How to manage and spend natural resource revenues for inclusive and broad-based development?

Kick-off by Dr Christian von Haldenwang

This section builds on the preceding sections. Of course, when you look at revenue management and expenditure in this context, you need to address the issues of

- Volatility of revenue
- The challenge of transparency, in particular with regard to discretionary spending and the issue of the fiscal space, and the
- Need for diversification and structural transformation due to the exhaustible character of these resources

In my view, the scoping study does a great job in addressing the four questions that are supposed to guide our discussion:

1. **How would you assess existing tools and mechanisms (e.g. SWFs) to manage revenues?**
2. **What are the main bottlenecks and most pressing challenges faced by governments when arbitrating and allocating revenues?**

With regard to the first two questions, the study rightly puts a lot of emphasis on sovereign wealth funds and the different objectives they serve, principally with regard to savings and fiscal stabilisation. It is important to note that these funds are currently spreading beyond the already well-known role models such as Norway and Chile. For instance, the study looks at Colombia, Angola and Nigeria, all of which have recently created or recently reformed savings and stabilisation funds. We do need to know more, however, on the long-term impact of these funds in countries with weaker governance structures (for instance, with notoriously high levels of corruption or internal conflict).

Other tools mentioned by the scoping study, but explored in less detail perhaps, refer to the implementation of fiscal rules and the strengthening of Public Financial Management systems. Both tools serve the dual objective of (i) enhancing the accountability and transparency of fiscal policy and stabilising fiscal policy through counter-cyclical spending, for instance by establishing medium-term expenditure frameworks.

The problems I see with all these instruments is that those countries that would need them most in order to deal with their natural resource wealth will probably be those countries that experience the greatest problems in making these instruments work properly. My guess is that even without a golden rule, Chile would have been able to manage its natural resource wealth reasonable well, because of its very capable public sector.
So, we need tools to support the most fragile, weak and very poor countries, for instance with regard to identifying bottlenecks in public management systems (procurement, investment, human resources...), or strengthening accountability and control mechanisms.

3. How are priorities ranked?
4. Could targeted spending policies help address critical bottlenecks hampering inclusive and broad-based resource-linked development?

Now, with regard to the third and fourth question, the scoping study sheds light on two at least partially conflicting objectives:

- Contributing to economic diversification and the attraction of future investments, principally through spending on human resources, research & development and infrastructure
- Addressing immediate social development bottlenecks through cash transfer programmes, earmarking and other forms of subsidies.

One topic perhaps less prominent in the scoping study refers to fiscal decentralisation, i.e. the subnational distribution of revenue from non-renewables, for instance through integrated royalty or tax sharing agreements. We know from the past from countries such as Colombia that these fiscal decentralisation regimes have the potential to seriously undermine both the fiscal discipline and the spending goals set by the central government.

So it is key to create regimes that enable both central and local governments to deal with volatile resources and windfall revenue, for instance by linking transfers to incentives for local revenue mobilisation or sound fiscal management.

Finally, spending revenues from non-renewables through subsidies (above all, fuel subsidies) is extremely risky because it adds rigidity to public expenditure and may undermine fiscal goals, as the case of Indonesia shows, for instance. This is well-known by now, but we need to learn more about the political economy of moving out of inefficient subsidy regimes.