



Japan International Cooperation Agency

IMF-JICA CONFERENCE

SESSION I - B

Public Financial Management in Resource – Rich Countries

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Aim of the Study

1

- Volatile commodity prices are affecting fiscal positions of JICA's client countries, especially natural resource-dependent countries

2

- Assessment of fiscal policies and risks associated with natural resources
- Research review and case studies in Malaysia, Mongolia and PNG

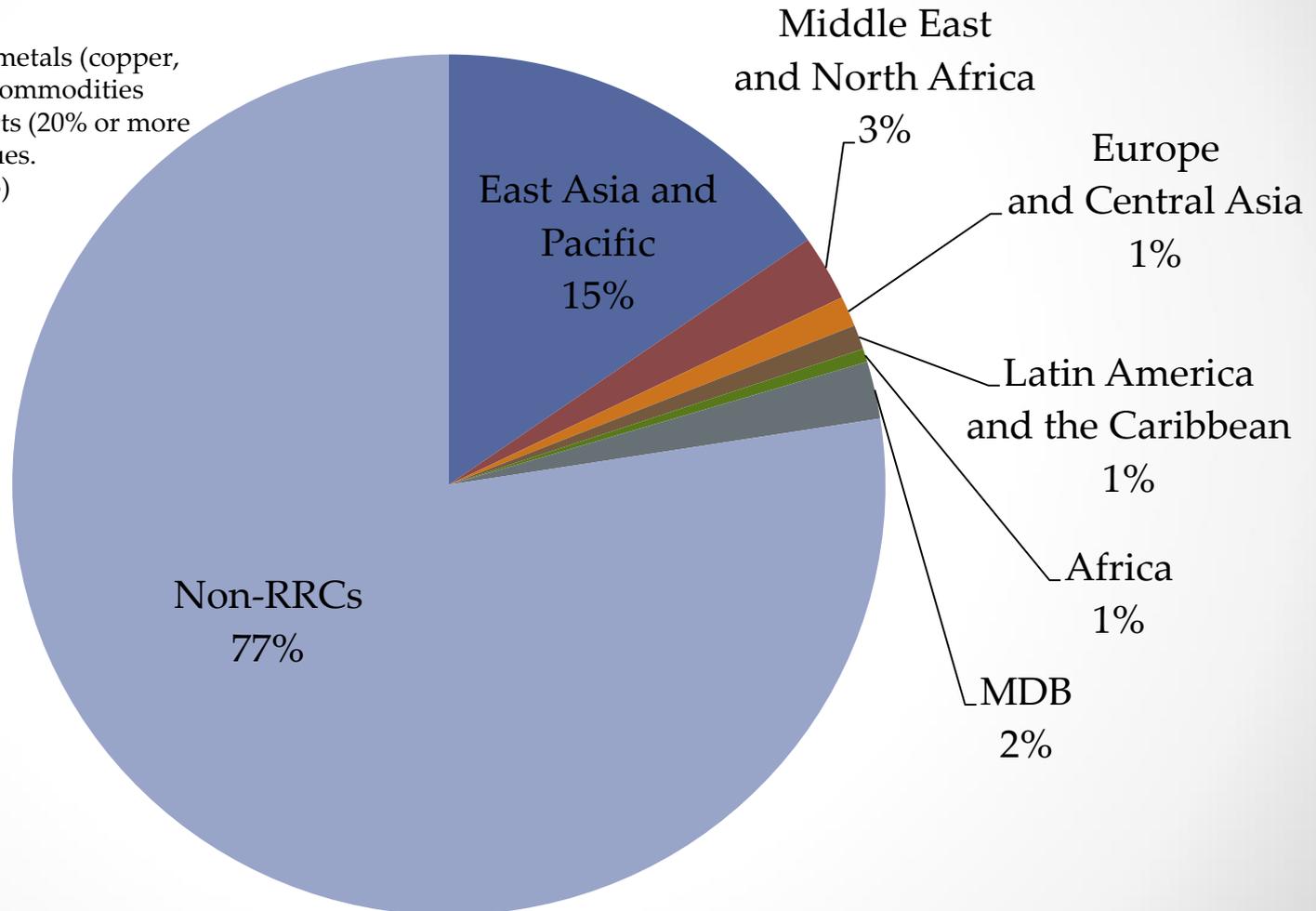
3

- Derive lessons learned and apply them to JICA's knowledge and practice on PFM

JICA's Yen Loan to RRCs Outstanding (JFY 2015)

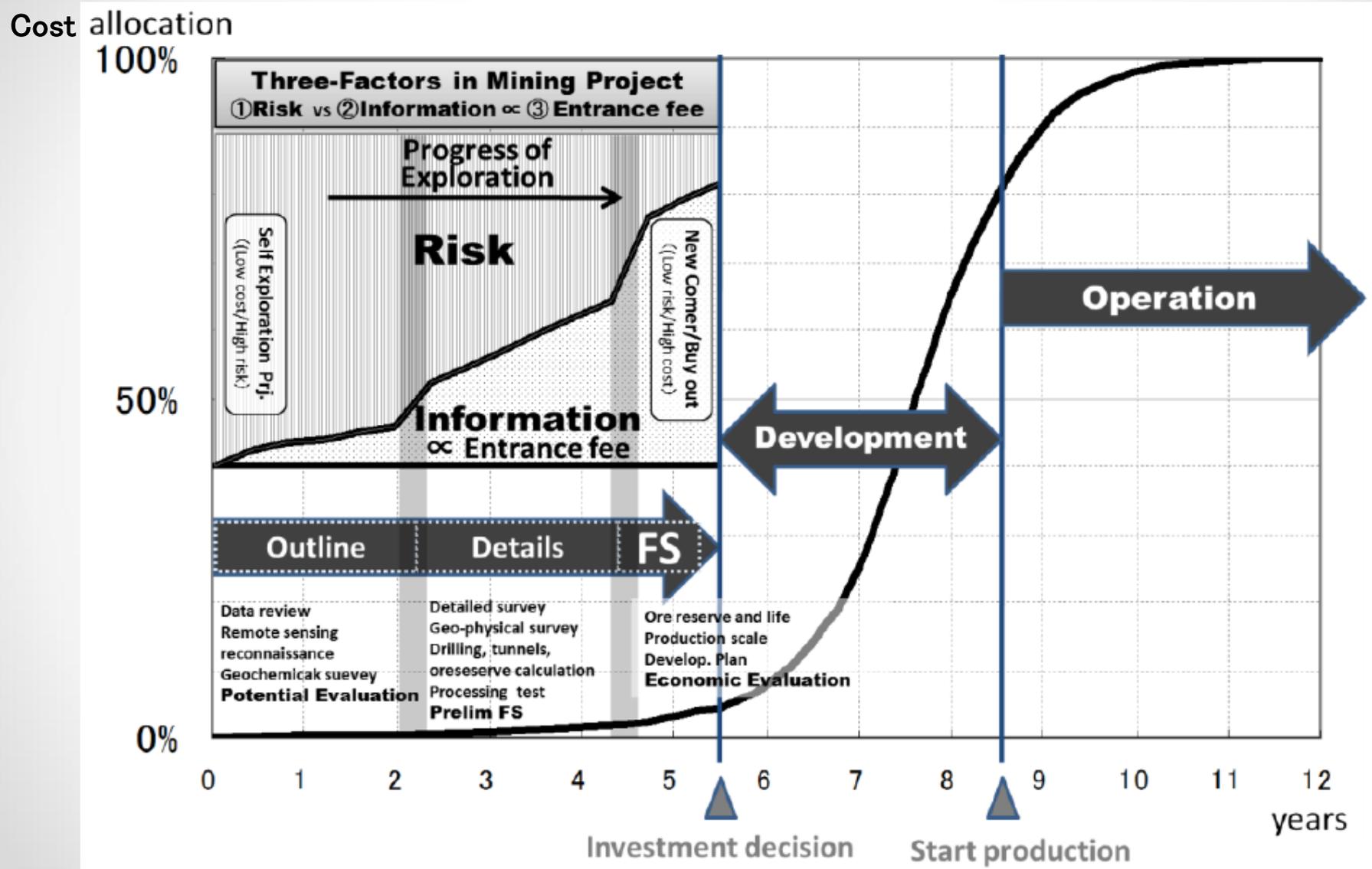
RRC: exporters of oil, gas, and metals (copper, gold, iron, silver) where these commodities represent a large share of exports (20% or more of total exports) or fiscal revenues.

- Fiscal Monitor, IMF (Oct. 2015)

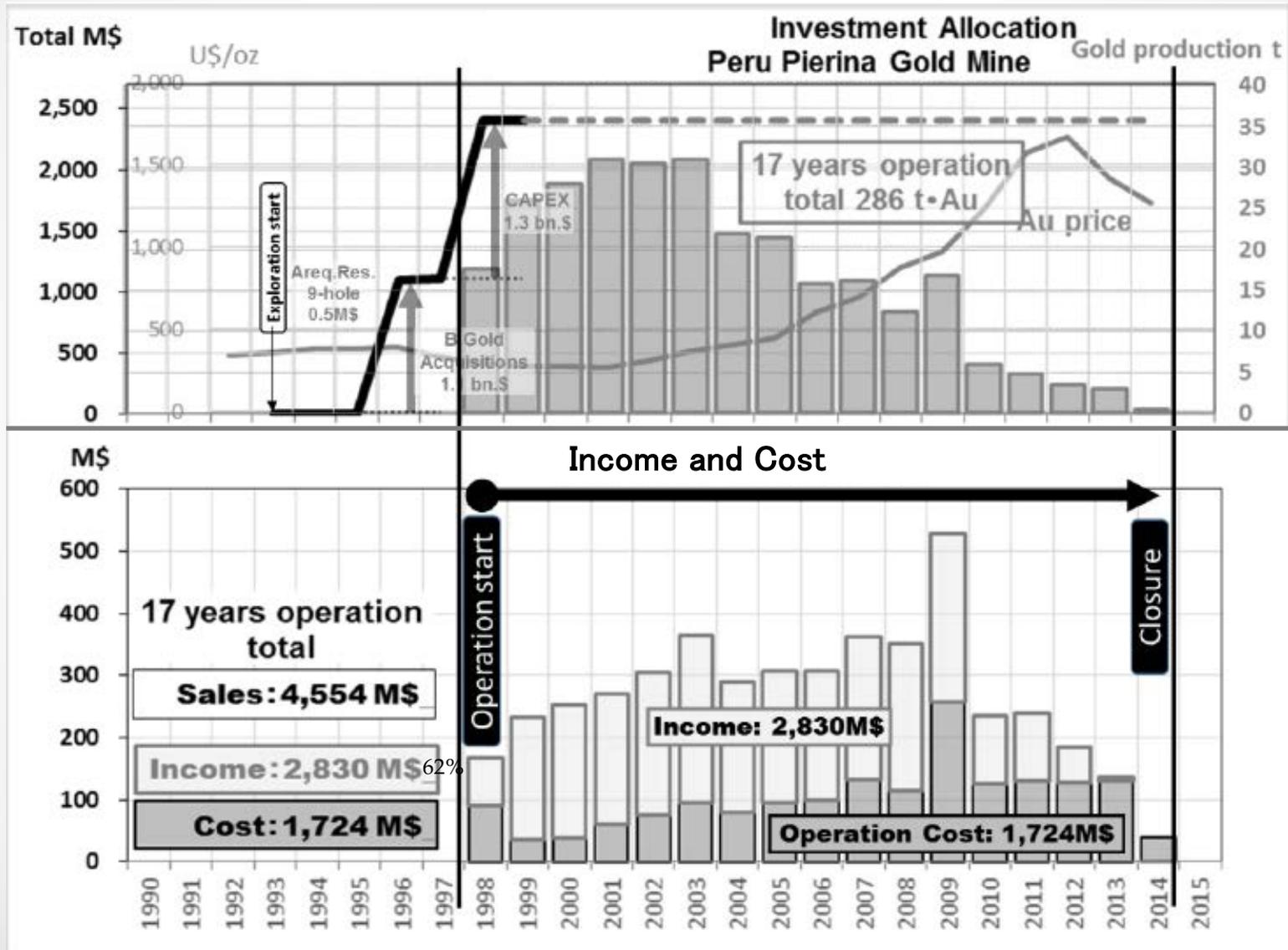


Source: Author, using figures from JICA's Annual Report 2016

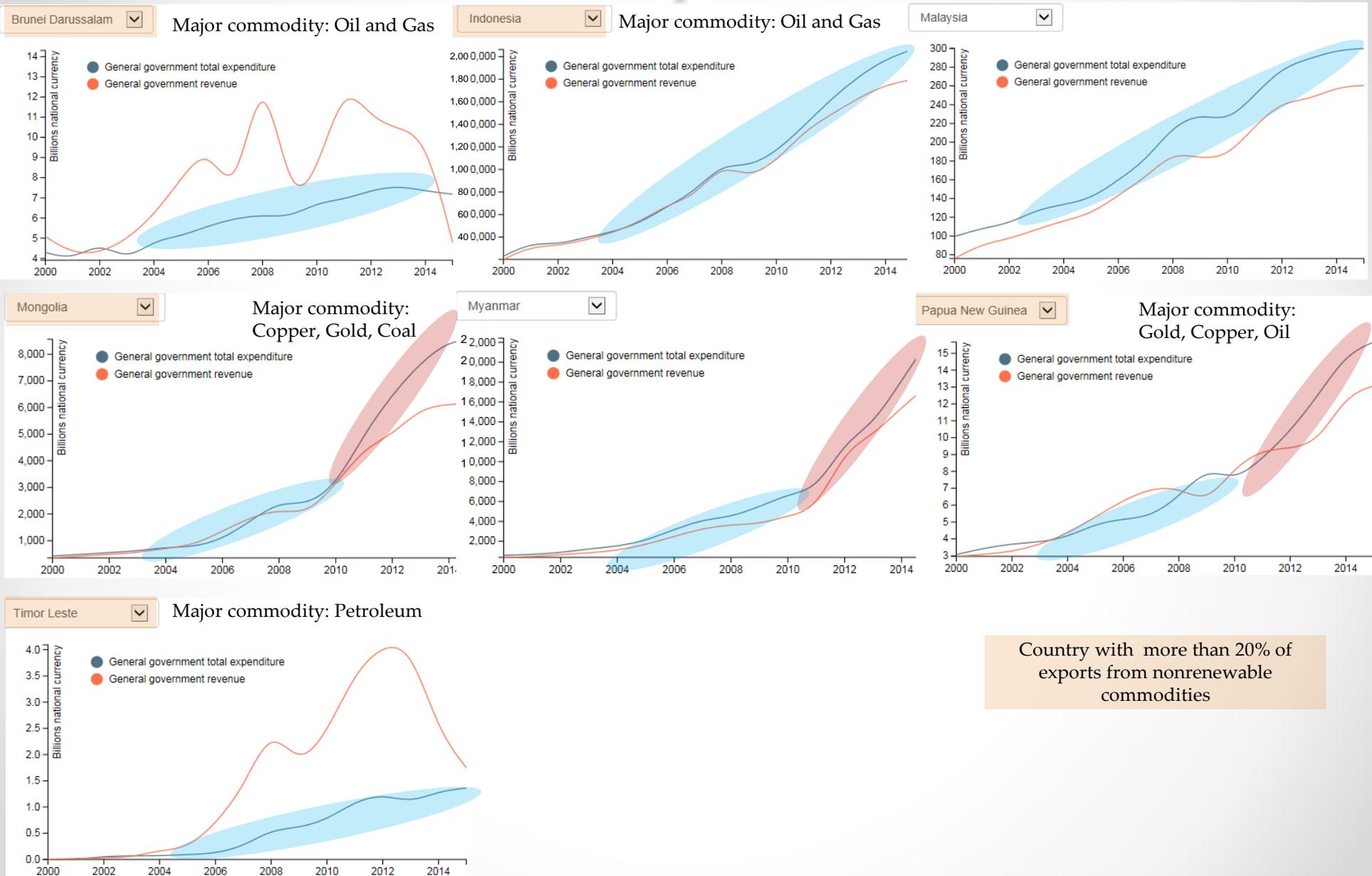
Mine Development: Investment, Income and Cost



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Revenue and Expenditures (Asia)



Country with more than 20% of exports from nonrenewable commodities

Source: Natural Resource Governance Institute

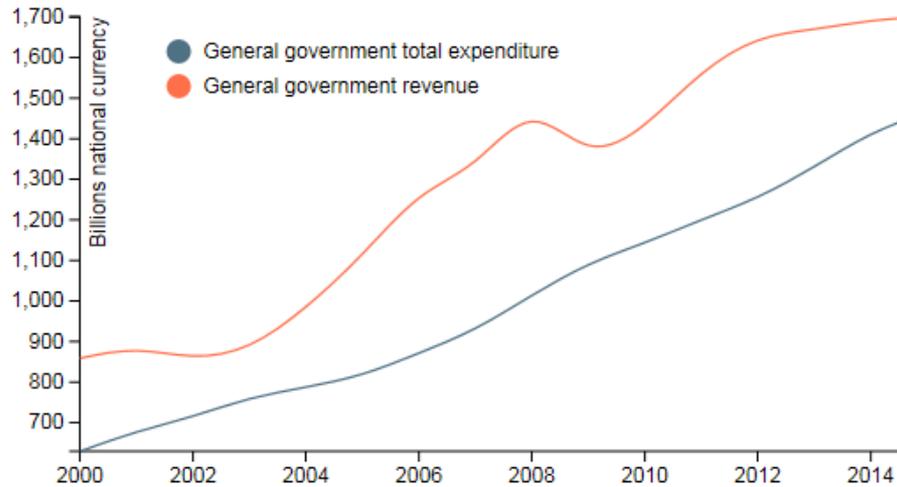
<http://www.resourcegovernance.org/blog/why-werent-governments-better-prepared-commodity-price-crash>

Revenue and Expenditures (Other countries)

Norway



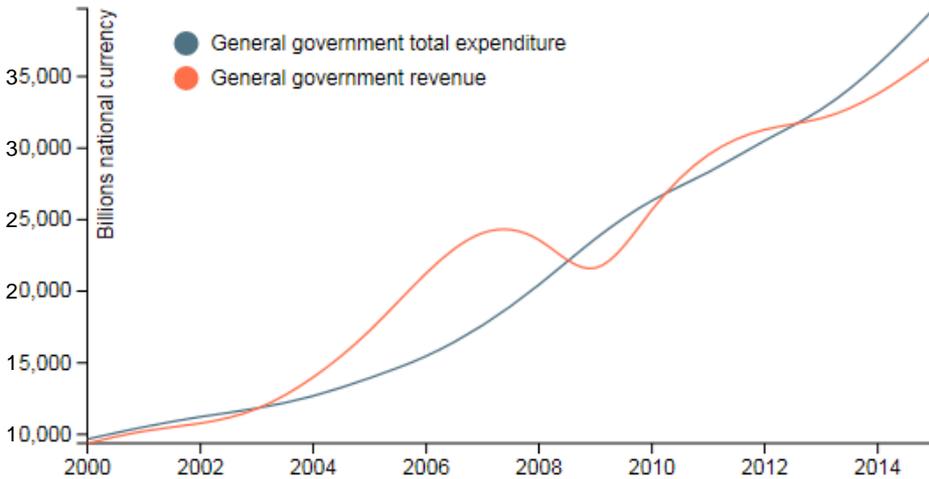
Major commodity: Oil and Gas



Chile



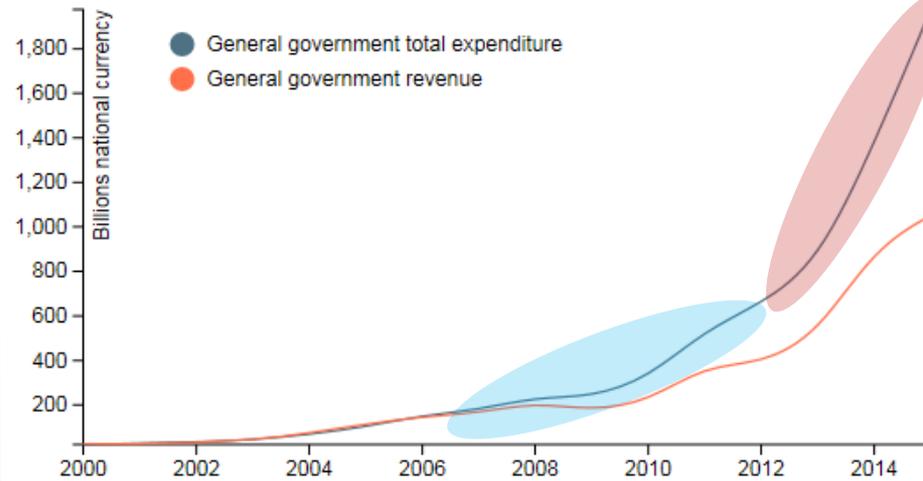
Major commodity: Copper



Venezuela



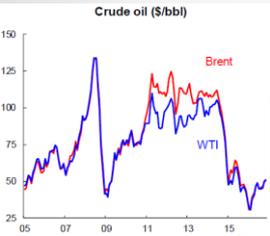
Major commodity: Petroleum



Source: Natural Resource Governance Institute

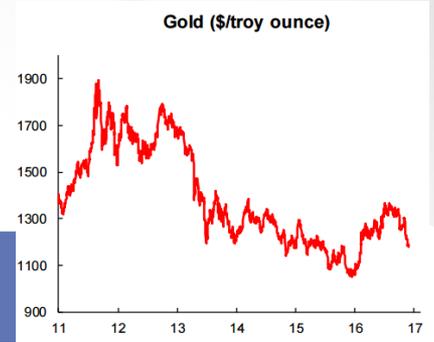
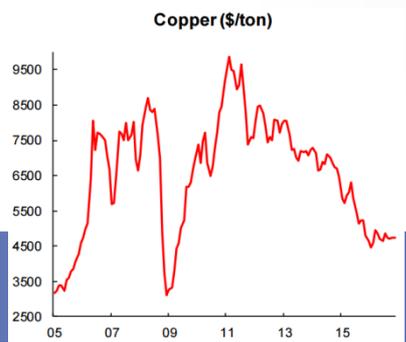
<http://www.resourcegovernance.org/blog/why-werent-governments-better-prepared-commodity-price-crash>

Impediments to Fiscal Discipline



Commodity prices are more volatile

Source: Commodity Market Monthly, IMF (2016)



Source: Commodity Market Monthly, IMF (2016)

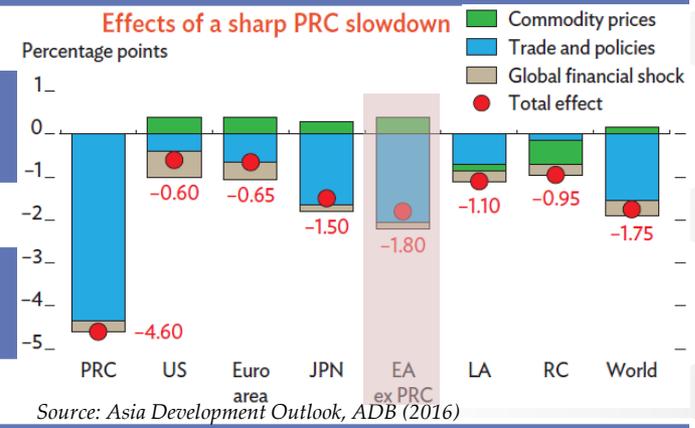
 High expectations for revenue from new mining; tendency to overborrow

2016 2017
6.7% 6.5%
Exposure to a rebalancing in China

Source: WEO, IMF (2017)

US\$8 tn (2010-2020)
Appetite for infrastructure investment

Source: Infrastructures for a Seamless Asia, ADB (2009)

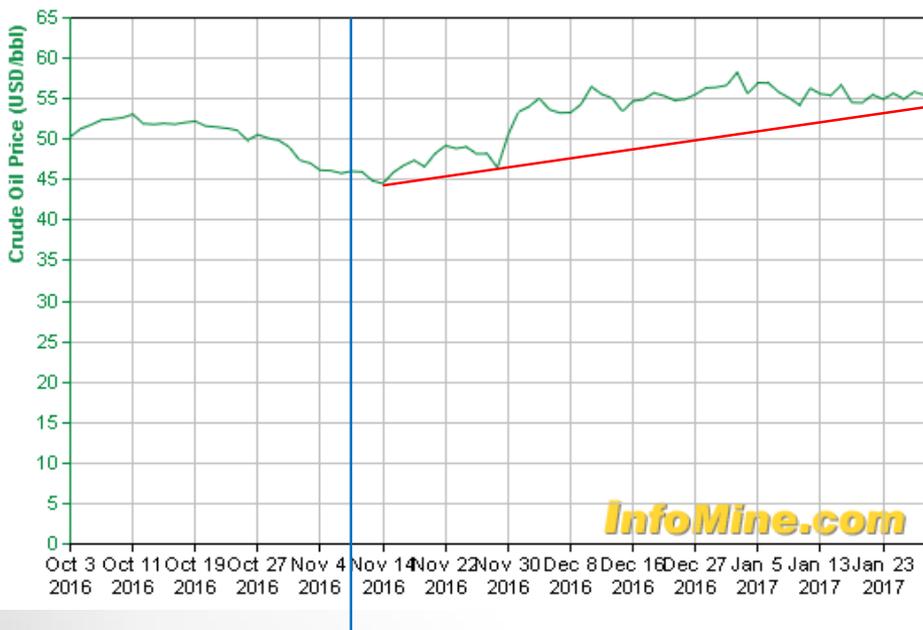


Source: Asia Development Outlook, ADB (2016)

 Expansionary fiscal policy, inflationary pressures, rising welfare spending, etc.

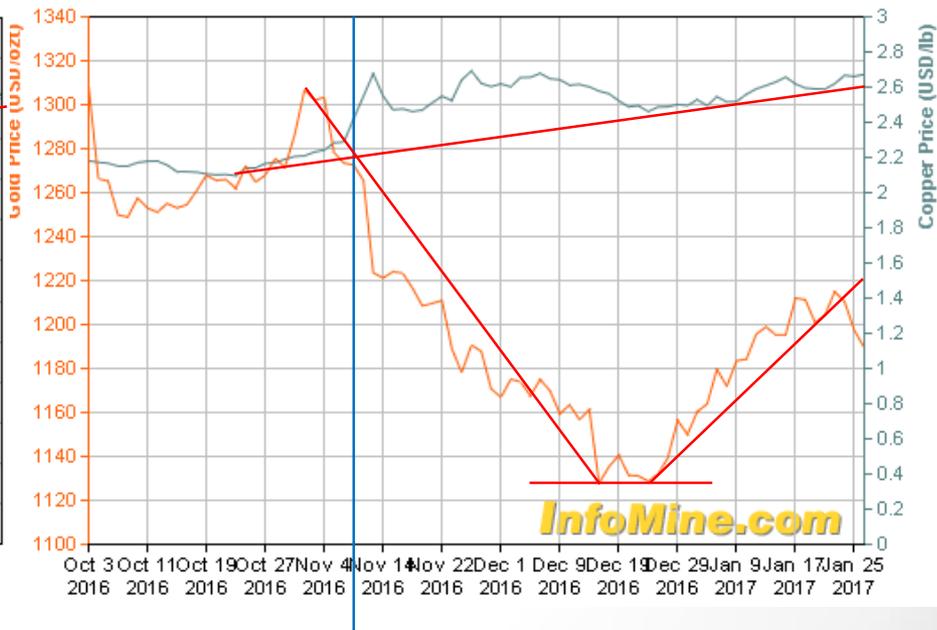
Other factors...

Crude Oil Price
55.46 USD/bbl
27 Jan '17



Mr. Trump is elected
the President of US

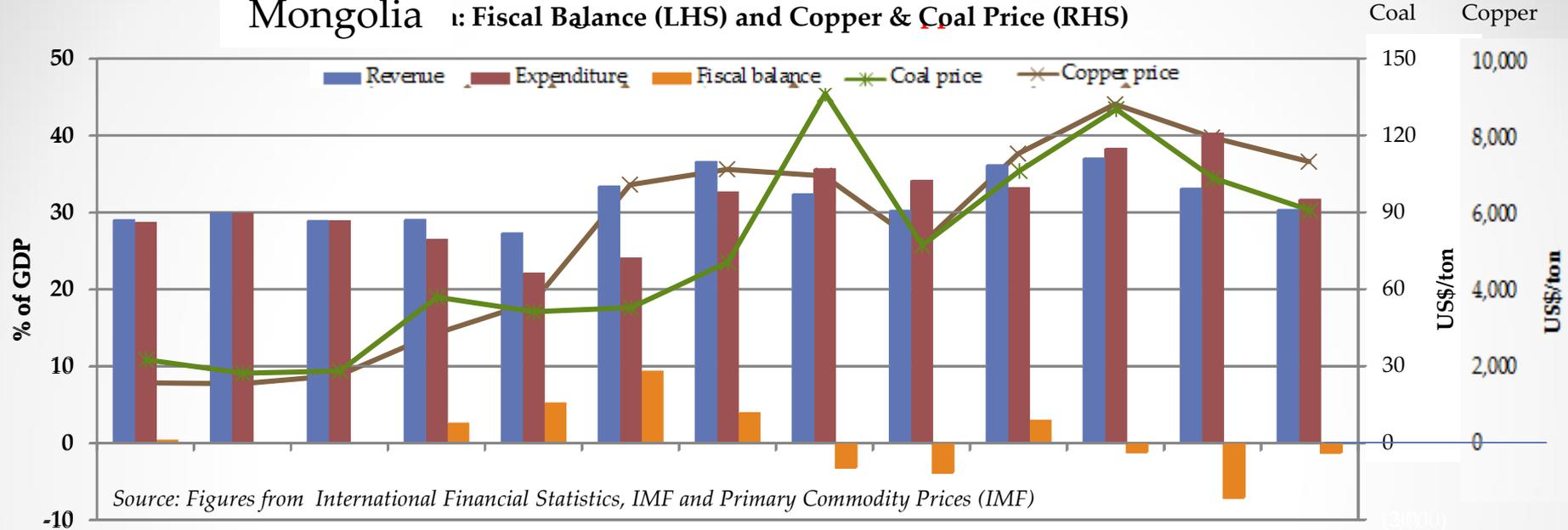
GOLD PRICE - COPPER PRICE
Oct 3, 2016 - Jan 26, 2017



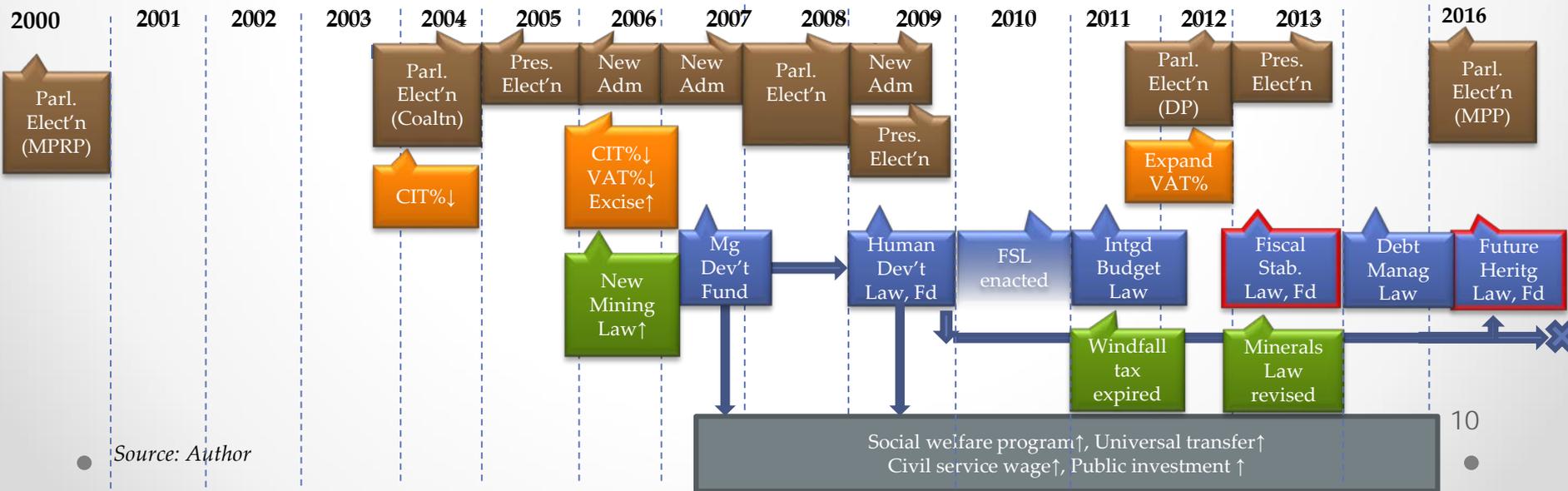
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Fiscal Discipline and Fiscal Adjustment (1)

Mongolia : Fiscal Balance (LHS) and Copper & Coal Price (RHS)



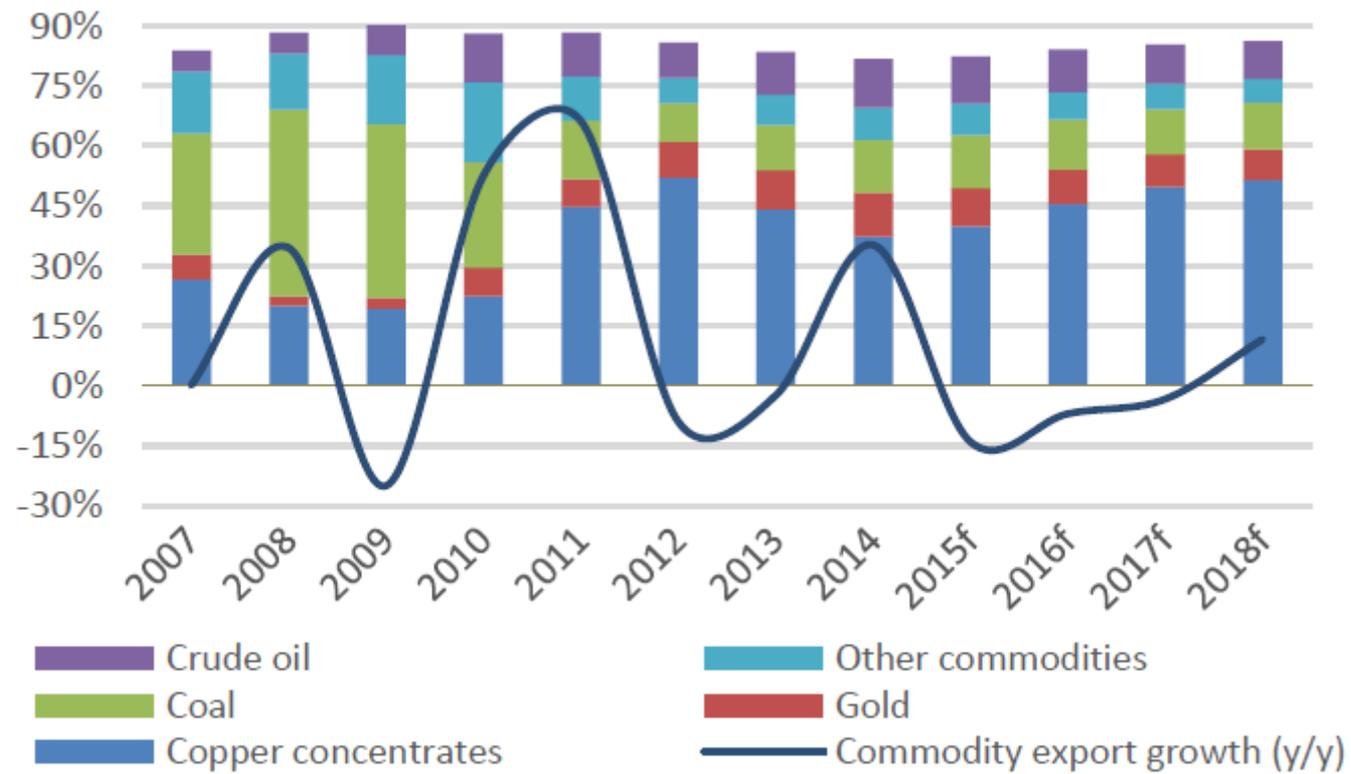
Source: Figures from International Financial Statistics, IMF and Primary Commodity Prices (IMF)



Source: Author

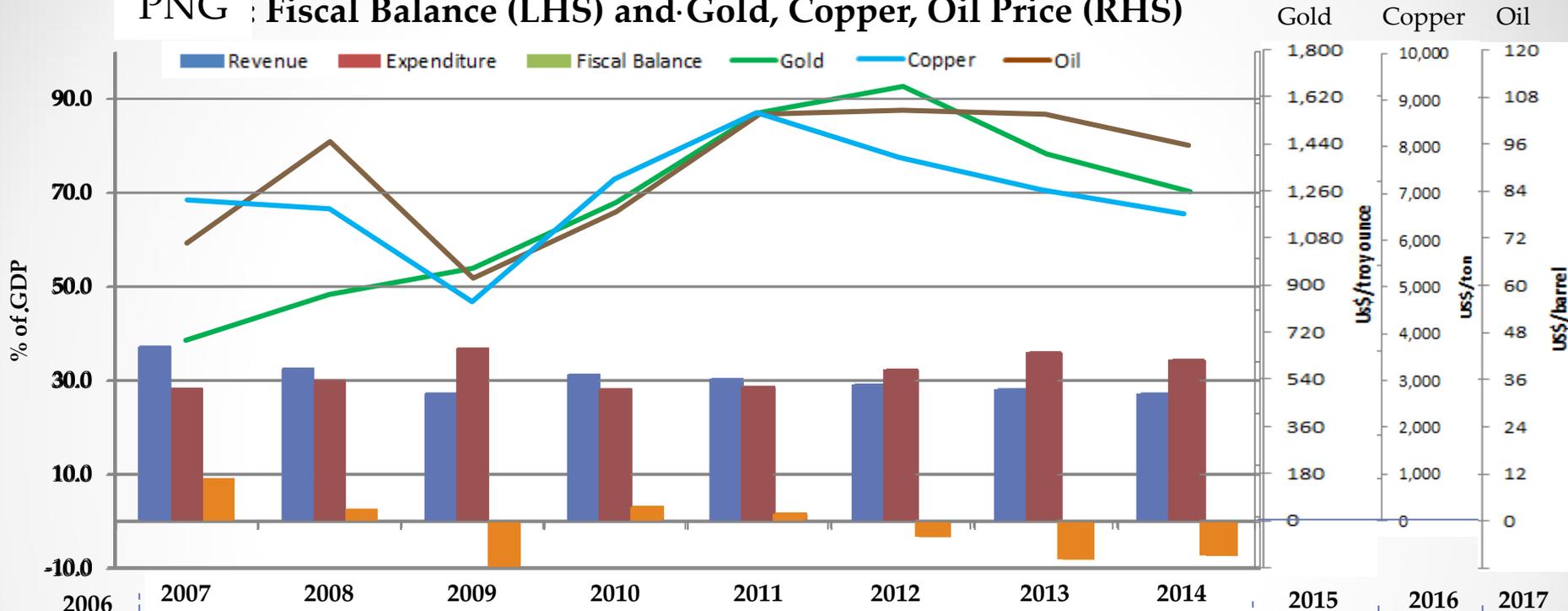
Mongolia Commodity Export

Export share of key commodities (% of total exports)

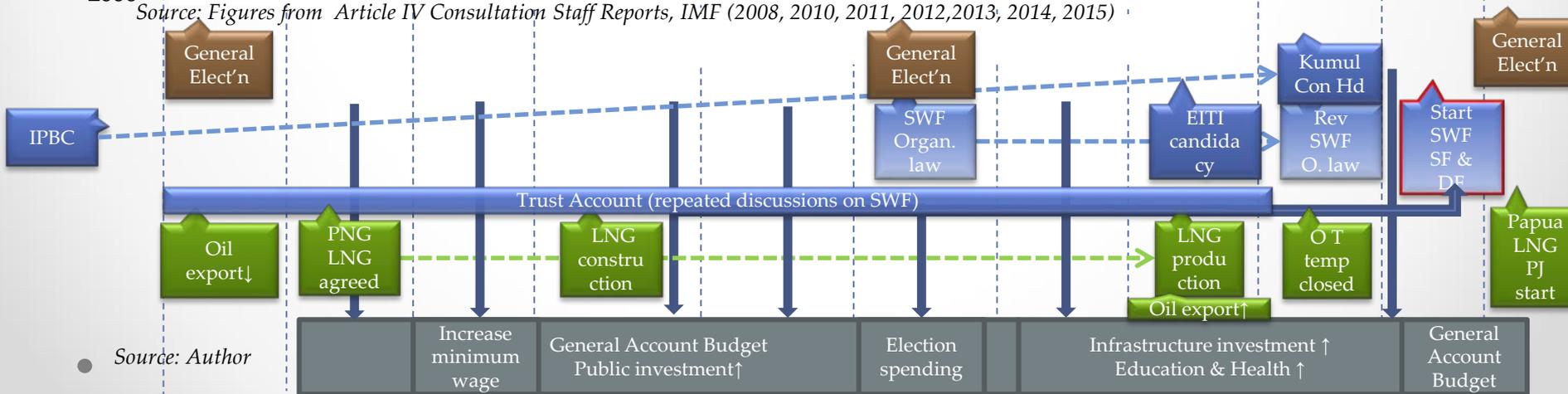


Fiscal Discipline and Fiscal Adjustment (2)

PNG : Fiscal Balance (LHS) and Gold, Copper, Oil Price (RHS)



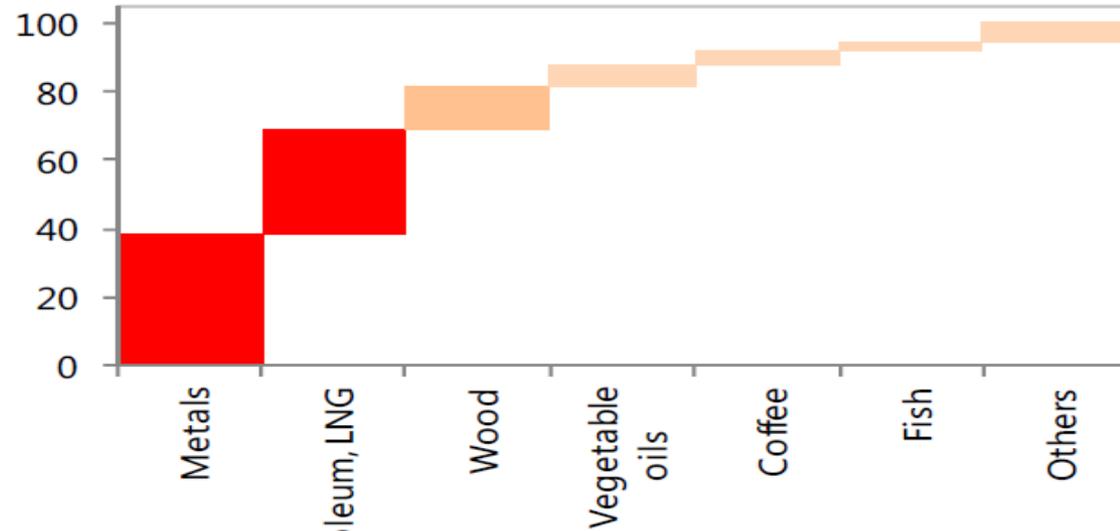
Source: Figures from Article IV Consultation Staff Reports, IMF (2008, 2010, 2011, 2012, 2013, 2014, 2015)



Source: Author

PNG: Commodity Export

Export Product Share, 2014
(In percent)



Crude Oil Production

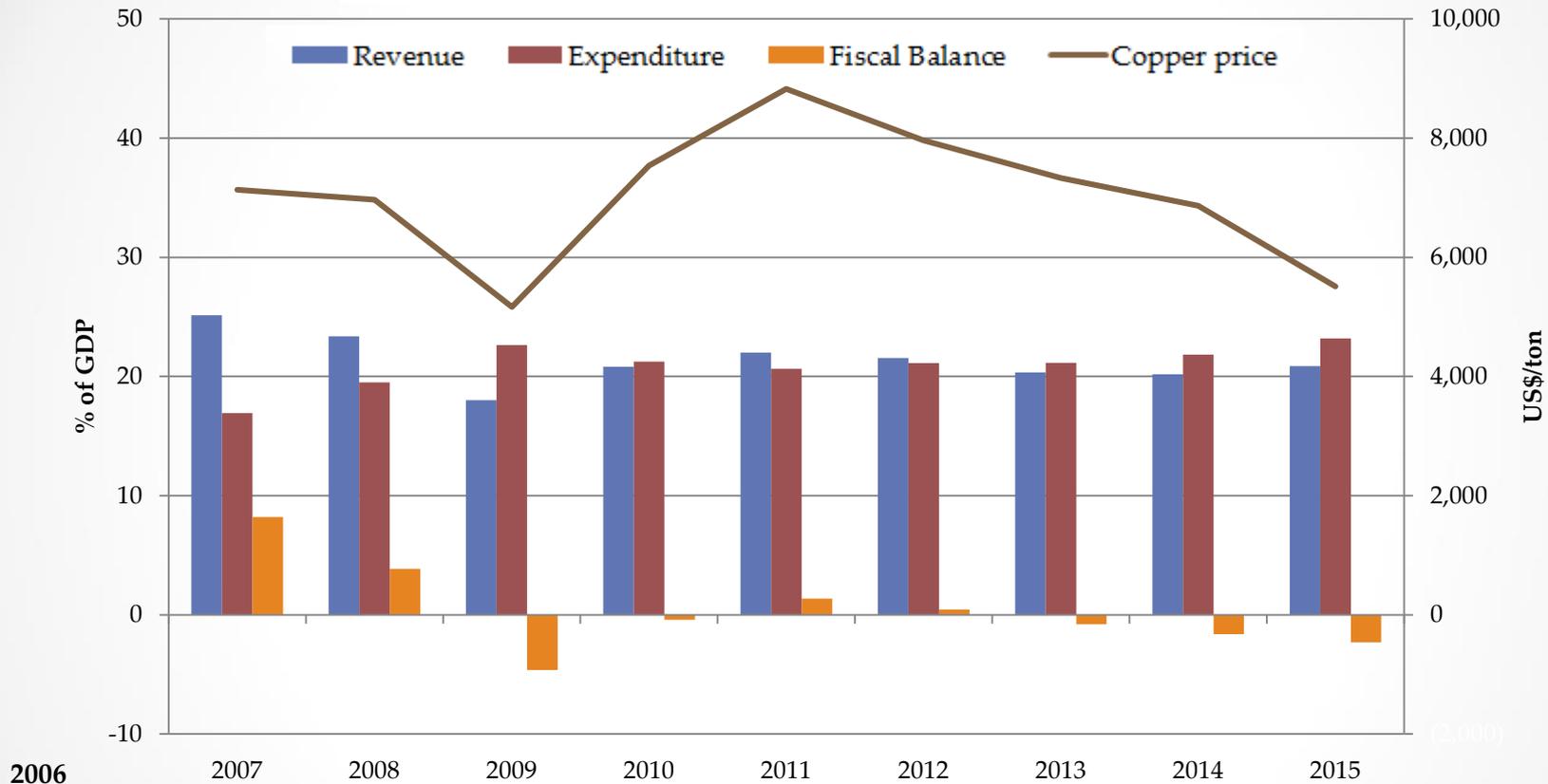


Source: Article IV Consultation, IMF (2015)

Source: www.tradingeconomics.com

Fiscal Discipline and Fiscal Adjustment (3)

Chile : Fiscal Balance (LHS) and Copper Price (RHS)



Source: Figures from International Financial Statistics, IMF and Primary Commodity Prices (IMF)

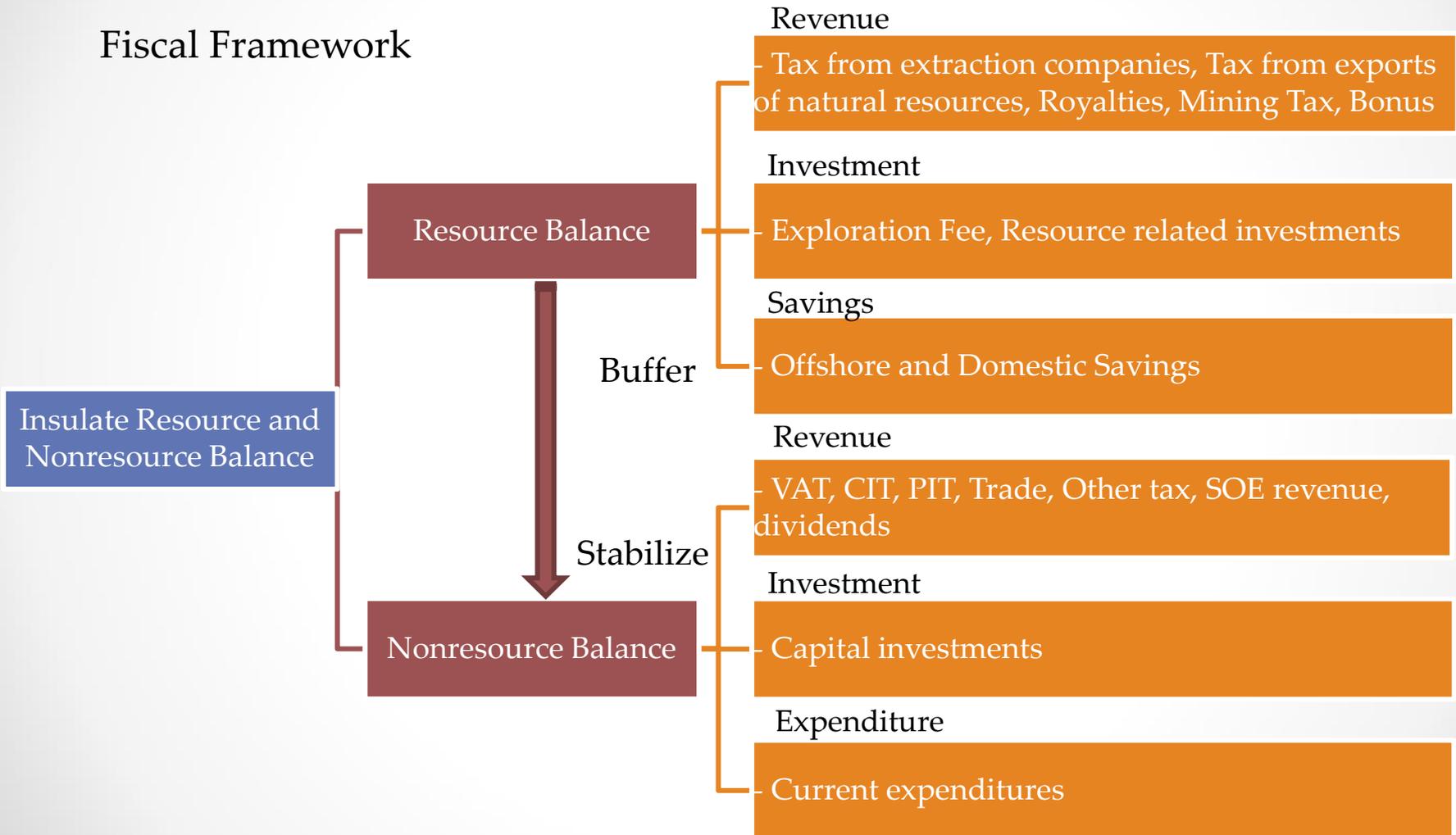


Good practices and prescriptions are available...but

- Many resource-rich countries still face difficulties. (Fiscal deficits and accumulating debts)
- What works and what doesn't?
- Fiscal Discipline shall be in place, but is it....?

Resource and Nonresource Balances

Fiscal Framework

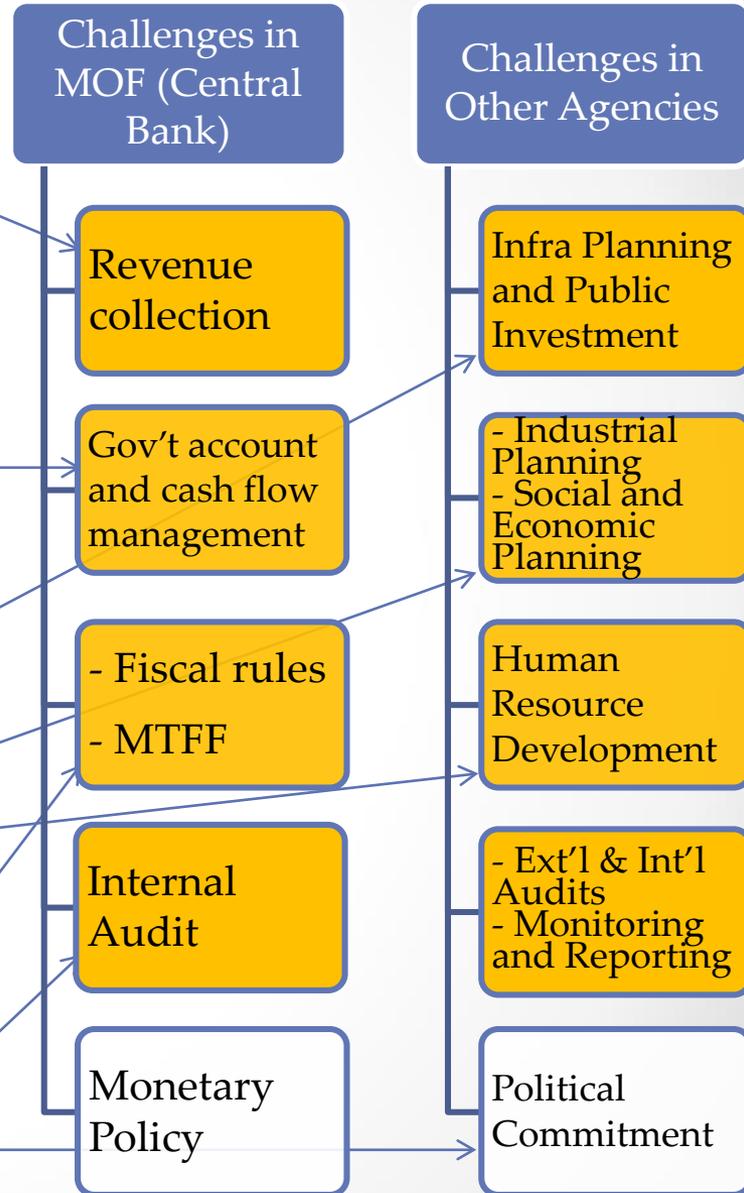


What we know about Resource Revenue Management

Resource Revenue	Principles	Issues to Consider
Contribution to Budget	-	<ul style="list-style-type: none"> a. Are all tax and fees from natural resources secured and made transparent? b. Who collects and manages them? c. What is the projection vis-a-vis non-mineral revenue?
Allocative Efficiency 1	Savings for the future development and risks	<ul style="list-style-type: none"> d. What are the allocation rules? e. How do you deal with the present needs as well as save for the future generations?
	Savings for fiscal stabilization	<ul style="list-style-type: none"> f. What are the rules of fund transfer to the general account / central bank?
Allocative Efficiency 2	Investment for productive and sustainable capital	<ul style="list-style-type: none"> g. Will the infrastructure (and those in public investment plan) enhance sector's operational efficiency? h. Will they help cure the "Dutch Disease"?
	Investment for social capital	<ul style="list-style-type: none"> i. How can people benefit from the windfall? j. What areas of human capacity should be strengthened in the long-term?
Fiscal Discipline / Operational Efficiency	Adherence to fiscal rules	<ul style="list-style-type: none"> k. How do you balance the budget? l. How do you consolidate cash flow management? m. How will you meet the people's expectations? n. How are expenditures reviewed and audited? o. How will you cope with political pressures?

What are the Challenges of Institutions?

Issues to Consider	Remarks
a. Are all tax and fees from natural resources secured and made transparent?	- Central and local gov., SOEs
b. Who collects and manages them?	- Contract terms, costs
c. What is the projection vis-a-vis non-mineral revenue?	- Resource price, horizon - Increase of non-mineral revenue
d. What are the allocation rules?	- Fiscal anchor
e. How do you deal with the present needs as well as save for the future generations?	- Offshore account
f. What are the rules of fund transfer to the general account / central bank?	- Oversight by parliament - Political commitment
g. Will the infrastructure (and those in public investment plan) enhance sector's operational efficiency?	- Mining sector and its downstream development
h. Will they help cure the "Dutch Disease"?	- Diversify exports
i. How can people benefit from the windfall?	- Social and economic development
j. What areas of human capacity should be strengthened in the long-term?	- Human resource development
k. How do you balance the budget?	- Fiscal anchor, MTFF
l. How do you consolidate cash flow management?	- Volatile natural resource price
m. How will you meet the people's expectations?	- Audit function, Transparency
n. How are expenditures reviewed and audited?	- Political commitment
o. How will you cope with political pressures?	



Potential Areas of Technical Assistance in terms of PFM

Increase non-mineral tax revenue by strengthening tax administration

- Mongolia, Indonesia, Vietnam, Cambodia, etc.

Support formulating quality and feasible Public Investment Plan, including PPP formulation

- Bangladesh, Laos, Indonesia, Vietnam, Philippines, etc.

Enhance practical knowledge and skills of PFM and Debt Management by organizing workshops

- Joint workshops held by JICA /WB and IMF/WB/JICA

Increase transparency by strengthening audits, by supporting becoming an EITI member

- Mongolia, etc.

Other than PFM: Promote non-mineral sectors, Industrial planning, Value-chain development, SME financing (associated with yen loan), etc.

Some Key Questions for Discussion

- What are the efforts being made to comply with fiscal discipline?
- How do you manage resource revenue? Can you share your challenges and/or good practices?
- How do you control other potential risks associated with resource windfall?
- What type of TA is necessary, if any, to overcome challenges and/or cope with risks above?
- What do your people expect to benefit from resource windfall? How does your government keep their commitments?