

GOVERNANCE FOR DEVELOPMENT

How to manage the extractives sector? There's a book for that!


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Let's assume you are a Finance Minister or ministry official of a country that has newly discovered oil or minerals.

What actions lay ahead? Or, if oil and mineral production is ongoing, how can you strengthen the public management of the extractive sector  , which is a mainstay for national economies around the world?

Planning for the development of an unfamiliar and complex sector can be daunting. How should sector policy objectives be determined?

Which economic, accounting and taxation principles should be considered? What kinds of laws and regulations would a government need to adopt? What roles do various ministries and government agencies play in administering these laws? How do technical, environmental and social considerations fit into the scheme of things? What about the investment of resource revenues, or the potential for new industry linkages?

The World Bank's handbook: *The Extractive Industries Sector: Essentials for Economists, Public Finance Professionals, and Policy Makers* – aims to address these questions.

The study provides an overview of issues core to the economics at play in extractive industries. These include topics that may suddenly become vital to the management of a discovered resource: the meaning of "cut-off grade," the valuation of subsoil assets, the economic interpretation of ore, and the structure of energy and mineral markets.

It also addresses key components of the sector's governance, policy, and institutional structure, as well as the monitoring and enforcement of mineral exploration and production contracts.

The first in a two-volume series, the handbook is designed to help policymakers work through critical questions that don't always garner the attention they need. It maps the responsibilities of relevant government entities, and outlines the characteristics of the sector's legal and regulatory frameworks. It also informs the establishment of financial structures required to underpin environmental safeguards and ensure that mining companies take responsibility for costly mitigation efforts, such as the decommissioning of toxic mine sites.

For example, according to South Africa's auditor general, the government's contingent liabilities associated with the rehabilitation of abandoned mine sites amounted to \$2 billion, in addition to high recurrent costs of long-term treatment of acid mine drainage.

In spite of the recent slump in oil and mineral prices, the extractives sector still occupies an outsize space in the economies of many resource-rich countries. In many cases, the slump has brought their resource dependence into sharper focus.

For economists, public finance professionals, and policy-makers in these resource-rich countries, an in-depth understanding of the sector, its economics,

governance, and policy challenges, as well as an understanding of the implications of natural resource wealth for fiscal and public financial management, is essential. This [practical guide](#) aims to point these professionals in the right direction.

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