



MANAGING NATURAL RESOURCE REVENUE IN LIBERIA: OPPORTUNITIES AND CHALLENGES MANAGING RESOURCES FOR SUSTAINED ECONOMIC DEVELOPMENT

(Hosted by the Ministry of Finance, IMF and in collaboration with
the International Growth Center)

March 18, 2013

Mamba Point Hotel

AGENDA

8:00 **Arrival and registration (Continental Breakfast)**

9:00 **Introduction and Opening Address**

Introduction to Day's Events: Catherine McAuliffe, IMF mission chief for Liberia; Yuri Sobolev, IMF Resident Representative.

Welcoming Statement Hon. Sebastian Muah, Acting Minister of Finance.

9:15-9:45 **Session 1: Policy Challenges for Managing Natural Resources in Liberia**

Liberia is set to receive large natural resource revenue inflows over the medium- to long-term, through exploitation of iron ore deposits and, potentially, petroleum. By 2015, iron ore is projected to account for around 15 percent of GDP (from around 1.1 percent of GDP or 4 percent of government revenue in 2012), as three major iron ore concessions are expected to commence production. Natural resource revenue inflows offer significant opportunities, including accelerated reconstruction, development, and poverty reduction and could help finance Liberia's transition to middle income status by 2030 (the objective of the authorities second poverty reduction strategy—the Agenda for Transformation). With its abundant natural resource potential, Liberia is poised to receive significant foreign direct investment from multinational companies for investment in its natural resources. However, there are also risks unless resources are properly managed. Liberia is a fragile state and capacity constraints pose additional challenges. The key challenge will be to maximize Liberia's natural resource revenue and channel it for

sustainable economic development. A number of important decisions will need to be made ahead of large scale resource flows coming on-stream. How to manage public expectation will be critical and so are decisions on tax policy (raising resource revenue through a variety of tax instruments), managing resource revenues (spending vs. saving for future generations), and ensuring transparency throughout the process. Since these decisions will affect all Liberians, it is important for the public, policy makers and implementers, the industry and civil society alike to be aware of the challenges and be able to make informed decisions. This seminar will provide an overview of key issues at stake. To set the stage for the day, the first session touches on the challenges and risks of managing natural resources. The remaining sessions will go into more detail on the possible policy responses to these challenges.

- Exhaustibility of resource revenue (mineral, oil and gas)
- Uncertainties and volatility of resources revenues (mineral, oil and gas)
- Managing boom/bust cycles
- Dutch disease (loss of competitiveness for agriculture/manufacturing sectors)
- Diversion of resources to rent seeking and impact on growth
- Others

Speakers: Mr. Eric Werker, International Growth Center; Professor Joe Amoako-Tuffour, African Center for Economic Transformation; Mr. Monie R. Captan, President Liberia Chamber of Commerce; Michael Stewart, Program Manager, US Department of State, Energy Governance and Capacity Initiative.

9:45-11:15

Session 2: Fiscal Policy for Natural Resources: Options for Liberia

The government's main challenge is how to maximize potential revenues to be captured from natural resources. This goal is achieved through a fiscal regime usually comprising more than one fiscal instrument. There are a number of different fiscal regimes but generally a concessionary royalty-tax regime or contractual production sharing regime are the typical ones. Key issues to consider include the choice of a fiscal regime and the number and types of fiscal instruments it should include. Key challenges to address include taxing resource rent actually generated and related questions about the neutrality and progressivity of fiscal regime, the timing of government revenue, and risk sharing with investors. The choice in part depends on the ease of the fiscal regime to be administered by tax authorities and for companies to comply. Which tax regime will work best for Liberia? We will review the important considerations as well as the pros and cons of the various options in the Liberian context.

- Challenges in capturing resource rent
- What makes for a modern fiscal regime
- Royalty-tax concession vs. production sharing
- Alternative fiscal regime designs
- Others

Speakers: Mr. Charles McPherson, External Expert, Fiscal Affairs Department, IMF.

Panel Discussion: *What will work best in Liberia?*

Panelists: Dr. James Kollie, Deputy Minister for Revenue, Ministry of Finance; Mrs. Elfrieda Stewart Tamba, Coordinator, Formation Office, Proposed Liberia Revenue Authority; Mr. David Santley, Senior Petroleum Specialist, the World Bank; Hon. Sam Russ, Deputy Minister, Ministry of Lands, Mines, Energy.

Open Questions and Answers and General Discussion

11:15-11:30 **Tea/Coffee**

11:30-13:30 **Session 3: Options for Natural Resource Revenue Management for Liberia: Macroeconomic and Institutional Considerations**

Revenue management stands center stage in resource-rich countries because natural resource revenue is finite and highly volatile. This raises complex issues of sustainability and intergenerational equity, and financial management and the appropriate savings vehicles, including Sovereign Wealth Funds. As noted in Liberia's *Draft Petroleum Policy Paper*, it will be important for Liberia to maintain an appropriate balance between using revenues for current and future generations as well as finding a balance between consumption and investment spending thus building buffers to cushion against shortfalls in resource income and saving for the future. A number of different fiscal frameworks have been used in countries with natural resource revenues. There is no "one size fits all" and the key is to choose a framework that fits the institutional capacities and economic structures particular to Liberia. This session explores the macroeconomic and institutional constraints and key considerations in the crucial decision whether to spend or save natural resource revenues, and discusses the pros and cons for Liberia.

- Price Based Rules: Chile, Mongolia, Nigeria and Ghana
- Fiscal Rules on Expenditure: Botswana (since 1994)
- Permanent Income (PI) Approach: Norway, Timor Leste, South Sudan
- Managing resource revenues in a fragile context: capacity building to project revenue intake from natural resources; building capacity to invest resource revenues

Speaker: Mr. Todd Mattina, Fiscal Affairs Department, IMF

Panel Discussion: Government Perspectives on Managing Natural Resource Flows in Liberia

Panelists: Hon. O. Natty B. Davis II, Chairman, National Investment Commission; Ms. Kou Dorliae, Legal Advisor, Ministry of Justice; Mr. Michael Ablowich, Advisor, US Treasury, Energy Governance and Capacity Initiative.

Open Questions and Answers and General Discussion

13:30-14:30 Lunch

14:30-15:00 Session 4: Governance and Transparency in Managing Natural Resources and the Role of Public Sector

Good governance and transparency in the management of natural resources is essential for accountability and getting the most from the exploitation of a country's resource endowment. At the same time, Liberia has significant public sector financing needs so the question is how to determine the share of resource wealth going to government. The session will explore the issues surrounding the role of the public sector in managing natural resources; sharing risks and rewards between government and private-sector investors and the best ways to ensure good governance and transparency.

- Importance/Benefits of transparency in managing natural resources and challenges to its implementation
- Clarification of roles and responsibilities in the sector (i.e. between Ministries/NOCAL
- International and local transparency initiatives

Speakers: Mr. Jim Cust, Natural Resource Charter; Mr. Amir Shafaie, Legal Analyst, Revenue Watch Institute; Mr. Thomas Doe Nah, Executive Director, Center for Transparency and Accountability in Liberia.

15:00-16:00 Panel Discussion: Perspectives from private sector, development partners, CSOs: What legal framework will work best for Liberia? How to project when capacity is weak.

Panelists: Dr. Mark Mattner, Project Manager, Resource Governance, GIZ; Mr. Samson Tokpah, Head of Secretariat, Liberia Extractive Industries Transparency Initiative; Mr. Marcus Wleh, Head of External Affairs and Corporate Responsibility, ArcelorMittal; Mr. Ivan Muir, Managing Director, SGS Liberia.

Open Questions and Answers and General Discussion

15:30-16:00 Coffee Break

16:00-16:30 Summary of Day: Lessons and Way Forward

Lessons Learned: IMF and IGC

Closing Remarks: Mr. Jordan Sulonteh, Deputy Minister of Finance.