

Worksheet G

V. Local impacts

Background: The costs and benefits of resource projects are not shared equally by all the people in a producing country. While the benefits of resource projects—stemming largely from resource revenues, job creation and business linkages—can be shared throughout the country, the social and environmental costs of exploitation are usually concentrated among affected communities located close to project sites.

Where operations are mismanaged, extraction can result in irreversible environmental damage and unmet expectations, giving rise to local grievances and conflict. Government policy should therefore seek to protect affected populations from the negative impacts of extraction, while at the same time helping them to harness the benefits. Across the world, the RGI showed that the biggest gap between policy and implementation is in the areas of local impact and subnational revenue sharing.

Political parties can play an important role in ensuring that there is good public debate about how best to balance local impacts against national benefits. In Malaysia, a country known for restricted political debate, opposition and governing parties from resource-rich states sought to bring issues of subnational revenue sharing to national attention. All the major parties in the resource-rich state of Sarawak included demands for an increased share of royalties in their party positions and then tried to use that demand to influence national positions.¹⁶¹ The Progress Party in Norway, which has a strong representation in oil-rich regions, has pushed hard for local demands related to infrastructure investment and job losses in the national conversation.¹⁶²

In addition to the final substance of the party position, the process of developing and communicating it with stakeholders can improve the chances of effective management of local impact concerns. The party must be sure to include a variety of stakeholders from resource-rich regions, including women, youth and business, in the consultations and ideally the working group itself. Because addressing the concerns of directly affected stakeholders is often balanced against national interests, it is also useful for parties to vet their positions with stakeholders in regions that are not resource rich.

¹⁶¹ See the Malaysia case study in Chapter 2.

¹⁶² See the Norway case study in Chapter 2.

Costs and trade-offs

When developing policy stances related to **community consultation and communication between stakeholders** it is particularly important to consider:

- The time and financial costs involved in facilitating communication between companies and local stakeholders, weighed against the risks associated with some key stakeholders being excluded (e.g., project-delaying disruptions by communities, political disagreement and conflict)

When developing policy stances related to **local impacts** it is particularly important to consider:

- The likelihood and potential severity of environmental, social and health impacts from extraction projects and the political, economic and legal risks associated with significant impacts
- The time and funds required to conduct thorough environmental and social impact assessments and to mitigate negative impacts

When developing policy stances related to **compensation and resettlement** it is particularly important to consider:

- The financial, political and social implications of resettling affected communities
- How resettlement is managed in other sectors of the economy

When developing policy stances related to **subnational revenue sharing** it is particularly important to consider:

- The current political and economic relationship between resource-rich local governments and the national government, and whether there are expectations of local ownership or fiscal independence
- The fiscal responsibilities of local governments related to extraction
- The capacity of local governments to spend money efficiently and effectively, and to respond to the unique revenue management challenges of resource wealth





When developing policy stances related to **local content*** it is particularly important to consider:

- How many direct and indirect jobs might realistically be available in the extractive sector over the lifecycle of projects
- The skill level required for those jobs and the investment needed to build those skills in the domestic workforce (if not present already)
- The capacity for domestic companies to meet the likely service and subcontracting needs of the sector and the investment required to help local companies participate efficiently (if not already the case)

* These considerations are also included in Worksheet G.IX. on Private Sector Development section below and should be covered here only if that issue area is not selected for discussion.

For more information on these policy issues, please refer to Precept 5 in the Charter Benchmarking Framework and the NRGi primers on local content, extractives-linked infrastructure, subnational revenue distribution and subnational revenue management.¹⁶³

Guiding questions	Current orientation
<ul style="list-style-type: none"> • Does the party already have a stance (formal or informal, public or internal) on how to balance the non-fiscal costs and benefits of extraction? If so, what is that stance? 	
<ul style="list-style-type: none"> • Does the party already have a stance on revenue sharing? If so, what is that stance? 	
<ul style="list-style-type: none"> • What do the party base and its core constituencies think about the local impacts of extraction? What does the wider population think? 	
Guiding questions	Current framework
<ul style="list-style-type: none"> • What is the current legal and regulatory framework governing the relationships between all stakeholders within affected communities and extractive companies? 	

¹⁶³ The Local Content primer is available at <<http://www.resourcegovernance.org/analysis-tools/publications/primer-local-content>>; the Extractives-Linked Infrastructure primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-extractives-linked-infrastructure>>; the Subnational Revenue Distribution primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-subnational-revenue-distribution>>; and the Subnational Revenue Management primer is available at <<https://resourcegovernance.org/analysis-tools/publications/primer-subnational-revenue-management>>.

Guiding questions	Current framework
<ul style="list-style-type: none"> What is the current legal and regulatory framework governing the assessment of the potential impacts of resource extraction? How does it address mitigating the environmental, social and health costs? Is it implemented effectively?¹⁶⁴ 	
<ul style="list-style-type: none"> Does the national government share benefits, or revenues, with subnational governments or communities? If so, what is the legal framework that governs revenue sharing? Is it implemented consistently and efficiently?¹⁶⁵ 	
<ul style="list-style-type: none"> How does the country perform on the ‘Local Impact’ subcomponent of the Resource Governance Index? How does the country perform on the ‘Subnational Resource Revenue Sharing’ component of the RGI? What underlying rules and practice indicators does the country perform poorly on and why?¹⁶⁶ 	
<ul style="list-style-type: none"> If the country is an EITI member, what were the findings and recommendations around the ‘Social and Economic Spending’ requirement in the most recent EITI report?¹⁶⁷ 	
Policy options	Stances
<p>What should the government do to ensure that there are good working relationships between all stakeholders within affected communities?¹⁶⁸</p> <ul style="list-style-type: none"> How should the government ensure that affected communities meaningfully participate in decision-making about resource projects? How should the government ensure that affected communities have realistic expectations about the impacts of resource projects? How should the government ensure that there are credible and effective dispute resolution procedures for affected communities? How should the government ensure that government and private security providers related to resource projects do not use excessive force? How should the government ensure that the rights of indigenous people are protected? 	<p><i>Example stance:</i> The party believes that affected communities deserve to participate in decision-making around natural resource extraction. We therefore commit to putting robust participation and dispute-resolution systems in place.</p>

¹⁶⁴ Information on the current framework may be available in the RGI data under questions 1.3.1.a, 1.3.2a, 1.3.4a, 1.3.5a-1.3.5b, and 1.3.6a-1.3.7b.

¹⁶⁵ Information on the current framework may be available in the RGI data under questions 2.2a-2.2.2b, 2.2.3a-c, 2.2.4a, and 2.2.5a.

¹⁶⁶ For detailed answers to these questions, refer to the downloadable RGI Data explorer available at <<http://www.resourcegovernanceindex.org/about/data-and-source-documents>> (subcomponents 1.3 and 2.2). For a quick snapshot of the subcomponent and indicator scores, see the country profile at <<http://www.resourcegovernanceindex.org/country-profiles>> (select your country, scroll down to the Full Scores section, and click + to expand the relevant scores).

¹⁶⁷ Find the most recent report and other information on country progress on the EITI website at <<https://eiti.org/countries>>.

¹⁶⁸ Free, Prior and Informed Consent (FPIC) is the international standard for consulting with and helping affected communities. A manual on implementing it is available at <<https://www.un.org/development/desa/indigenouspeoples/publications/2016/10/free-prior-and-informed-consent-an-indigenous-peoples-right-and-a-good-practice-for-local-communities-fao/>>.

Policy options	Stances
<p>What systems should the government establish or strengthen to assess the impacts of resource projects?</p> <ul style="list-style-type: none"> • Should the government use strategic impact assessments before deciding to open an area up to exploration and production activities? • Should the government use environmental and social impact assessments to inform decision-making at all stages of resource projects? 	<p><i>Example stance:</i> The party believes that the harmful effects of extraction on affected communities should be carefully assessed prior to natural resource extraction. We therefore commit to conducting thorough environmental and social impact assessments at all stages of resource projects.</p>
<p>What should the government do to better monitor and mitigate the environmental, social and health costs of resource projects?</p> <ul style="list-style-type: none"> • How should the government favour incident prevention over minimization and avoid practices that require compensation and resettlement? • How should the government set and enforce effective environmental, social and health regulations? • Should the government require companies to develop environmental impact mitigation management plans; and, if so, how should it ensure that these plans are followed? • Should the government require companies to develop effective disaster response plans? • How should the government allocate responsibility for the execution and financing of project closure and land rehabilitation? • Where social and environmental costs are unavoidable, how should the government ensure that there is adequate compensation? • Where resettlement is unavoidable, how should the government ensure that resettlement provides adequate redress? 	<p><i>Example stance:</i> The party believes that the environmental, social and health costs of natural resource extraction should be mitigated to the greatest extent possible. We therefore commit to requiring that companies develop and follow detailed environmental mitigation plans.</p>
<p>What should the government do to help affected communities benefit from resource projects?</p> <ul style="list-style-type: none"> • What should the government do to ensure that companies come to an agreement with affected communities as to how companies will deliver community benefits? • What should the government do to encourage companies to direct employment and procurement opportunities towards affected communities? 	<p><i>Example stance:</i> The party believes that affected communities should benefit from natural resource extraction. We therefore commit to ensure that companies set and deliver on community development agreements.</p>
<p>Should revenues be allocated to subnational governments?</p> <ul style="list-style-type: none"> • If so, what type of revenues and to which subnational authorities? How should they be shared and what should be done to ensure such transfers are based on a well-articulated set of objectives and that they are correct and timely? 	<p><i>Example stance:</i> The party believes that a small portion of the royalties from the extraction of natural resources should be shared with the state governments where extraction takes place. We therefore commit to establishing a transparent and accountable mechanisms for subnational transfers.</p>
<p>What should the government do to ensure that domestic businesses and workers have the opportunity and capacity to operate in the extractive sector?*</p> <ul style="list-style-type: none"> • What needs to be done to remove barriers to local participation? • Should there be local content rules? If so, what should be done to ensure that they are consistent with local capacity, avoid excessive protection and guard against corruption? How should the government monitor and enforce companies' adherence to the rules and the government's own support measures? 	<p><i>Example stance:</i> The party believes that successful implementation of local content rules in the natural resource sector requires a dedicated institution, staff and funds. We therefore commit to establishing an institution dedicated to the implementation, monitoring and enforcing of local content rules.</p>
<p>* These questions are also included in Worksheet G.IX. on Private Sector Development section below and should be covered here only if that issue area is not selected for discussion.</p>	