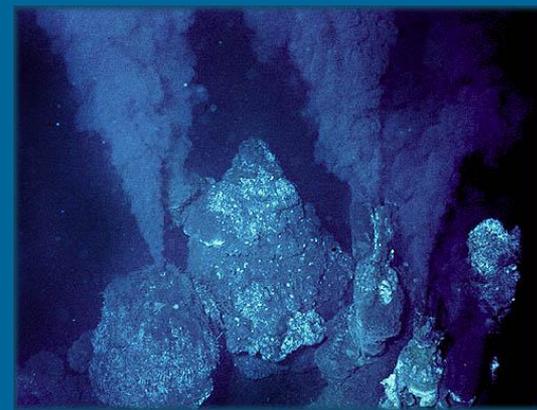




The Importance of Transparency and Macroeconomic Management in Extractive Industries Economies

Dr Graeme Hancock

Seabed Mining Workshop, Nadi, 6-8 June 2011





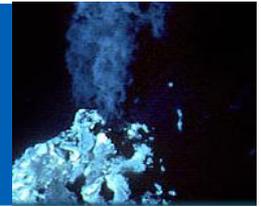
What is EITI?



EITI = Extractive Industries Transparency Initiative

It is the global standard for the oil, gas and mining Industries that promotes revenue transparency by using an agreed methodology for monitoring and reconciling company payments and government revenues from mining, oil and gas in a country

What is EITI?



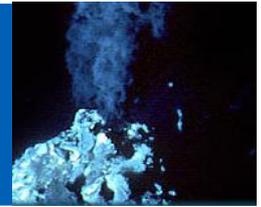
EITI is...

...a multi-stakeholder engagement
to ensure that natural resource
extraction benefits everyone

...a coalition of governments, companies
and civil society

...a standard for companies to publish what they pay
and for governments to disclose what they receive

How Does EITI Work?



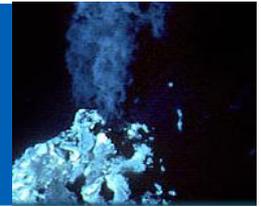
How **EITI** works



COMPANIES

disclose payments

How Does EITI Work?



How **EITI** works

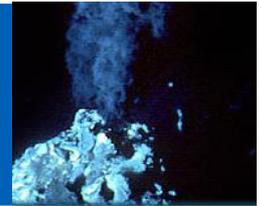


COMPANIES
disclose payments



GOVERNMENTS
disclose receipt of payments

How Does EITI Work



How **EITI** works



COMPANIES

disclose payments



**INDEPENDENT
VERIFICATION**
of tax and royalty
payments



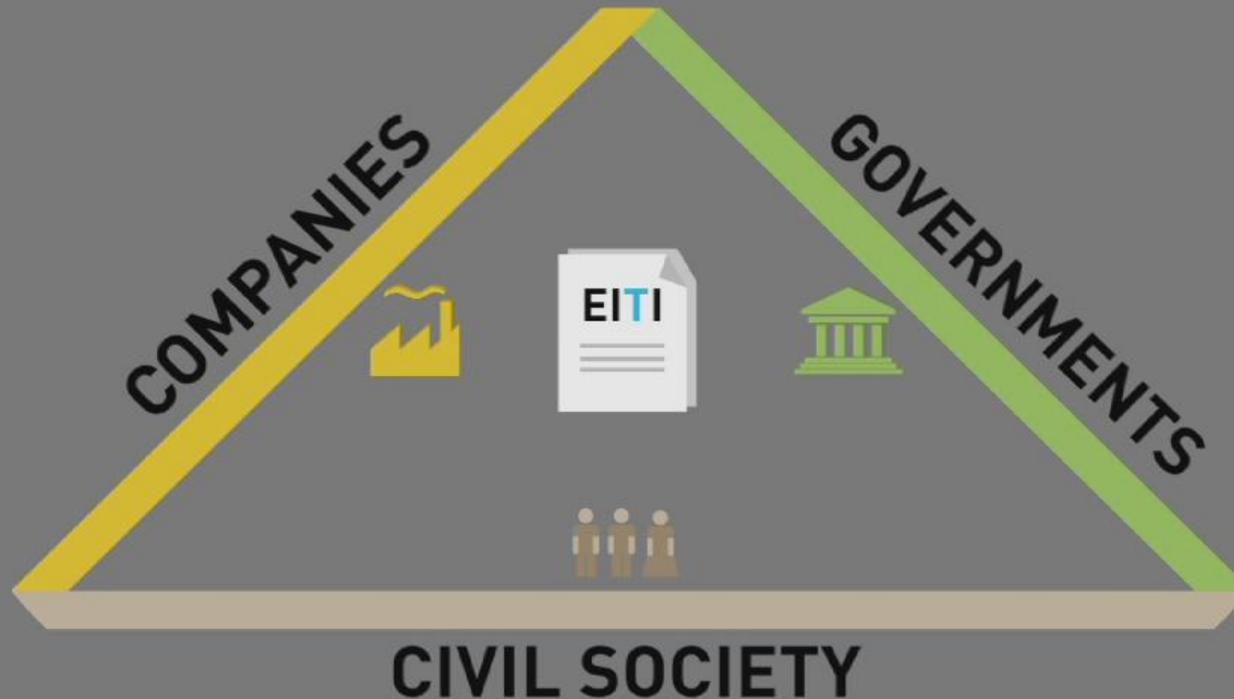
GOVERNMENTS

disclose receipt of payments

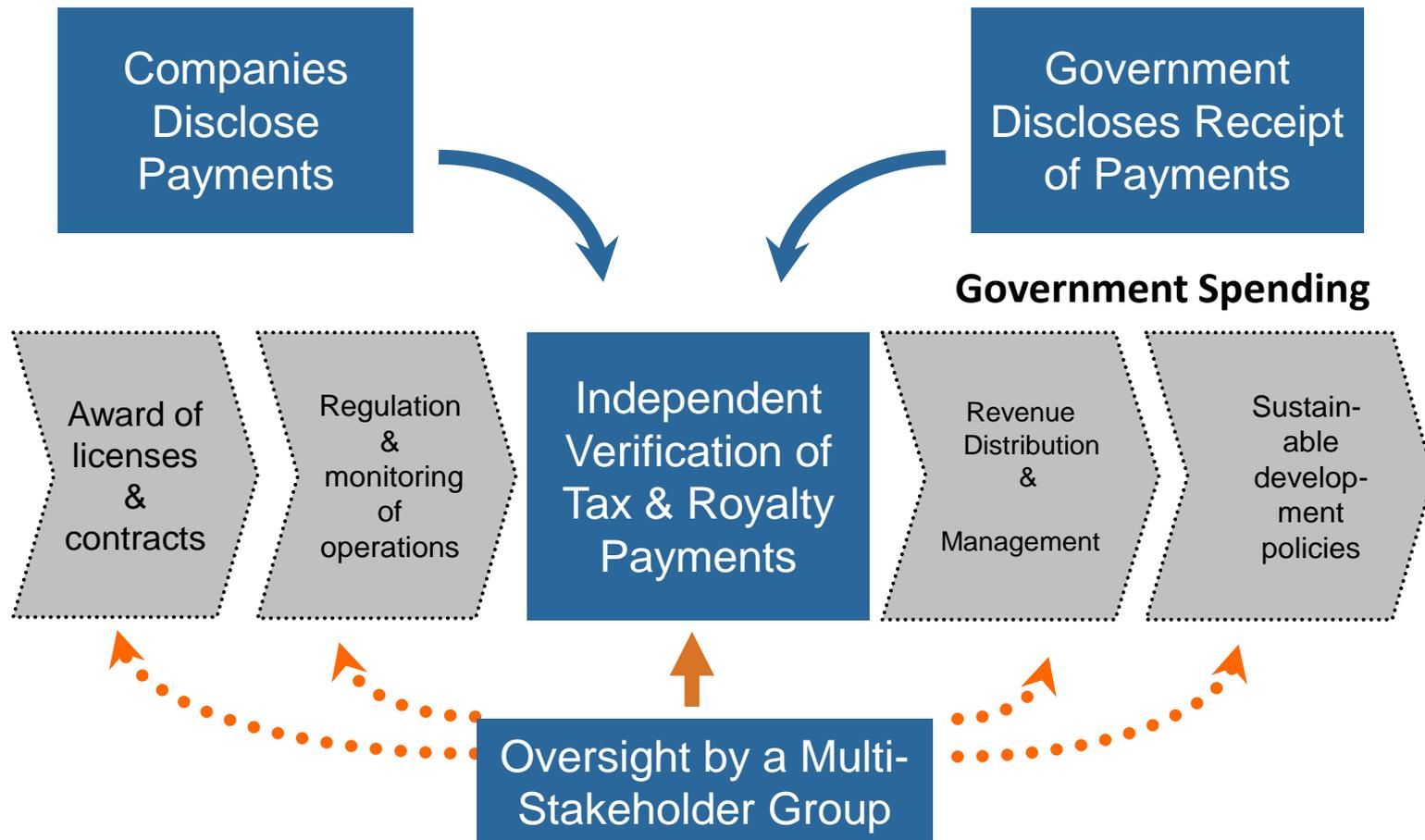
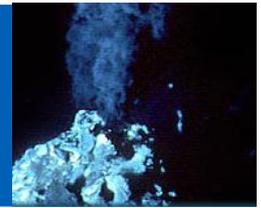
How Does EITI Work?



How **EITI** works

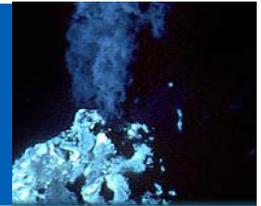


Transparency of revenues is one part of good governance of the mining sector



The EITI provides a Forum for dialogue and a Platform for broader reforms

What Benefits does EITI Bring?



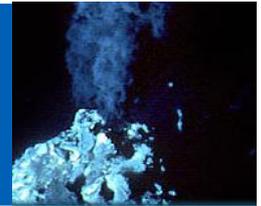
Using the EITI principles and process can help prevent the negative impacts that often come with extractive industries

Companies and investors benefit from reduced political and reputational risks, and the transparency of payments helps demonstrate the contribution that their investment makes to a country

Citizens, communities, and civil society benefit from the increased information in the public domain about those revenues, resulting in a greater level of confidence and trust between people and their government

Countries benefit from an improved investment climate by sending a clear signal to investors and international financial institutions that the government is committed to greater transparency, which can also reduce conflict based around the oil, mining and gas sectors

How can the World Bank Support EITI in The Pacific?



The World Bank manages a **Trust Fund** that provides **grants to assist countries** in moving towards, and implementing, EITI

Making EITI **advisers and consultants available to assist** in preparation and implementation (*especially* the technical, financial, and legal aspects)

Providing grants to **both** governments and civil society coalitions to help them move towards EITI and support implementation

Supports broad-based engagement by national stakeholders and promotes **multi-stakeholder exposure** to best-practice implementation experiences and knowledge-sharing globally

Implementing Countries in the Asia Pacific Region



Timor Leste - Fully EITI Compliant Country

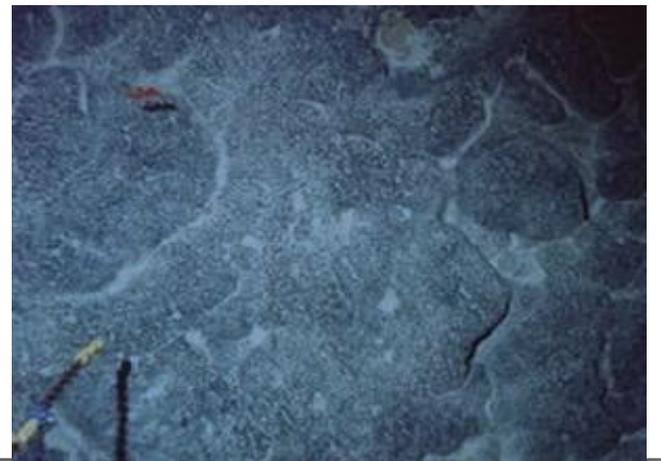
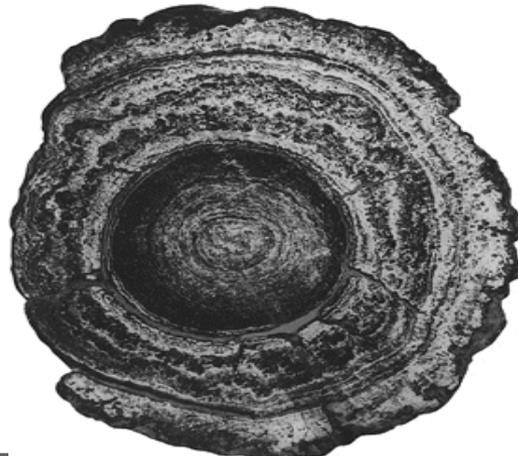
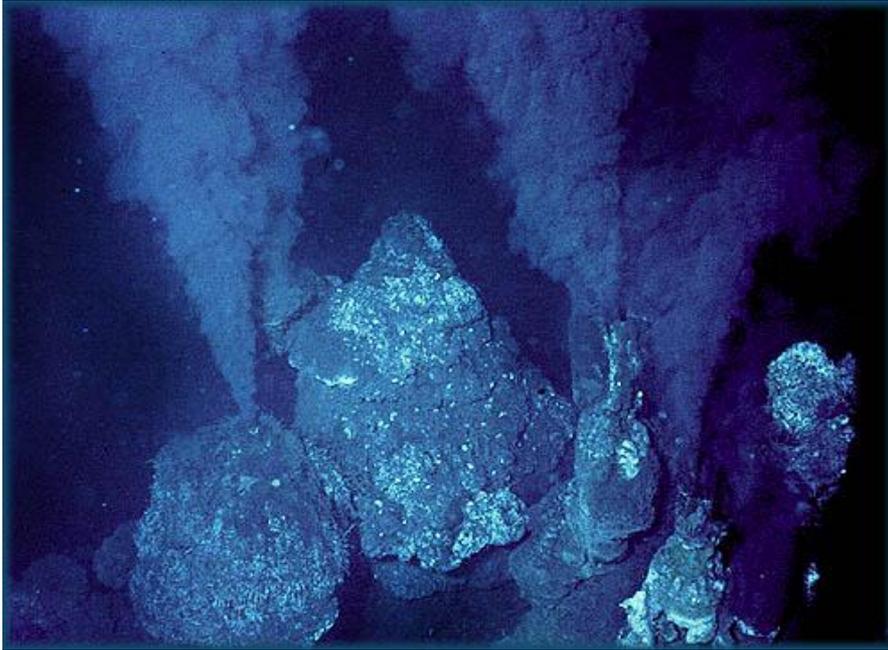
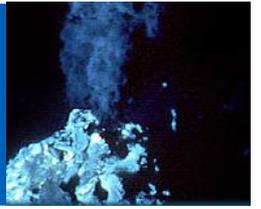
Mongolia - Fully EITI Compliant Country

Indonesia - EITI Candidate Country Commencing Implementation

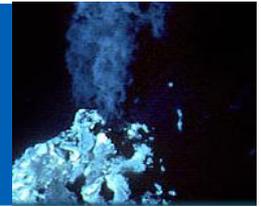
Solomon Islands - Committed to Implementation and going through the process of becoming a Candidate Country

Papua New Guinea – Actively considering becoming a candidate Country

Economic Implications



Economic Impacts of Seabed Mining in Small Pacific Economies



- In small Pacific Islands economies, seabed mining developments have the potential to substantially and dramatically increase both Government revenues and GDP perhaps to add multiples of your GDP.
- Projects may only operate for a limited period of time – perhaps as short as 5 years and up to perhaps 20 years depending on deposit type and reserves – SMS shorter life than nodules which might have long life operations
- This requires that seabed mining revenues are carefully managed to reflect the expected life of the revenue stream

Economic Impacts of Seabed Mining in Small Pacific Economies



- Fiscal responsibility and prudent macroeconomic management must look at the long term sustainability of the revenues, avoid massive increases in immediate spending and ensure secure savings mechanisms are established to enable expenditures to be smoothed over time – e.g. Stabilisation funds and Sovereign Wealth Funds.
- Strong Political Will is required. There will inevitably be calls for large spending increases and populist political pressure to undertake social welfare transfers and build infrastructure
- Careful planning and budgeting based on long term returns from a fund are needed to ensure that any new infrastructure or expenditure programs can be sustained beyond mine closure and the end of new revenues

Economic Risks of Seabed Mining in Small Pacific Economies



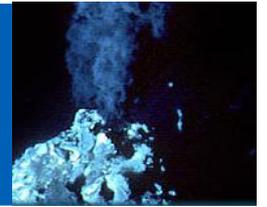
- There are many risks and many sad examples to remind us – some very close indeed – including Nauru and to some extent PNG
- Rapid increases in Government spending and increases in the local money supply will be highly inflationary and drive the poor further into poverty as prices increase and most incomes remain stagnant
- Conversion of US\$ incomes into local currency within a small currency base could lead to massive over-valuation of the local currency – causing Dutch Disease and is also open to destructive currency speculation by hedge funds etc.
- Populist social security payments are unsustainable unless funded from within the interest return of any long term fund

Economic Risks of Seabed Mining in Small Pacific Economies



- Large revenue flows could result in excessive rent-seeking (and corruption) and fail to deliver lasting benefits to anyone other than a few political elites - sustainable development will be the casualty
- We often see calls for economically damaging and unproductive national flag-waving projects – e.g. uneconomic national airlines and huge sports stadiums
- Timor Leste and Kiribati both provide us with reasonably good savings models, but long term sustainability will depend on public buy-in and strong political will
- Even Nauru had a fund in the past, but without adequate controls and supervision it was squandered

To Conclude



- Seabed mining will bring both opportunities and risks to Pacific Islands economies
- Revenue Transparency is essential to ensure that citizens know what is happening in terms of revenues and can hold Government to account for the wise use of revenues from non-renewable resources
- Foreign currency savings programs and the wise use of revenues will increase the likelihood that windfalls get effectively converted into sustainable development
- Unfortunately there is a very poor track record of Governments turning mining revenues into sustainable economic growth

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