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Governance and Investment in the Valuation of Natural Resources

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Natural resource management regarding the economic development while respecting the imperatives of compliance with environmental quality is not an easy task. In this paper the authors highlight the role of good governance and investment management in finding the optimal decision regarding the valuation strategy of limited natural resources. Criteria used type of information that is needed and other relevant aspects are discussed and illustrated by examples from Romania.

Keywords: *governance; management; resource; environment*

Introduction

The existence of laws for the protection of natural resources and their management is not sufficient for them to be respected, to ensure the integrity of the ecosystems, and that the population has access to resources essential for its existence. The definition of governance was thus suggested, which, according to DEX, means to lead, to manage, to direct a country, a nation.

The international and national practices established the correlation between the quality of governance, decision-makers, the political classes participating in governance and the correct management of the natural resources that form the natural heritage of the country and support the economy.

Who or what would be the best governance for the people - are questions that have been asked, perhaps with the emergence of the first forms of social organization, questions that have stimulated the evolution of society and led to the current forms of state organization, an ongoing process. Even if today's world knows various forms of government, several trends can be however revealed, from their characteristics, as a common factor of the concerns, for example:

- The transformation of states in general suppliers of resources and material security. Western Europe is an example in which the state has become an essential economic agent in a mixed economy. It is generally asked for the preservation of the market, simultaneously with a state control in order to maintain order and a certain relative harmony. In other words, the state manages the national wealth[1];
- Priority given to the national interest.
- International affirmation by increasing the state's role in defining, delimiting and defending national interests within the supranational institutions or the globalization process [2].

The management of natural resources

The management of natural resources involves three requirements needed for a good governance, their realization depending on certain conditionings, among which at the forefront there stands a good organization (Box 1) implying that, for the state to prepare, define, manage and coordinate fair economic policies, it must have an effective organizational framework with strong (vocational) institutions assisted by an education system continuously adapted to the future needs of the country's economy, a system that will provide the necessary staff for the three levels of the state government, of the economy: strategic, tactical and operational.

Box 1: Organization – Definitions

Management, discipline, order, structure. An assembly of stability measures, ensuring and coordinating means of production and labor in order to do business with maximum economic efficiency. To act according to a well-reasoned, thoroughly prepared plan. To do so as to cause a social group, institution, etc.. to operate and act as to to enable the achievement of an objective in optimal conditions.

Source: Academia Română (2009) Dicționarul explicativ al limbii române, Editura Univers Enciclopedic, București.

The decision makers, the political class can only come from the modern schools and organized educational institutions having as azimuth its activities, the future, the perspective. Along with the educational system, the research and development sector brings elements of negentropy, innovation, progress, efficiency and judicious use of national resources, of the natural ones.

Another condition for good governance, sustainability of political, economic and social organization is formed by political context and national vocation. One could easily argue this statement with a quote from the Chinese thoughts: "agitation, confrontation is neither wise nor always practical and any contradiction is intended to be lived quietly and calmly resolved." We even better understand the message of Chinese sages if we compared it to the dynamics, rhythm, vocalizing, manifestations of the Romanian political class and the results obtained.

Assuming that the prerequisites of good governance have been achieved (which is not a fact of any country), the governors proceed to achieve the prevailing load to ensure progress, national economic development, access to resources that conditions its operation and thus provides an acceptable level of living standards.

The state has the opportunity to highlight the internal resources, to appeal to imports, to balance the balance of import / domestic resource after a certain paradigm. This paradigm is part of what we call the national interest: at what pace we deplete our own resources, when do we need to preserve them, how to use them best, what do we owe to the next generation / generations?

To those questions World Business Council for Sustainable Development provides one answer: ensuring the eco-efficiency, defining it as „supply of goods and services at competitive prices to meet the needs of human beings and contribute to the quality of life gradually reducing environmental impact and resource pressure on the whole life-cycle to a level at least consistent with the production / absorption capacity of the Earth.” [1] Transposed into policies and strategies, eco-efficiency is reflected in economic practice through concerns expressed in relation to: the effectiveness of natural resource exploitation, globalization, transnational corporations, indebted countries and the quality of decision makers [3].

Maximum efficiency of natural resources exploitation meaning:

- The organization of horizontal and vertical flows for the exploitation of the resources and finished products. The integration of these streams shall be made under the concept of "cluster" that generates added value and creates jobs;
- Organizing conditions so that the entropic accumulations are minimal;
- Ensuring conditions and actions to highlight the negentropy and its operationalization;
- Conservation of natural ecosystems;
- Maximum profit from the exploitation of natural resources with the help of foreign investors;
- Domination of proactive thinking in drawing up plans to exploit natural resources.

„Good governing” is not easily achieved; J. K. Galbraith, in his book "The perfect society. On the agenda, the good of man "he considered it to be the most difficult to achieve in the world. It is true that more pressure is exerted on the state to outsource some of the benefits such as profits obtained from natural resources.

Globalization which, through its vectors: liberalization of goods, of capital, of human resources, of information manages to weaken the power of states.

Transnational Corporations in the field of economics, interested in using a resource have huge financial power compared to some national budgets, which turns into advantages for the foreign investor. Countries indebted to international credit institutions (IMF, World Bank, etc.) lose some of their decisional autonomy, the economic policies being suggested by creditors (see the case of Romania and Letters of intent - Government - IMF-WB - setting out government tasks to prepare or correct the state budget). In these cases one can speak of a "financial sovereignty" that decides how to exploit the national natural resources.

The quality of decision makers remains crucial in order to be able to talk about good governance. In support of good governance competition conditions related to democracy, two-way communication with the population, transparency of decisions, separation of powers, the rule of law judicial independence, public participation in taking decisions that regard him.

Management of investments for the valuation of natural resources

Exploitation of natural resources in the interest of the national economy supposes the availability of certain financial funds needed for exploration, exploitation and processing, ecological restoration, waste disposal, infrastructure development etc. The investment needed for this processes are often large enough to become restrictive for the valuation of the natural resources. In other words, if the state does not have the funds needed to invest, the resources cannot be exploited. These situations are more the rule than the exception, the case of developing countries being illustrative for it. Meanwhile, developed countries are also frequently encountering this restriction. For instance, Russia is in a continuous search for investors in order to restore and expand the infrastructure for the exploitation of its huge fossil fuel resources.

In case that the state does not have the financial resources needed to support the investment in exploration and infrastructure, these funds could be obtained from the financial market as loans or could be provided by a private investor from the same state or from abroad. The state encloses a contract with the investor in which there is established the division of benefits and costs produced by the exploitation of the natural resources. Beside funds, the investors' contribution consists in technology, modern management, access on international market and overtaking the risks of exploration.

On a globalized market, where the competition is fierce, investors could be considered a scarce resource since foreign direct investment is often difficult to be attracted. In certain instances experts discuss about the art of attracting foreign direct investments (FDI). The main barriers for attracting foreign direct investments are the agreement on the size and repartition of costs and benefits and the low attractiveness of certain investments.

In the first case, during the negotiation among parties, the maximization of benefits for investor and state is the main goal. Since the ecological restoration costs are difficult to be established there is the risk to be ignored or underestimated. Investments in the exploitation of natural resources will determine projects to last several years or even decades. In such circumstances the costs that will occur at the end of the project are with no effect on the management of the present government. Therefore, although such assessments are required and are prepared by experts, the complexity and scale of the projects hinder on the one hand their objectivity, and on the other hand the impact of the cost calculation on decision making.

In the second case, the state should negotiate a contract that transforms an unattractive investment in an acceptable deal for the investor. In this case, the risk of underestimation of costs is also present and it is accompanied with the unbalanced distribution of costs and benefits in favor of the investor.

Between the two typical situations the economic area is full of various combinations of capitals that include technology, processing of products, trading of products on foreign markets etc. On this background it is considered advisable to consider at least three aspects: position of the state, globalization and the requirement of entropy approach.

State's position regarding FDI could be only one: investments are made to serve the national interest that will contribute to economic growth and sustainable development. The national economic strategy integrates national interest and guides long term development plans.

Meanwhile, the national strategy provides a certain perspective for the investor who will be able to outline the possibilities to recover its capital and to harness its benefits. The framework of the national strategy will allow the identification of common interests, negotiation of diverging interests, outlining of positive and negative externalities, and the impact of geopolitical changes, tax policy, military conflicts etc. [4].

How the state position could favor or prevent FDIs in the case of Romania are presented in box 2.

Box 2: Attracting capital for FDI in Romania

Strenghts

- High quality of labor, although it is hindered by migration, retiring, involution of education
- Superior technical abilities
- Size of population
- Education level and foreign language knowledge
- Geographic and cultural vicinity with FDI generating western countries
- Modernization of the country is ongoing
- Adhesion to the European Union
- Incentives for foreign investors

Weaknesses

- Weak infrastructure
- Burocracy, corruption, high taxes
- High rate of fiscal infractionality
- Lack of quality culture
- Outdated mentality: sufficiency, superficiality, incorrectness
- Scarcity of experts in certain fields
- Lack of narrow specialization that is essential for cutting edge technologies and for activities with high added value
- Loss of competences by migration

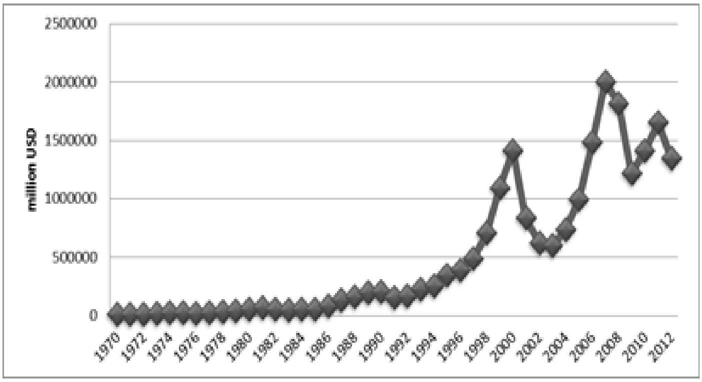
Globalization. The deployment of this process allows multinational corporations to expand their area of economic action toward increasing their profits and intangible benefits. The expansion strategies are different and evolved along time. The main types could be considered the followings:

- Transfer of competences in host countries (markets). It could be hindered by adaptation difficulties especially then the conditions are very different;

- Multinational strategies that relies on local products and marketing techniques;
- Transnational strategies that apply the experience acquired in international operations making minor changes for adaption.

At company level the investment strategy or policy allows the redistribution among participating companies for control rights. This could be realized by acquisitions, mergers or fusions [6].

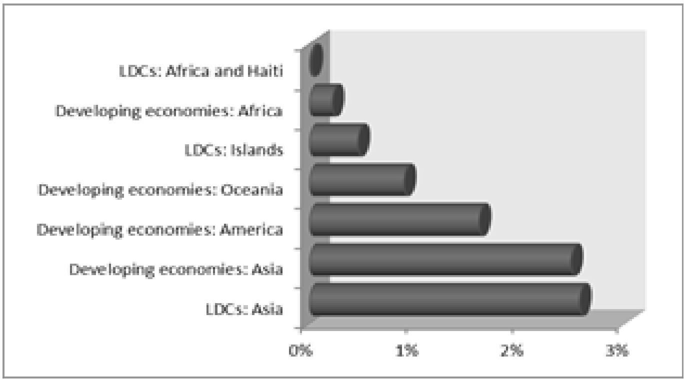
The amount of FDI reaches 15000 billion USD. The flow of FDI each year is around one tenth of this total amount. It increased continuously for several decades, but the financial crisis induced variations in the last years (fig.1).



Source: own representation using UNCTAD data

Figure 1: Evolution of world FDI flows

Top investors are companies from USA with 3160 billion USD, folowed by British and German companies with 1500 billion USD. These top investors are also very important destinations of FDI, accounting for 2228 billion USD (USA) or 942 billion USD (UK). In fact, developing economies and least developed countries attract only 8% of the FDI flow occurring in the global economy (fig.2). The increased attractiveness of Asian countries could be easily noticed also.



Source: own representation using UNCTAD data

Figure 2: FDI flows in developing economies and least developed countries (LDCs)

The ideal model of FDI should have a balanced distribution of effects between the investor company and the nation-state. In real situation this model is far from being met because the power of the partners is different. The most powerful partner will distort the distribution of costs and benefits in its favor. The power of a partner has many sources, but the availability of more alternatives is crucial in this respect [7]. For instance, the state that own a certain type of resource, but hos nor the funds or the technology to exploit them could increase its power by exploring not one but more private investors. Nevertheless, within the conditions imposed by globalization, many natural resources could be exploited efficiently only by using the best available technology, requirement that could restrain very much the pool of appropriate partners.

The advantages of FDI include: valuation of natural resources, incomes for local and national budgets, technology transfer, managerial capacity transfer, expansion of markets, development of local infrastructure, raising the living standards of local population, widening of national range of products, perspective for educational programs etc.

Meanwhile it should be stressed that corporate investors are not charities. They are pursuing a single goal: profit. Within a competition dominated environment the location of investment should be optimal and it will have a significant contribution to cost reduction. Therefore, FDI are very unreliable and all their advantages could disappear then the company's economist change the indication regarding the optimal location. In such situations, most of the advantages become important burden for local population and national governments.

Entropy approach. The first implication of the entropy approach is that investment should not reduce the potential of natural resources or to allow the full recovery of an area changed by surface mining. For the monitoring of this criterion it should be established eco-efficiency indicators, such as pollution produced per 1 USD invested or value added by tons of carbon emission.

Investment outlooks for natural resource valuation in Romania

In case of developing countries the amount of available financial funds is usually lower than their needs. In such conditions it is necessary to order the investment needs according to their potential to generate a wider range of benefits per unit of investment. In case of Romania such investments could include:

- Selective flooding of the Danube's former pools that were drained in order to extend the agricultural area;
- Planting of one million walnut and black cherry trees on public land – along roads, railways, Danube-Black Sea Channel;
- Establishing agricultural plots for rural schools;
- Valuing alpine pasture by grazing sheeps;
- Afforestation of illegally logged areas;
- Loans for rural people to enable them to purchase more efficient heating systems;
- Recycling organic municipal waste by compost preparation;
- Loans and/or subsidies for processing wood, rocks, reed, clay, salt, plastic waste, agricultural products and for cropping forest fruits.

States intervention could have various forms such as: credits or bank guarantees for new proprietors who are intending to build a household with a minimum endowment of agricultural techniques; transportation infrastructure, utilities for new settlements or for the expansion of the existing ones; attracting EU funds by implementing pilot-projects that incentivize urban-rural migration.

Conclusion

Good governance implies that the decision makers have to take into account the following key issues for the management of the natural resources: criteria for establishing natural resources exploitation quota so that the existing national potential could satisfy the needs of future generations of resources that are important for the national economy or people's lives and obtain maximum efficiency out of exploiting natural resources, an efficiency that should bring benefits to the owner - the state. The latter can come from: share in the profits of the investor, processing within the national territory, as much as possible, of the products produced through the horizontal organization of the industry, effects induced (positive externalities) at the level of the company, business opportunities for the available staff after the closing of the investment, participation of the investor in covering the expenses for the management of the industrial platform at the termination of the economic activity.

Large scale investments in the exploitation of mineral resources should be approved only after the national interest is clearly defined and integrated in the national development strategy. The negative impact on development in case of disregarding this requirement could be illustrated by the exit of 1200-1400 companies from the economic landscape of Romania in the last two decades.

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