Re: Natural Resource Governance Institute Comments on IPSASB Proposed Strategy and Work Plan 2019-2023 and natural resource accounting

We are pleased to provide comments on IPSASB Proposed Strategy and Work Plan 2019-2023.

The Natural Resource Governance Institute (NRGI) is an international non-profit policy institute and grant-making organization whose focus and expertise is the responsible management of oil, gas and mineral resources for the public good. Our work promotes transparency and governance standards for the management of natural resources and resource revenues by governments, as well as the associated activities of companies, lenders and investors active in the extractive industries. We work in resource-rich countries in Africa, the Middle East, Eurasia, Latin America, South East Asia and the Pacific.

We also work at the international level to inform and implement best practice standards for extractive industry governance, and have played a central role in the establishment of the Natural Resource Charter (NRC), the Extractive Industries Transparency Initiative (EITI) and the Publish What You Pay (PWYP) coalition. NRGI additionally publishes the Resource Governance Index (RGI), which measures the quality of governance of oil, gas and mining sectors across 81 countries producing 82 percent of the world’s petroleum, 78 percent of gas and 71 percent of copper, generating trillions of dollars in annual profits.

We have in the past provided advice on various reporting and data standards, including the natural resource reporting template, of the IMF GFS, the extractive industries data standardization recommendations by the World Bank, EITI’s new standard and the related data collection template, and the reporting format on extractive industry payments by Canadian extractive companies. Please find more information on NRGI at: www.resourcegovernance.org.

We are writing to endorse the proposal to prioritize natural resources as a focus area of IPSASB’ Work Plan for the 2019-2023 period under Theme A - Setting standards on public sector specific issues.

Wealth from natural resources present a unique opportunity to governments. When used well, they can create greater prosperity for current and future generations. But used poorly, or squandered, they can cause economic instability, social conflict, and lasting environmental damage.

The 2017 edition of the Resource Governance Index shows that the majority of governments inadequately govern their oil, gas and mining sectors. Among other topics, the index measures the extent and quality of disclosures across all of the main policy aspects of extractive resource management. The index reveals how data on payment flows related to the resource sector are still not uniformly available despite major advances in the last decade through initiatives like EITI.

Our work has also revealed a number of technical challenges to determining what constitutes natural resource payments, how to classify various transactions, and how these relate to other standards

1 The Natural Resource Charter is a set of principles to guide governments’ and societies’ use of natural resources. See more here: http://resourcegovernance.org/approach/natural-resource-charter
already existing in the field. Another difficulty relates to which entities should be reporting on extractive sector activities. In many of the most resource dependent countries, resource flows are dominated by state owned enterprises, or with companies making payments in kind (in oil) and then resold via commodity traders. We have found that these entities are often opaque, and their activities may not be reconciled with central government accounts.

It may also be useful for IPSASB to keep in mind the work currently ongoing by EITI, which focuses on detailed disclosures by governments of their mineral value chain. This is necessary as minerals are valuable assets and granular information is needed to detect theft or leakages.

EITI is taking steps in mainstreaming – that is making EITI reporting integrated into government public financial management systems. The EITI reporting on extractives receipts is now harmonized with IMF GFS. Given our active organizational involvement in EITI at both the global level through EITI’s international board, and supporting EITI implementation in multiple countries – we can help facilitate conversations on EITI IPSASB synergies. For example, Colombia appears to have advanced implementation of both IPSAS and EITI, and a priority country for NRGI’s own work.

We would be pleased to provide further inputs on these matters once work is on its way in this area.

**Conclusion**

Improving the standards on natural resource accounting would be an important effort to support the strengthening of the international foundations of good resource governance. Therefore we support the proposal to prioritize “accounting for natural resources in the public sector” for addition into the 2019-2023 Work Plan.

We are grateful for this opportunity to comment, and would be pleased to discuss these inputs in more detail at IPSASB’s request.

Contact: David Mihalyi, Economic Analyst at dmihalyi@resourcegovernance.org.

---

2 A working paper by ICTD, and a shorter blog by NRGI provide illustrations on the inconsistencies in reporting resource revenues across various sources.