

# **Fiscal frameworks for growth in natural resource rich developing economies**

**Discussant's comments; Tony Venables**

**Oxford Centre for the Analysis of Resource Rich Economies (Oxcarre), University of Oxford**

- **Principles**
- **Details**
- **Implementation**

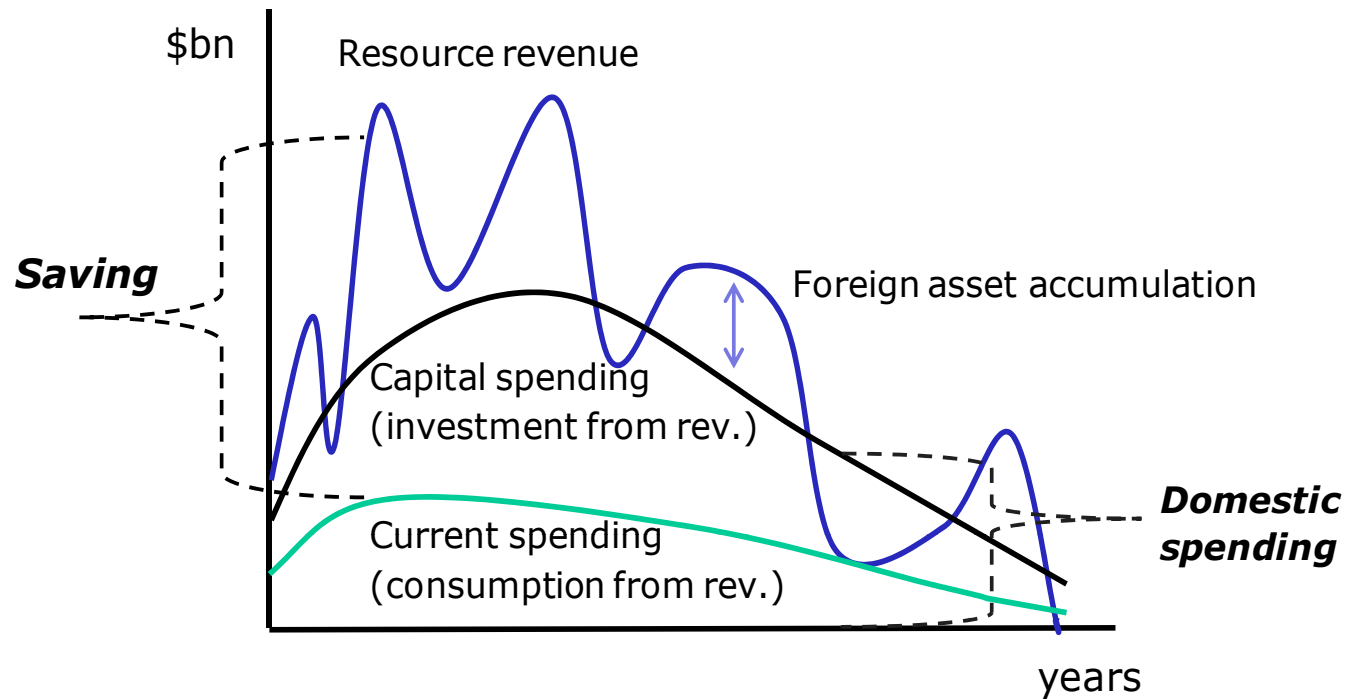
# Principles

- Objective: Transform subsoil assets into surface assets that yield sustainable flow of income and employment
- Two repeated mistakes
  - Boom and bust
    - Inefficient spending
    - Long 'stops' following the bust
  - Save too little
    - Failure to develop surface assets (public or private)
    - Nigeria: real savings -30% GDP
- Traditional IMF position – concentrate on former, less attention on building assets for growth

## Principles:

Divide resource revenues 3 ways:

- Current spending
- Capital spending
- Foreign asset accumulation



- Current spending ('consumption'): frontload cons increment
- Saving: high and rising share:
- Foreign assets vs domestic capital: prioritise domestic investment.  
(not 'intergenerational fund of foreign assets')

BUT:

- Avoid boom-bust by smooth path of domestic spending. ('stabilisation fund')
- Investment needs to be efficient. ('parking fund')

# The micro detail

## Spending how? -- through what channels

- Public spending or transfer to citizens?
  - Public:
    - can finance public goods
    - more weight on future generations (?)
    - internalise macro- effects
  - Private:
    - Citizens ultimate owners (but what generation?)
    - Better micro information
- If transferred to private citizens, how?
  - Tax cuts
  - Conditional cash transfers
  - Fuel subsidies
  - Difficult political economy – visible benefits

# The micro detail

## Spending how? -- through what channels

- Citizen dividend: distribute then tax back
- Retain public ownership but decentralise decision taking
  - Domestic lending (development bank, mortgage bank)
  - Domestic debt reduction
    - Lower interest rates to stimulate investment
    - Force banks to lend to someone other than government

## The micro detail

### Capital: managing the boom – ‘investing in investing’.

- Build government capacity for project design/ evaluation/ appraisal
- Flatten supply curves:
  - Anticipate bottlenecks
    - Roads, power, skill
  - Complementary reform package
    - Flexibility
    - Ease of start up for new business
    - Openness to trade – avoid transitional inflation/ Dutch disease

## The micro detail

### Capital: long run growth?

- Diversification is hard: each \$1 resource exports raises imports  $\sim$  20c and reduces non-resource exports  $\sim$ 75c. (5c saved abroad)
- Sector specific development?
  - Upstream from resource projects:
    - Upgrading existing firms/ General business skills
  - Downstream:
    - Hard-to-trade resources: Gas  $\rightarrow$  domestic electricity
    - Easy-to-trade: Unlikely to have a comparative advantage in oil refining etc
  - Managing expectations (again)
- General infrastructure/ skills
  - Transport, power, skills
- Urban development: infrastructure plus residential

# Implementation

- Governance and political economy:
  - Pressure to spend
    - Show visible benefits
    - Legitimate demands of spending ministries: Common pool problem
- Uncertainty about resource revenues:
  - Prediction:
    - future quantities
    - prices
  - Sustainability calculations
  - Integration with other aspects of the budget.



# Implementation

- Uncertainty about private sector responses:
  - Crucial role of expectations
    - Domestic consumers: (Kazakhstan ?)
    - Foreign exchange markets: (Zambia)
    - Domestic workers: (Tanzania ?)
- Need:
  - Clear narrative: managing citizens' expectation (+ and -)
  - Array of monetary/ fiscal/ exchange rate instruments
  - Credibility mechanism:
    - Strong Finance Ministry
    - Fiscal rules
    - Independent / transparent oversight

## Concluding comments

- Much improved policy in many resource rich economies
- Revenue management remains a technically difficult problem
  - Welcome new thinking of IMF and engagement of WB
    - Avoid boom bust
    - Saving and investment for growth
    - Detailed country-by-country work
- Unfinished agenda: the micro-detail