators would diminish the value of PEFA indicators for identification of relative strengths and weaknesses, for setting reform priorities and subsequently for tracking progress over time.

The main argument for incorporation into the existing tax indicators is the avoidance of an expansion of the indicator set. But that argument appears rather weak if the PEFA assessors have to find evidence for non-tax revenue management in any case. Incorporation makes it difficult for the team to present its findings clearly when the aggregation in one indicator covers too many individual revenue measures and different institutions involved in their management. Little would be saved in terms of resource use for assessments.

The argument for coverage of only RR - and not other aspects of non-tax revenue - would be that PEFA assessments so far have managed without covering non-tax revenue and that arguably the largest proportion of non-tax revenue compared to total revenue is found in resource-dependent countries. Moreover, non-tax revenue outside the resource sector may comprise many diverse revenue measures, managed by many different MDAs – though some countries try to coordinate and monitor such streams through a dedicated unit in the finance ministry. The additional resource input for implementing the assessment would in that case only apply to resource-dependent countries, saving (marginal) implementation costs for about two thirds of PEFA assessments.

These arguments need to be weighed against:

- The importance of covering all significant financial flows of public funds in a PEFA assessment: Non-tax revenue is significant in many countries other than resource–dependent countries, and should there be a country where this is not the case, the indicator may be considered ‘not applicable’, as this is possible (but exceptional) for any indicator related to PFM features of clearly no significance;
- Avoidance of creating special indicators for specific country contexts only (as argued in section 4.2 above).

This note favors a separate non-tax indicator applicable across the board.

The title of the indicator may be “Effectiveness in collection of non-tax revenue”. Dimensions of the new indicator’s dimensions may for instance focus on:

i. Clarity of rates, calculation and applicability for both collecting officials and payers (incl. public access to rules and regulations as well as lack of discretionary powers).
ii. Adequacy of and compliance with controls in collection. This dimension may constitute a list of requirements to be met (each requirement to be judged fully met or not) and could include separation of responsibilities between rate assessors and payment collectors, as well as reconciliation of collection accounts from the collecting unit through to the treasury accounts.

iii. Regularity and timeliness of transfers and reporting by collecting MDAs to the finance ministry.
iv. The level of arrears in revenue collection (or any other measure of performance related to revenue arrears similar to the current or a potentially revised indicator PI-15(i) for tax arrears).

The issue of delineation of roles and responsibilities as well as data sharing and collection coordination across government institutions in collection of tax and non-tax revenue could either be included as criteria under dimension (ii) or could be an alternative to the proposed dimension (iv).

Internal and external audit are important aspects of controls in non-tax revenue collection, which are covered under PI-21 and PI-26 respectively. However, PI-21 currently does not cover the entire government sector as AGAs are excluded according to the PEFA Fieldguide.

External audit and reconciliation of payments between payers and the government will not usually be possible for non-tax revenue as this requires access to the payers' records, mostly private companies and private individuals. In the resource sector, there may be particularly opportunities to pursue reconciliation of records either where a country is an EITI candidate or in the case of payments between public enterprises in any sector and the government. This is proposed to be covered by a new dimension of indicator PI-28.

5.2. Justification and outline of a new performance indicator on Assets Management

Assets and liability management was raised as one of the 'issues insufficiently covered by the PEFA Framework' i.e. one of the environmental changes of the PEFA Framework discussed in Analytical Note 1. The Analytical Note recommended further work on the subject. Issues concerning management of natural resources highlight the importance of assets management and the lack of coverage by the PEFA Framework.

The current PEFA coverage of assets management includes:

- PI-6(5) require disclosure of financial assets in budget documentation;
- PI-17(ii) on consolidation of cash balances – a financial asset;
- PI-25(i) requires information on financial assets in order to score 'A' or 'B';
- In addition, clarification 20-g (its 5th bullet) for PI-20 makes reference to access to government resources (exemplified by a range of movable assets) and the controls provided by a real assets register. However, this clarification looks more like an afterthought than a core aspect of the indicator, which is concerned with internal controls of non-salary expenditure – not with controls in asset management.

All aspects of non-financial asset management are therefore virtually excluded from the PEFA Framework. Even management of financial assets is covered only very scantily, as cash balances may not constitute the bulk of financial assets. In relation to RR management the most important assets include[32]:

- Natural/Subsoil resources (non-financial assets);
- Equity/shares in and loans to resource extraction companies whether entirely or partially state-owned;
- Accumulated funds in NRFs (whether for inter-generational savings or for price stabilization).

Particular management issues in this context include:

[32] For further details and classification ref. IMF 2001 page 180.

- Defining in legislation what constitutes government assets – e.g. as distinct from natural resources considered as private property;
- Procedures for sale of assets & usage/extraction rights – a subject similar to procurement of assets on the expenditure side of the PFM systems, which is covered by PI-19;
- Disclosure of investment policy for accumulating funds – in order to ensure that investment management is prudent, have realistic expectations of return, and that the funds are not subject to raiding by the government for financing of the fiscal deficit (also highly relevant for general pension funds).

The title of the new performance indicator may be "Transparency in Government Assets Management". The new indicator may constitute the following dimensions:

i. Comprehensiveness of inventory and valuation of non-financial public assets
ii. Transparency in disposal/sale of assets or sale/leasing/licensing of asset usage rights
iii. Disclosure of investment policy for financial assets

Disclosure of the range and value of non-financial assets may be one of the accounting standards to be listed in PI-25 to replace the general IPSAS reference,

The indicator should cover all of the (central) government sector including AGAs.

Analytical Note 1 proposed further work on preparation of a general 'assets management' indicator. The above suggestions are intended only as inputs to such work, which would have to consider management of both RR-related and other aspects of asset management.

5.3. Recommendations for Changes to Existing PEFA Indicators

The recommendations in this section cover the indicators to which changes are proposed either to the content, calibration or guidance as they currently appear in the PEFA Framework's section 3. The recommendations are made with a view to the trade-off between importance of the proposed change for better coverage of the PEFA Framework and the objective of easily tracking progress from assessments undertaken on the basis of the original version of the Framework.

PI-3 Aggregate revenue out-turn compared to the original approved budget

The evidence should present data and explain performance for RR and non-RR separately. However, overall rating should remain unchanged – based on aggregate revenue. It could be argued that rating should be based on the non-RR component only, but this idea would have several disadvantages. Firstly, not all countries would be able to comprehensively separate RR from non-RR. Secondly, countries depending on revenue from other internationally traded raw materials (cash crops) could equally argue that revenue related to such industries should be excluded, which would open the door for many more exclusions due to instable factors over which the government has no control.

PI-5 Classification of the budget

Gap (d) identified in section 3.3 concerns identification of and reporting on RR – distinguished from other revenue receipts. To accomplish this, the government's revenue classification system need to specify the economic sector from which revenue originate. That is not a standard feature of the revenue classification system of GFS (ref. IMF 2001) and the related COFOG functional classification, the latter focusing on expenditure and asset/liability transactions.

Reporting separately on RR is a pre-requisite for several other aspects of RR management and transparency. PI-5 should therefore assess if such a revenue classification system is present and linked to the budget classification and the corresponding chart of accounts. It is suggested that an additional indicator dimension of PI-5 be introduced to determine the existence of such a revenue classification and its degree of detail/sophistication[33].

PI-6 Comprehensiveness of information included in budget documentation

The list of criteria to include in budget documentation should be expanded to include

a) Statement of long term fiscal policy on natural resource extraction and usage of RR.
b) Statement of how operations of any NRFs are coordinated with other fiscal/budgetary operations;
c) Disclosure of sale of significant assets (incl. exploration and extraction rights);
d) Disclosure of fiscal risks/contingent liabilities (incl. from NRFs and NRCs);
e) Disclosure of major physical assets (incl. NR reserves). Reporting the estimated quantity and extraction rate may substitute estimation of the financial value of assets (NPV);

Items (a), (d) and (e) above are already included – in a more generic formulation - in the recommendations for changes to the indicator in Analytical Note 2 on Transparency, Oversight and Accountability.

For the existing element PI-6(2) the non-resource fiscal balance should be shown in addition to aggregate fiscal balance in resource-dependent countries.

Due to the range and importance of criteria in resource-dependent countries, however, it may be considered to introduce a second dimension of the indicator, which would also apply in resource-dependent countries. This second dimension should comprise a list of six criteria for inclusion in the budget documentation including items (a) – (e) above as well as the non-resource fiscal balance for the budget year.

PI-7 Extent of unreported government operations

RR will often appear as extra-budgetary operations, for example:

- NRFs may be managed outside the budget with only transfers to finance the annual budget becoming part of the funding of budget appropriations;
- Quasi-fiscal operations (such as national subsidies or local community service/infrastructure projects) may be undertaken by private or state-owned NRCs either as contractual obligations with the government or as operations funded out of state-owned NRC profits on the basis of more or less formalized agreements;
- Non-tax RR may be collected by MDAs and spent directly, without being part of budget appropriations and without reaching Treasury managed accounts.

PI-7(i) are supposed to assess if such operations are reported (e.g. as memorandum items) in key budget documents both ex-ante and ex-post.

The PEFA Fieldguide defines coverage of the indicator as being 'central government including autonomous government agencies'. This could lead to the misunderstanding that quasi-fiscal operations

[33] Whilst some resource revenue measures are easily identified (e.g. royalties), others require much more sophisticated system (e.g. in relation to corporate income tax from companies that operate in several economic sectors including resource extraction).

undertaken by private and state-owned NRCs should not be included in the estimates for this indicator, e.g. that non-reporting in budget documents of important fuel subsidies financed directly from profits in state-owned NRCs without any appropriations in the budget would escape assessment by the PEFA Framework.

It is recommended, therefore, that the Fieldguide be enhanced to explain that *all* quasi-fiscal operations undertaken by *any* institution or company should be included in the assessment of the indicator – as any such operations are undertaken as part of government policy irrespective of whether the operation has been formally declared and contractually agreed or tacitly approved.

PI-9 Oversight of aggregate fiscal risk from other public sector entities

Oversight of NRFs (and other extra-budgetary funds) is covered in indicator PI-9(i) where such funds are managed by AGA, but not where they are managed by the MDAs that form part of budgetary central government. Similarly, oversight of state-owned NRCs (and other public enterprises) is also covered by PI-9(i). In resource-dependent countries the combination of operations by NRFs and state-owned NRCs can constitute a very large share of fiscal flows. NRFs managed by MDAs are subject to the assessment of their PFM systems across all PEFA indicators except PI-9, whereas accountability for operations by AGAs and state-owned NRCs are only covered by PI-9(i).

Currently, PI-9(i) assesses only the coverage and frequency of fiscal reports and audited accounts of AGAs/PEs and consolidation of fiscal risks to government from their operations. No standards are set in the indicator for the content and standards of the reports.

It is recommended that PI-9 be enhanced by assessing

- the accounting and auditing standards expected in those fiscal reports, by selecting crucial aspects of international standards in a manner similar to PI-25 for the central government sector (as recommended in Analytical Note 2);
- if audited accounts of state-owned NRCs (in fact all public enterprises) are forwarded to the legislature [or other authorized oversight body] for scrutiny and are publicized;
- what action the government takes on the basis of the identification (and consolidation) of fiscal risks identified.

Such an enhancement could not be done within one dimension of PI-9. It is therefore recommended that the other current dimension (ii) of PI-9: - on fiscal risks from sub-national government - be transferred to PI-8 as a fourth dimension. This would provide content space in PI-9 which would allow more focus and detail on the coverage, content, timeliness and use of reports from AGAs and PEs (incl. PPPs) with emphasis on fiscal risk/contingent liabilities, including from state-owned NRCs and NRFs.

PI-11 Orderliness and participation in the annual budget process

A change to PI-11 related to RR would be needed only if a change is introduced for other reasons to reflect the content of the budget circular. In that case, a reference would be appropriate to how RR and its utilization are budgeted.

PI-12 Multi-year perspective in the fiscal planning, expenditure policy and budgeting

Long-term fiscal sustainability and inter-generational distribution of the benefits from extraction of natural resources is a key element of RR management. At present the PEFA Framework does not provide an indicator suitable capturing this subject. The closest to the subject is PI-12(ii) which assesses scope and

frequency of debt sustainability which has a similar long-term perspective. It is proposed that PI-12(ii) be expanded to cover the long-term perspective in extraction of natural resources and the related revenue streams – in addition to other long-term parameters that affect fiscal sustainability. The long-term report would include forecasts of extraction volumes, resource revenue generated and the rate of depletion of reserves. This recommendation is already made in Analytical Note 2. The recommendation here therefore does not add anything further to the recommendations made in Analytical Note 2.

This recommendation is linked to two others, namely (i) recommendation (a) under PI-6 above, requiring a government policy statement in budget documentation on extraction of natural resources and use of RR – a policy either used as base scenario in the long-term report or emerging as a result of the analysis in the report; and (ii) publication of an annual report on long-term fiscal sustainability as recommended for PI-10 in Analytical Note 2.

PI-14 Effectiveness of measures for taxpayer registration and tax assessment

One of the gaps identified in section 3.3 is (j) 'Sector specific standards and procedures for RR in the tax administration'. This subject would fit best with PI-14. However, the subject appears too detailed for inclusion in a PEFA assessment. No changes are recommended in relation to that gap for resource rich countries. This gap could be at least partially covered, however, if it was considered – for other reasons – to add a new, fourth dimension of the indicator on the subject of organizational arrangements for service to and tax audit of large taxpayers with complex operations (e.g. a large taxpayer unit serving the few taxpayers on which a large share of government revenue may depend).

PI-17 Recording and management of cash balances, debt and guarantees

PI-17(i): Reporting should include collateralization of future resource production incl. pre-commitment of NR production to lenders. A reference in the narrative introduction to the indicator may be sufficient, as well as appropriate reference in the Fieldguide e.g. concerning data requirements and sources of information.

PI-21 Effectiveness of Internal Audit

Currently the PEFA Fieldguide refers to coverage of the indicator only of 'budgetary central government'. This means that the internal audit function in AGAs – which are also part of central government – are excluded from the assessment. Large resource funds are often extra-budgetary and managed by AGAs outside the ministerial structure. The internal audit function in those AGAs will not be covered by the PEFA assessment under current guidance.

The PEFA Framework booklet proper does not limit the indicator coverage to 'budgetary central government'. The issue can be solved by a simple change to the guidance on coverage in the Fieldguide, and no changes are needed to PI-21 itself.

PI-25 Quality and timeliness of annual financial statements

Disclosure of RR flows and NR assets to be explicit and include direct and indirect interests in NRCs (even if rating does not reflect the ambitious IPSAS standard on consolidation of government AFS to include PEs, PPPs and private companies).

5.4. Recommendations for the PFM Performance Report

The PFM Performance Report for resource-dependent countries needs to comprise a description of public involvement in the EI sector and the sector's importance for public finances. Within the existing structure of the PFM-PR that description may be provided as follows:

- PFM-PR Section 1:
  - The structure of NRFs and NRCs in the public sector should be explained explicitly and data given for aggregate financial flows (template should be developed).
  - Describe to what extent RR flows are included in the definition of budgetary central government as opposed to the entire (central) government sector, which includes extra-budgetary funds. Such a description is important for understanding the coverage of resource-related revenue flows and assets for assessment under each performance indicator.
- PFM-PR Section 2:
  - Revenue data in section 2.2 should distinguish tax, non-tax revenue and sale of assets (when reporting on cash basis), and identify the RR component of each item.
  - Description of the Legal framework in section 2.3 should include legislation on public ownership of sub-soil assets, management of government involvement in the EI sector and management of RR (or the lack of such legislation) in resource-rich countries.
  - Similarly, the sub-section on the Institutional Framework for PFM should in resource-rich countries include a description of the country's participation and status in the EITI.

Guidance on this information for the EI sector and RR can be provided in the narrative guidance of the PEFA Framework and in the accompanying Fieldguide. There is no specific need for a new report structure or additional sections of the PFM-PR.

In fact, due to comprehensive incorporation of the government's involvement in the EI sector and RR management throughout the other parts of the PFM Performance Report, there will be little if any need for sub-section 3.8 on country-specific issues, which could therefore be eliminated[34]. The descriptive parts in this respect are in fact much more conveniently placed *before* the indicator assessments than after, because the description serves as a basis for understanding many of the details that emerge across the indicator assessments.

5.5. Summary of Findings and Recommendations

In summary the above recommendations include:

- **two entirely new, generic indicators** on controls of non-tax revenue and of assets management respectively;
- **two additional indicator dimensions** to apply only in assessments of resource-dependent countries, namely one for each of indicators PI-5 and PI-6;
- **one substantially amended indicator** in respect of PI-9;
- **one substantially amended indicator dimension** in respect of PI-12(ii);
- **minor changes** to institutional coverage or content to indicators PI-7, PI-17, PI-21, PI-25, most of which can be handled by amendments to the Fieldguide rather than the PEFA Framework proper;

[34] The other two examples of 'country-specific issues' to be covered by sub-section 3.8 would equally benefit from being captured through a strengthening of PFM-PR sections 1 and 2, rather than in sub-section 3.8.

- **enhanced guidance** in the PEFA Fieldguide for content of PFM-PR sections 1 and 2 and indicator PI-3 in the case of resource-dependent countries;
- **elimination of sub-section 3.8** of the PFM-PR.

Several of these recommendations overlap with the recommendation in Analytical Note 2 on Transparency, Oversight and Accountability or with other parts of the eight ‘environmental changes to the PEFA Framework’ discussed in Analytical Note 1. For that reason, only the proposals regarding two additional indicator dimensions would represent changes to the Framework for the sake of resource-dependent countries only. The enhanced guidance in the fifth bullet would apply in resource-dependent countries exclusively, but would not require changes to the Framework proper. The remaining recommendations may be equally important enhancements for PEFA assessments in many other countries.

6. THE WAY FORWARD

Management of natural resource revenue is a cross-cutting subject with implications across the PEFA Framework. The recommendations relate to the work of all PEWG task teams, which should have the opportunity to comment on the proposals, as is already the case for Analytical Note 2 and its substantial overlap of recommendations.

As the task teams are defined in terms of which of the current indicators they cover, the proposed new indicators do not automatically fall within the mandate of any particular task team. More importantly, the two new indicators are discussed in this note only from the perspective of natural resource revenue management, whereas the relevance and application of such new indicators should be the entire universe of potential PEFA Framework users. Additional work is therefore required on the two indicators in order to determine the indicator structure before any detailed wording of scoring calibration and guidance text be formulated.

A decision would be needed by the PEWG on whether the proposed new indicators should be added to the indicator set, given any other proposals for additional indicators coming from the task teams. Similarly, decisions need to be taken on the proposed additional indicator dimensions for resource-dependent countries only.

When a complete draft revision of the PEFA Framework has been tested and the revision is close to a final draft, it may be useful to embark on a special set of guidance notes on application of the Framework to resource-dependent countries – for inclusion in the PEFA Fieldguide.

ANNEX A. REQUIREMENTS FOR EITI IMPLEMENTING COUNTRIES

On 22 May 2013, the EITI Board agreed the revised EITI Standard. The requirements set out below are the requirements that implementing countries have to comply with in accordance with the EITI Standard.

1. The EITI requires effective oversight by the multi-stakeholder group.

The EITI requires effective multi-stakeholder oversight, including a functioning multi-stakeholder group that involves the government, companies, and the full, independent, active and effective participation of civil society. The key elements of this requirement include: (1.1) government commitment; (1.2) government oversight; (1.3) the establishment of a multi-stakeholder group; and (1.4) an agreed workplan with clear objectives for EITI implementation, and a timetable that is aligned with the deadlines established by the EITI Board (1.6-1.8).

2. The EITI requires timely publication of EITI Reports.

EITI Reports are most useful and relevant when published regularly and contain timely data. Requirement 2 establishes deadlines for timely EITI Reporting.

3. The EITI requires EITI Reports that include contextual information about the extractive industries.

In order for EITI Reports to be comprehensible and useful to the public, they must be accompanied by publicly available contextual information about the extractive industries. This information should include a summary description of the legal framework and fiscal regime (3.2); together with an overview of: the extractive industries (3.3); the extractive industries' contribution to the economy (3.4); production data (3.5); state participation in the extractive industries (3.6); revenue allocations and the sustainability of revenues (3.7 -3.8), license registers and license allocations (3.9-3.10); and, any applicable provisions related to beneficial ownership (3.11) and contracts (3.12). The multi-stakeholder group should agree on who prepares the contextual information for the EITI Report (3.1).

4. The EITI requires the production of comprehensive EITI Reports that include full government disclosure of extractive industry revenues, and disclosure of all material payments to government by oil, gas and mining companies.

An understanding of company payments and government revenues can inform public debate about the governance of the extractive industries. The EITI requires a comprehensive reconciliation of company payments and government revenues from the extractive industries. Requirement 4 outlines the steps that the multi-stakeholder group needs to consider in order to ensure that the EITI Report provides a complete account of these payments and revenues. Section 4.1 sets out the requirements related to the types of payments and revenues to be covered in the EITI Report. Section 4.2 specifies which companies and government entities, including state-owned enterprises, should be required to report.

5. The EITI requires a credible assurance process applying international standards.

Requirement 5 seeks to ensure a credible EITI reporting process so that the EITI Report contains reliable data. The EITI seeks to build on existing audit and assurance systems in government and industry and to promote adherence to international practice and standards. The multi-stakeholder group is required to

appoint an Independent Administrator to reconcile the data submitted by companies and government entities (5.1). Section 5.2 outlines the issues that the multi-stakeholder group and the Independent Administrator need to consider in agreeing the terms of reference for the reconciliation. This includes the assurances that need to be provided by the reporting entities. Section 5.3 empowers the Independent Administrator to assess the comprehensiveness and reliability of the data and to make recommendations for the future. The EITI Report must be endorsed by the multi-stakeholder group (5.4).

6. The EITI requires EITI Reports that are comprehensible, actively promoted, publicly accessible, and contribute to public debate.

Regular disclosure of natural resource revenue streams and payments from extractive companies is of little practical use without public awareness, understanding of what the figures mean, and public debate about how resource revenues can be used effectively. Requirement 6 ensures that stakeholders are engaged in dialogue about natural resource revenue management.

7. The EITI requires that the multi-stakeholder group takes steps to act on lessons learned and review the outcomes and impact of EITI implementation.

EITI Reports lead to the fulfilment of the EITI Principles by contributing to wider public debate. It is also vital that lessons learnt during implementation are acted upon, that discrepancies identified in EITI Reports are explained and, if necessary, addressed, and that EITI implementation is on a stable, sustainable footing.

ANNEX B. Good Fiscal Transparency Practices for Resource Revenue Management

Standard/Practice in 'Good Fiscal Transparency Practices For Resource Revenue Management' – IMF 2007 III	*Relevant PEFA coverage*	*Comments on PEFA subject gaps, differences and inconsistencies in standards/practices.*
I. Clarity of Roles and Responsibilities		
A. Legal Framework for Resource Revenues The government's ownership of resources in the ground should be clearly established in law and the power to grant rights to explore, produce, and sell these resources should be well established in laws, regulations, and procedures that cover all stages of resource development.	Section 2.3	In resource-dependent countries, section 2.3 of the PFM-PR should describe the relevant laws – or lack of laws. PEFA does not in principle assess and rate the content of laws (in performance indicators). **Additional guidance needed**
B. Fiscal Regime The government's policy framework and legal basis for taxation or production sharing agreements with resource companies should be presented to the public clearly and comprehensively.		**Gap:** PEFA does not require provision of non-financial information in budget documentation
C. Authority over Revenue Flows and Borrowing Fiscal authority over resource-related revenue and borrowing is clearly specified in the law. Legislation should require full disclosure of all resource-related revenue, loan receipts and liabilities, and asset holdings.	Section 2.3	As for I.A above
D. Equity Participation Government involvement in the resource sector through equity participation should be fully disclosed and the implications explained to the public.	PI-6 P-10	PEFA requires disclose of details on financial assets as part of budget documentation and annual financial statements, both of which should be made publicly available.
E. National Resource Companies Ownership structures of national resource companies and their fiscal role vis-à-vis the resource sector ministry and the finance ministry should be clearly defined. Commercial responsibilities should be clearly distinguished from policy, regulatory, and social obligations.	Section 1	PEFA requires a description of the structure of the public sector and government sector including specification of state-owned enterprises. **Additional guidance needed**.
F. Quasi-fiscal Activities (QFAs) of Resource Companies Arrangements whereby international or national resource companies undertake social or environmental expenditure or provide subsidies to producers or consumers without explicit budget support should be clearly defined and described in the budget documentation.	PI-7(i)	PI-7(i) includes assessment of the magnitude of unreported QFAs, though evidence on QFA to support rating is rarely available. **Additional guidance needed** but indicator also needs restructuring for other reasons.
G. Subnational Government and Resource Revenues	PI-8(i)	Transfers/sharing of RR with sub-national

Arrangements to assign or share resource revenues between central and subnational levels of government should be well defined and explicitly reflect national fiscal policy and macroeconomic objectives	PI-8(ii)	government would follow similar rules to transfer/sharing of other fiscal resources and be assessed in PI-8.
II. Open Budget Processes		
A. Fiscal Policy and Resource Revenues The budget framework should incorporate a clear policy statement on the rate of exploitation of natural resources and the management of resource revenues, referring to the government's overall fiscal and economic objectives, including long-term fiscal sustainability	PI-12 PI-27	PI-27(i) currently makes reference to legislative review of fiscal policies and PI-12(ii) assessed existence of debt sustainability. **Gap:** No assessment is made of the preparation of a broader long-term fiscal sustainability report, or of preparation and approval of budget strategy paper with statement of medium to long-term fiscal policy. These issues are already addressed in TN2.
B. Fiscal Policy, Resource-related Funds and the Budget Mechanisms for coordinating the operations of any funds established for resource revenue management with other fiscal activities should be clearly specified.	PI-7(i) PI-9(i)	PI-7(i) would assess if resource funds (RF) operating as part of central budgetary government are reported in the budget documentation ex-ante and in execution reports ex-post; whereas PI-9(i) assesses ex-post reporting by resource funds operating as AGAs. **Gap:** No assessment is included in PEFA of the linkages between RF operations and other fiscal activities. **Note:** Inconsistency in PI-7. The PEFA Framework proper and the additional information in the Field Guide (indicator coverage and clarifications) have different takes on whether AGA operations (which by nature are outside budget central government) are to be considered in the rating of the indicator.
C. Operations of Resource-related Funds Operational rules applied to resource-related funds should be clearly stated as part of an overall fiscal policy framework.	Section 2.3	Description of legislation is covered by section 2.3 of the PFM-PR. **Gap:** No assessment is made of whether the rules are clear and comprehensive.
D. Fiscal Policy and Asset Management The investment policies for assets accumulated through resource revenue savings should be clearly stated, including through a statement in the annual budget documents.	PI-6	**Gap:** Assets management is not covered by the PEFA Framework at all.
E. Accounting for Resource Revenues The government accounting system or special fund arrangements should clearly	PI-5 PI-24	PI-7(i), PI-24, PI-25 and PI-10 all assess if revenue receipts by budgetary central

identify all government resource revenue receipts and enable issuance of timely, comprehensive, and regular reports to the public, ideally as part of a comprehensive budget execution report. The reports should be based on a clear statement of the accounting basis (cash or accrual) and policies.	PI-25 PI-10	government are subject to regular reporting. Where RR is going directly to AGAs, PI-9(i) assesses regular reporting, but **(gap)** the GFS classification system referred to in PI-5 does not ensure that RR income can be distinguished from other revenue. **Gap:** PEFA does not assess public access to reports on AGA and PE activities.
III. Public Availability of Information		
A. Budget Documentation of Resource Revenues and Spending All resource revenue-related transactions, including through resource funds, should be clearly identified, described, and reported in the budget process and final accounts documents.	PI-6 PI-24 PI-25	As mentioned under II.E above, PEFA does not measure if RR can be distinguished from other revenue.
B. Reporting on Company Resource Revenue Payments Reports on government receipts of company resource revenue payments should be made publicly available as part of the government budget and accounting process	PI-5	**Gap:** The appropriate level of sub-classification used in fiscal reports is not specified in PI-5 (an issue already addressed in TN2); in addition same issue as for II.E above.
C. Fiscal Balance The (primary) non-resource fiscal balance should be presented in budget documents as an indicator of the macroeconomic impact and sustainability of fiscal policy, in addition to the overall balance and other relevant fiscal indicators	PI-6	PI-6(2) requires information on the fiscal balance in budget documents. For resource-rich countries this could be interpreted as the (primary) non-resource fiscal balance. **Additional guidance needed**.
D. Reporting on Resource-related Debt The government's published debt reports should identify any direct or indirect collateralization of future resource production, for instance through pre-commitment of production to lenders. All government contractual risks and obligations arising from such debt should be disclosed.	PI-17(i) PI-17(iii) PI-25(i)	PI-17(i) assesses if reporting on government *debt* is complete, but (**gap**) PI-10 does not assess if regular debt reports are published; however, PI-6(4) requires debt stock details disclosed in budget documentation. PI-17(iii) assesses system for issuing *guarantees*, but again (**gap**) no assessment of whether government issued guarantees are disclosed in budget documentation or financial statements except where government issues financial statements on the accrual basis and therefore under PI-25(i) is supposed to report in accordance with IPSAS 19 on contingent liabilities. **Additional guidance needed**: Collateralization of future resource production to be included in the assessment of PI-17(iii).

E. Reporting on Assets All financial assets held by government domestically or abroad, including those arising from resource-related activities, should be fully disclosed in government financial statements.	PI-25(i)	An 'A' rating on PI-25(i) requires full disclosure of financial assets.
F. Estimating Resource Asset Worth Estimates of resource asset worth based on probable production streams and assumptions should be disclosed	-	**Gap:** PEFA does not consider non-financial assets such as the value of natural resources.
G. Reporting Contingent Liabilities and Quasi-fiscal Activities Government contingent liabilities and the cost of resource company quasi-fiscal activities arising from resource-related contracts should be reported in budget accounts or other relevant documents in a form that helps assess fiscal risks and the full extent of fiscal activity.	PI-7(i) PI-9(i) PI-17(iii)	Reporting on quasi-fiscal activities is in principle covered by PI-7(i), though date is rarely available to quantify the volume. Due to uncertainties in the coverage of institutions by PI-7(i), **additional guidance is needed**. **Gap:** PEFA does not assess if the government estimates and reports contingent liabilities, except for annual financial statements on accrual basis where IPSAS 19 applies.
H. Fiscal Risks Risks associated with resource revenue, particularly price risks and contingent liabilities, should be explicitly considered in annual budget documents, and measures taken to address them should be explained and their performance monitored.	-	**Gap:** PEFA only considers fiscal risks from AGAs and public corporations as well as issued government guarantees, but not risks from volatile direct revenue flows and from EBFs managed directly by budgetary central government. PI-6 does not require disclosure even of those fiscal risks.
IV. Assurances of Integrity		
A. Internal Control and Audit of Resource Revenues Internal control and audit procedures for handling resource revenue receipts through government accounts or special fund arrangements and any spending of such receipts through special funds should be clearly described and disclosed to the public.	PI-14 PI-15 PI-20 PI-21 PI-26	PI-26 covers external audit of all revenue and expenditure through central government entities, including any RR. PI-14 and PI-15 cover some aspects of internal control regarding tax revenue. PI-21 covers internal audit within budgetary central government, but (**gap)** excludes AGAs. PI-20 covers internal control of expenditures, but (**gap**) excludes controls on collection of non-tax revenue.
B. Tax Administration Openness Tax administration should be conducted in a way to ensure that resource companies understand their obligations, entitlements, and rights. The scope for discretionary action by tax officials should be clearly defined in law and regulations, and the adequacy of sector skills and standard or sector-specific	PI-13(i)	PI-13 covers all major taxes including those applying to resource companies. **Gap:** PEFA does not assess if there are sector specific internal standards or procedures of the tax administration.

procedures should be open to review.		Adequacy of sector skills among staff is too detailed a level for PEFA assessment.
C. Oversight of Companies International and national resource companies should comply fully with internationally accepted standards for accounting, auditing, and publication of accounts.	PI-9(i)	**Gap:** PEFA does not assess accounting, auditing and public disclosure of private sector companies i.e. outside the public sector. For public enterprises only the existence of audited accounts is assessed – in PI-9(i).
D. Oversight of Company/Government Revenue Flows A national audit office or other independent organization should report regularly to parliament on the revenue flows between international and national companies and the government and on any discrepancies between different sets of data on these flows.	PI-26(i)	**Gap:** PEFA does not assess if the SAI has the powers to demand full information from private resource companies and therefore may not be in a position to identify discrepancies in RR flow information.

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ANNEX C. REVENUE WATCH INDEX QUESTIONS – 2010

A. ACCESS TO RESOURCES

1. Has this country adopted a rule or legislation that provides for disclosure of information in the oil, gas and mineral sectors?
2. Are contracts, agreements or negotiated terms for exploration and production, regardless of the way they are granted, disclosed to the public?
3. Does the government publish information on the licensing process during or after negotiations?
4. Are reports with assessments of the expected environmental and/or social impact of oil, gas and mining projects published?
5. Is the authority in charge of awarding licenses or contracts for mineral or hydrocarbon production independent of the state-owned company (SOC) or other operating companies?
6. Is the licensing process intended to be open and competitive to all interested companies?
7. Does the licensing process or legislation impose limits to discretionary powers of the authority in charge of awarding licenses or contracts?
8. Does the legislative branch have the authority to ratify oil and mining contracts?
9. Is there a process to appeal licensing decisions?

B. GENERATION OF REVENUE

10. Does the ministry of finance publish some or all of the information on revenue generation presented in the table below (in reports or statistical databases)?

a. Reserves
b. Production volumes
c. Information on prices
d. Value of resource exports
e. Estimates of investment in exploration and development
f. Production costs
g. Names of companies operating in country
h. Production data by company and/or block
i. Quasi-fiscal activities
j. Disaggregated revenue streams:
j1. Production streams value
j2. Government's share in PSC
j3. Royalties
j4. Special taxes
j5. Dividends
j6. Bonuses
j7. License fees
j8. Acreage fees j9. Other

11. Are the reports or statistical databases published by the ministry of finance comprehensive and understandable?
12. How often are the reports or statistical databases containing information on revenue generation published by the ministry of finance?
13. Does the ministry of the extractive sector publish some or all of the information on revenue generation presented in the table below (in reports or statistical databases)? (Response items are the same as in question 10)
14. Are the reports or statistical databases published by the ministry of the extractive sector comprehensive and understandable?
15. How often are the reports or statistical databases containing information on revenue generation published by the ministry of the extractive sector?
16. Does the regulatory agency publish some or all of the information on revenue generation presented in the table below (in reports or statistical databases)? (Response items are the same as in question 10)
17. Are the reports or statistical databases published by the regulatory agency comprehensive and understandable?
18. How often are the reports or statistical databases containing information on revenue generation published by the regulatory agency?
19. Does the central bank publish some or all of the information on revenue generation presented in the table below (in reports or statistical databases)?
20. Are the reports or statistical databases published by the central bank comprehensive and understandable?
21. How often are the reports or statistical databases containing information on revenue generation published by the central bank?
22. Does the state-owned company publish some or all of the information on revenue generation presented in the table below (in reports or statistical databases)? (Response items are the same as in question 10)
23. Are the reports or statistical databases published by the state-owned company comprehensive and understandable?
24. How often are the reports or statistical databases containing information on revenue generation published by the state-owned company?

C. INSTITUTIONAL SETTING

25. Are policy, regulatory and commercial roles in the extractive sector divided across separate institutions?

26. Has the government published detailed resource legislation?
27. Does the agency (or agencies) in charge of receiving payments from resource companies have internal controls in place to monitor assets and prevent fraud?
28. Is there independent external validation of internal controls of agencies in charge of receiving payments from resource companies?
29. Are payments by resource companies to the government (either to the ministry of the resource sector or other authorized agency) subject to an independent audit?
30. Does a parliamentary committee scrutinize audit reports on resource-related revenues?
31. Can civil society participate in oversight of revenue generation, through EITI committees, board meetings of the resource regulatory authority, or other mechanisms?

D. STATE-OWNED OIL, GAS AND MINING COMPANIES
32. If an SOC exists, does the SOC publish information about its operations?
33. Does the SOC follow internationally recognized accounting standards?
34. Are SOC reports audited, and are the audited reports published?
35. Do SOC audits include consolidated accounts that cover all of the SOC subsidiaries?
36. Does the SOC publish information about quasi-fiscal activities?
37. Does the ministry of finance publish the overall public sector balance including the SOC financial balance?
38. If there are joint ventures, does the government (ministry of the sector or SOC) publish information on the SOC equity participation in joint ventures?
39. Are government officials required to disclose information about their financial interest in any extractive activity or joint venture?
40. Does the SOC publish information on the composition of its board of directors?

E. NATURAL RESOURCE FUND
41. If a resource fund exists, are the rules governing the fund publicly available? (This includes information on how the instrument is funded, as well as rules for disbursement.)
42. If a resource fund exists, does the fund management or authority in charge of the fund publish information on its assets and transactions?
43. How often does the fund management or authority in charge of the fund publish these reports?
44. Are the fund financial reports audited, and are audited reports published?

F. SUB-NATIONAL TRANSFERS
45. Are arrangements for resource revenue sharing between central and sub-national governments set in legislation?
46. Are the rules for revenue transfers from central to sub-national governments published, including the formula(s) for revenue sharing?
47. Does the central government publish information on transfers of resource-related revenues to sub-national governments?
48. How often does the central government publish information on transfers of resource related revenues to sub-national governments?
49. Is the information on transfers of resource-related revenues comprehensive?
50. Do sub-national governments publish information on transfers received from central governments?

G. EITI
51. Is this country an EITI candidate or compliant country?
52. If this country has adopted EITI, has this country published an EITI report?
53. In the EITI report, have all the payments and revenue been audited by an independent auditor?
54. In the EITI report, have all payments and revenue been reconciled by an independent administrator?
55. In the EITI report, is information about payments and revenue from state-owned companies included?

ANNEX D. THE NATURAL RESOURCE CHARTER - PRECEPTS

precept 1
The development of a country's natural resources should be designed to secure the *greatest social and economic benefit* for its people. This requires a *comprehensive approach* in which every stage of the decision chain is understood and addressed.

precept 2
Successful natural resource management requires *government accountability* to an *informed public*.

precept 3
Fiscal policies and contractual terms should ensure that the country gets full benefit from the resource, subject to attracting the investment necessary to realize that benefit. The long-term nature of resource extraction requires policies and contracts that are robust to changing and uncertain circumstances.

precept 4
Competition in the award of contracts and development rights can be an effective mechanism to secure value and integrity.

precept 5
Resource projects can have significant positive or negative local *economic, environmental and social effects* which should be identified, explored, accounted, mitigated or compensated for at all stages of the project cycle. The decision to extract should be considered carefully.

precept 6
Nationally owned resource companies should operate transparently with the objective of being commercially viable in a competitive environment.

precept 7
Resource revenues should be used primarily to promote *sustained, inclusive economic development* through enabling and maintaining *high levels of investment* in the country.

precept 8
Effective utilization of resource revenues requires that *domestic expenditure and investment be built up gradually* and be *smoothed* to take account of revenue volatility.

precept 9
Government should use resource wealth as an opportunity to increase *the efficiency and equity of public spending* and enable the private sector to respond to structural changes in the economy.

precept 10
Government should *facilitate private sector investments* at the national and local levels for the purposes of diversification, as well as for exploiting the opportunities for domestic value added.

precept 11
The *home governments* of extractive companies and *international capital centers* should require and enforce best practice.

precept 12
All extraction companies should follow best practice in contracting, operations and payments.

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