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8.9 Summary and Recommendations

Two features of the extractives industries create challenges for revenue management. Firstly, the exhaustibility of the resource requires an identification of a ‘resource horizon’: the time profile of expected production and the probability of finding new reserves. This will have a crucial role to play. Secondly, the volatility of EI prices creates major challenges for resource-rich countries for the development of a macro-economic framework that has the effect of smoothing out their short-term impacts. To date, evidence suggests this has failed more often than not.

Country characteristics will play a role that differs in each case, but variables that matter in managing revenues are capital scarcity, options for spending, and the political economy dimension, since decisions on spending are highly political. The quality of institutions matters for both management and distribution of resource revenues. Accountability and the quality of public administration need the closest attention. These features can change over time and therefore require a periodic reassessment of the suitability of the revenue management scheme in place.

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Even if no ‘one size fits all’ applies, and some fiscal rules may suit an advanced economy better than a capital-scarce developing country, the existence of fiscal rules in one form or another can assist policy-makers by providing transparent benchmarks. They can play a role in providing robust checks and balances on public spending, and at the same time factoring in the kind of uncertainty that will always be present in resource markets. However, fiscal rules are neither necessary nor sufficient for the achievement of sound fiscal outcomes. Arguably, this conclusion also applies with respect to fiscal discipline at the sub-national level.

However popular a resource fund is in current practice, a separate fund is not essential for savings from revenues, although it may make the management of saving easier. Equally, it is not a substitute for sound financial and economic management, even though it may be supportive of it.

The design of funds is highly diverse: sometimes the two aims of savings and stabilization are combined in a single fund. In many cases there is much less transparency than is optimal, undermining the credibility and efficiency of the fund itself.

Direct distribution of revenues to citizens is so far little used but much discussed; recent technological developments suggest that it has acquired greater potential, and merits further exploration by governments as an option. It has redistributive potential to counter the widening inequality that can accompany extractives development. It could also complement savings measures.

Whatever the benefits of decentralization of revenues management, sub-national administration may prove poor in practice; the administrations may, for example, lack the technical expertise, authority or administrative capacity to complement private investments with strategic public investments.

Transparency is a critical variable in revenue management since it is essential if a broad consensus is to be reached on policies. With respect to spending by funds, this should be provided for in a law which specifies their purpose and which encourages independent oversight such as parliamentary scrutiny.

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