

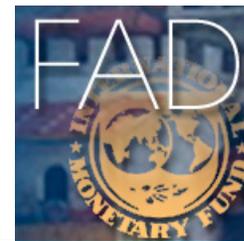


# **Managing Natural Resource Revenues: Fiscal Transparency**

**NATURAL RESOURCE TAXATION IN THE ASIA-PACIFIC REGION  
Jakarta, Indonesia – August 11-13, 2015**

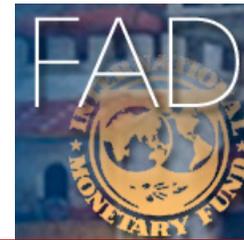
***Alpa Shah***  
**Fiscal Affairs Department**  
**International Monetary Fund**





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# **Fiscal Transparency: Background and Context**



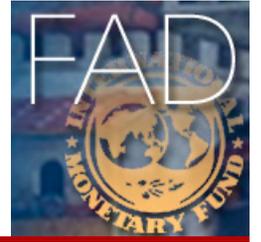
# What is Fiscal Transparency?

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- Fiscal transparency refers to:

*“the comprehensiveness, clarity, reliability, timeliness, and relevance of public reporting on the past, present, and future state of public finances”*

- Refers to the entire chain of the public revenue management process, from revenue generation, to its utilization.

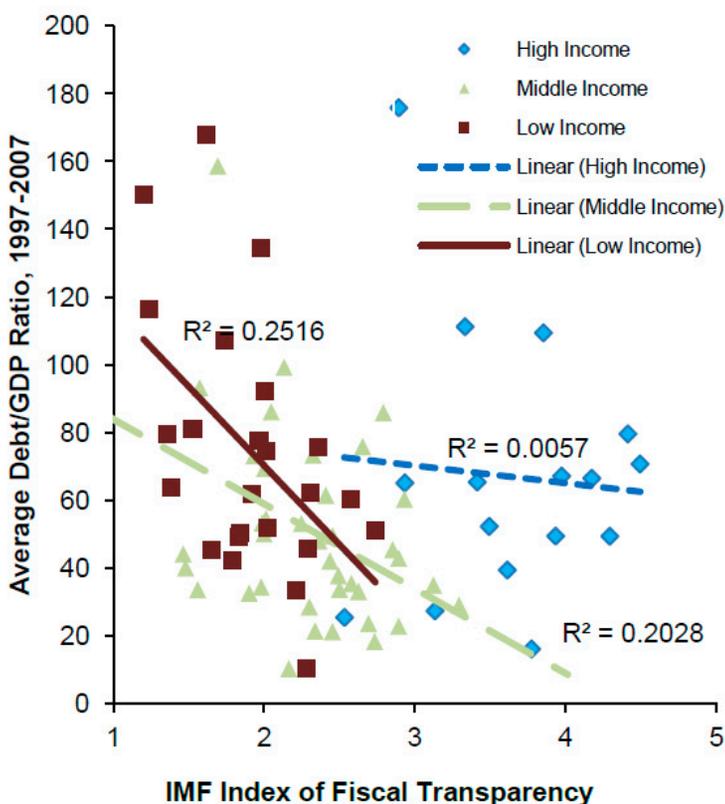


# Importance of Fiscal Transparency

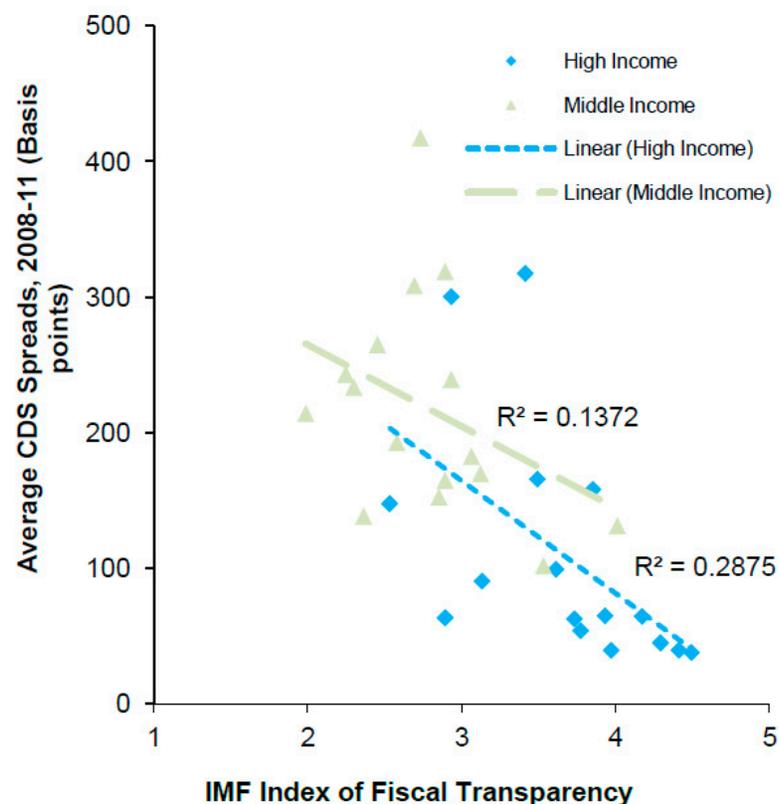
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- Fiscal transparency aims at:
  - Ensuring adequate information for fiscal policy formulation and risk management
  - Reducing revenue mismanagement and corruption
  - Managing public expectations and developing public trust.
  - Enhancing investor perception and credibility
- Critical for effective fiscal management and accountability.

# Importance of Fiscal Transparency



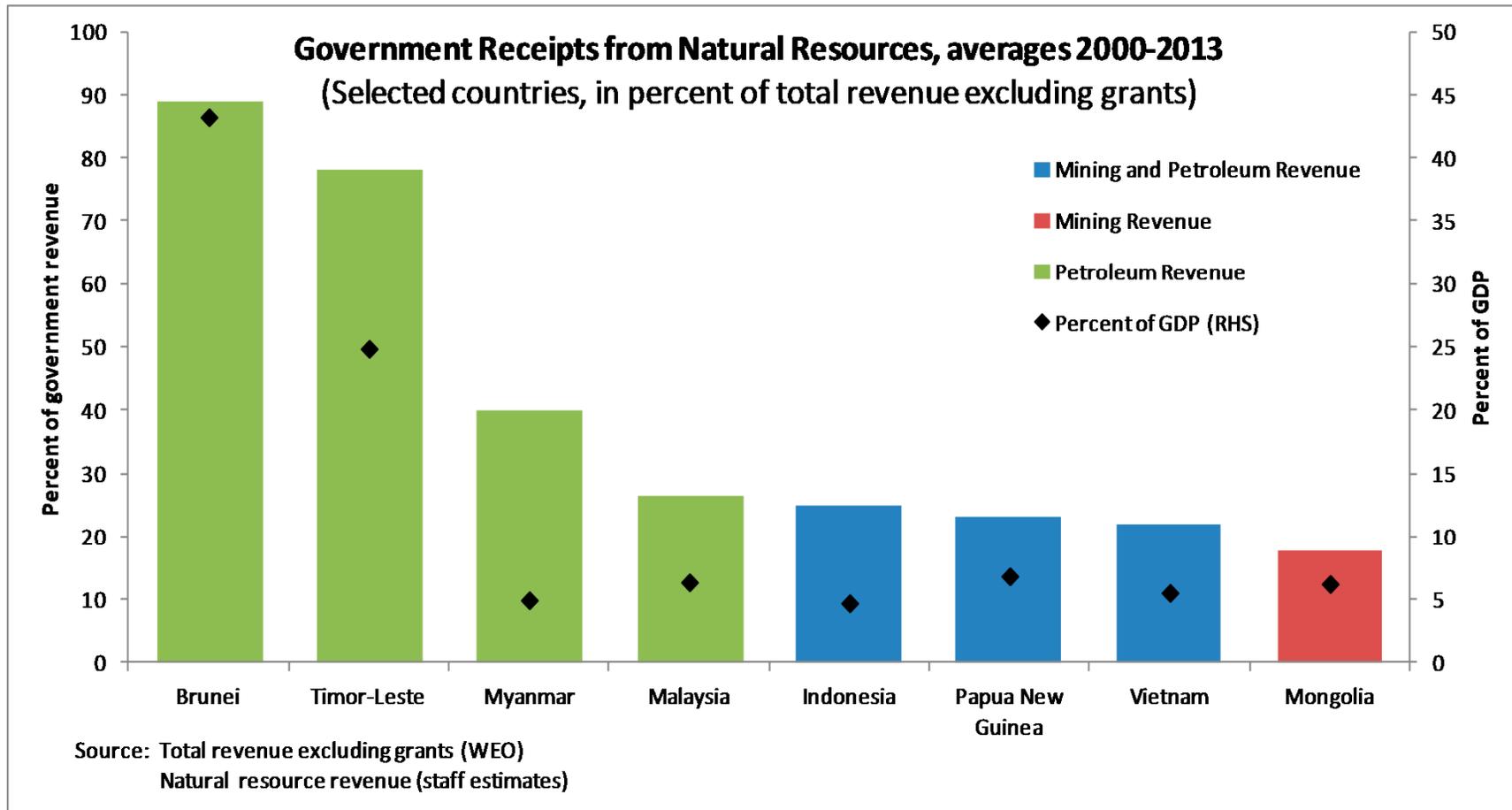
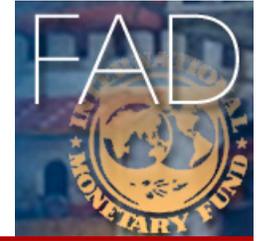
Sources: World Economic Outlook (Debt to GDP); Staff estimates (Fiscal Transparency Index).<sup>1/</sup>



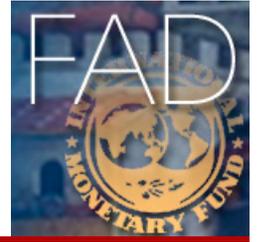
Source: Markit Five Year CDS (credit default swap)  
 Note: Four outliers with very high average CDS spreads (Argentina, Greece, Pakistan, and Ukraine) are excluded.

Source: IMF (2012) Board Paper: Fiscal Transparency, Accountability, and Risk

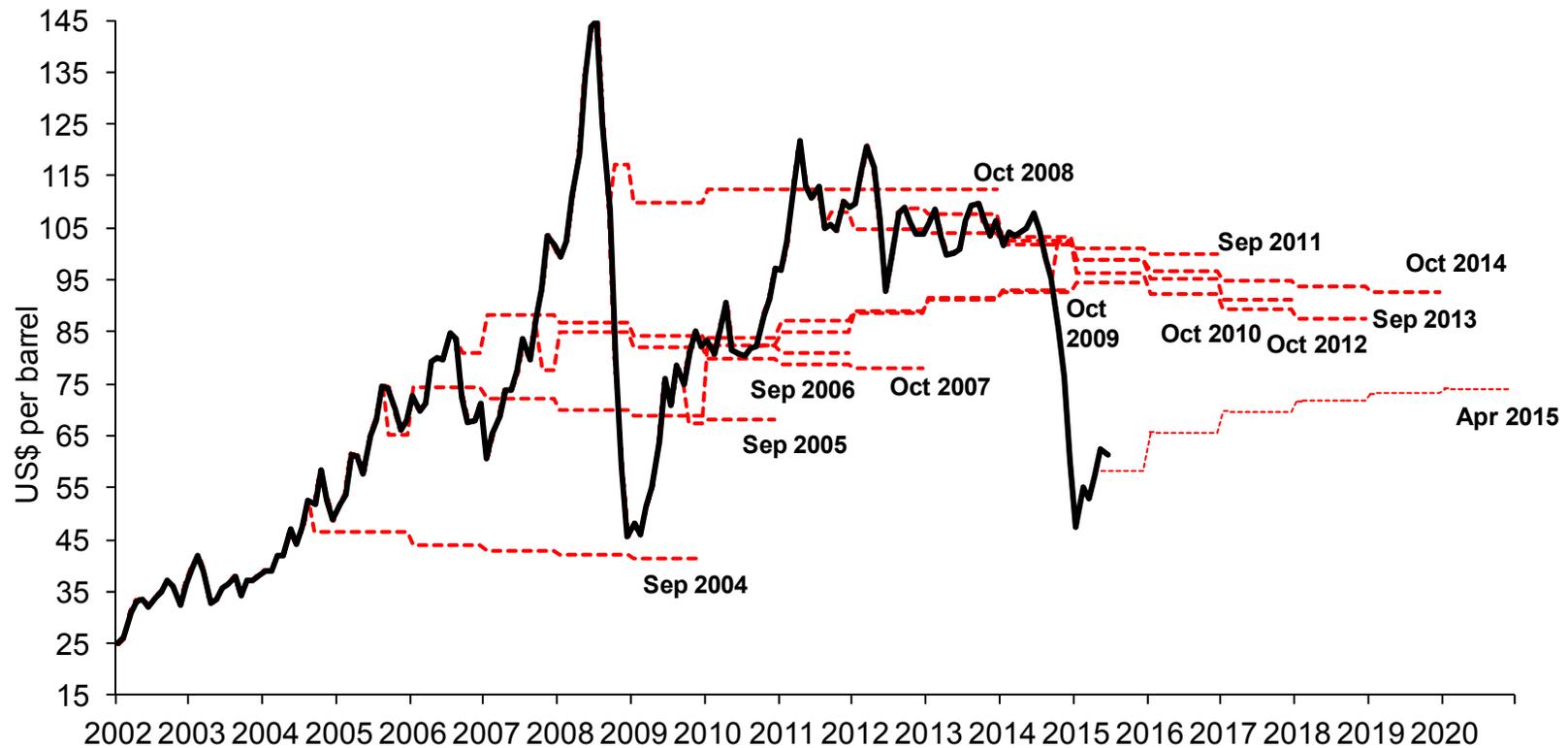
# Natural Resource Revenue: a key source of revenue for (increasingly) many countries



# Natural Resources Revenue: **pervasive price uncertainty ...**

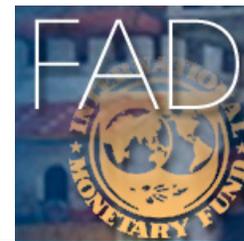


**WEO Oil Price Forecasts 2002-2020**  
(Monthly prices, 2015 U.S. Dollar per Barrel)

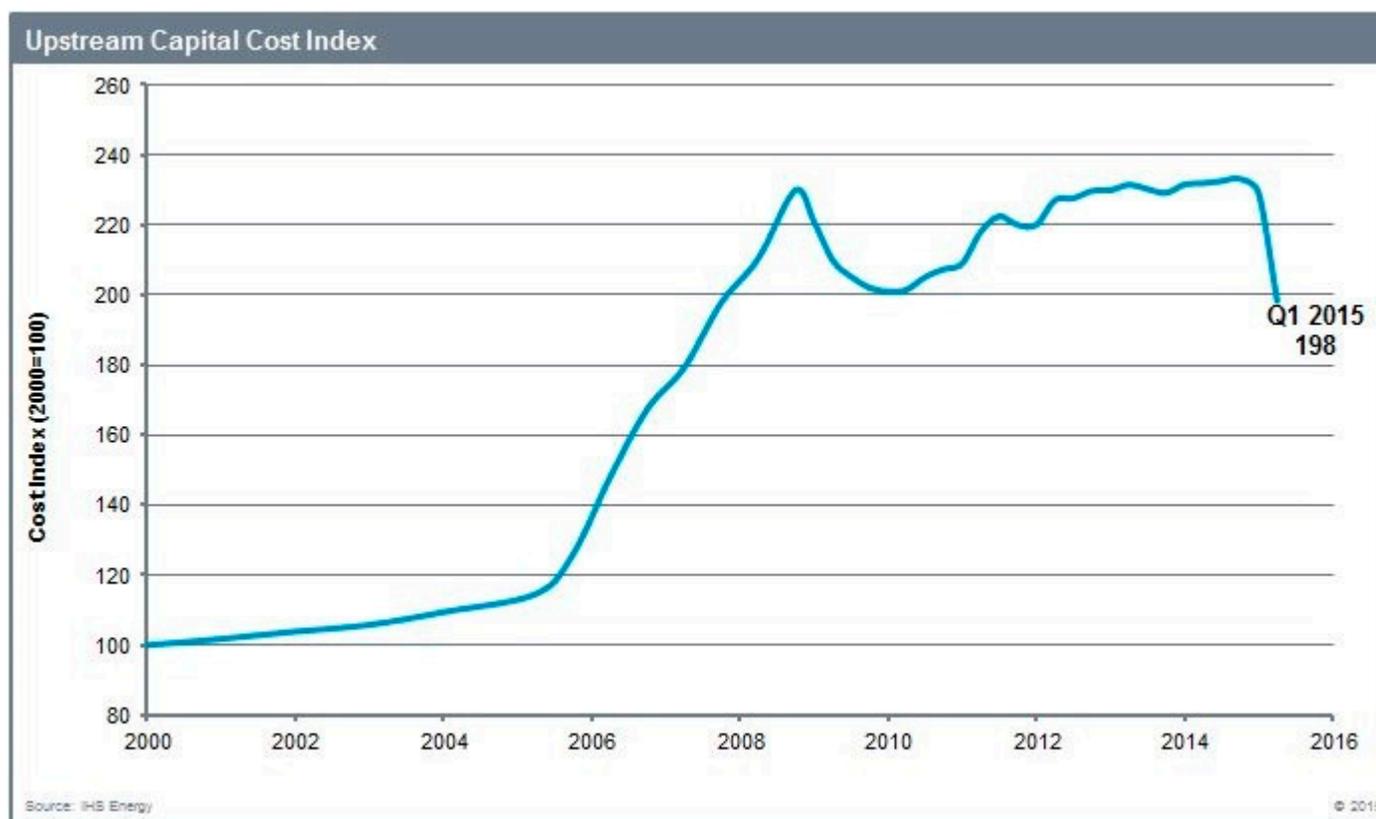


Sources: IMF World Economic Outlook

Note: Solid lines are spot prices. The dashed lines are price projections.

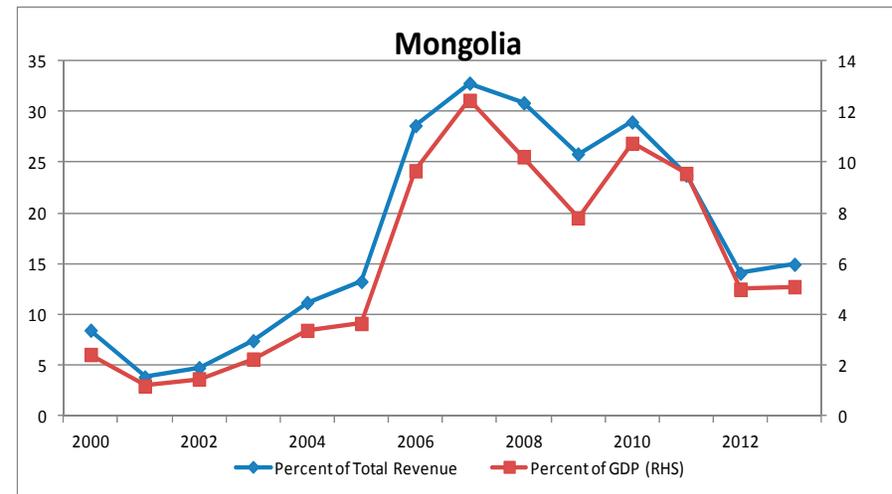
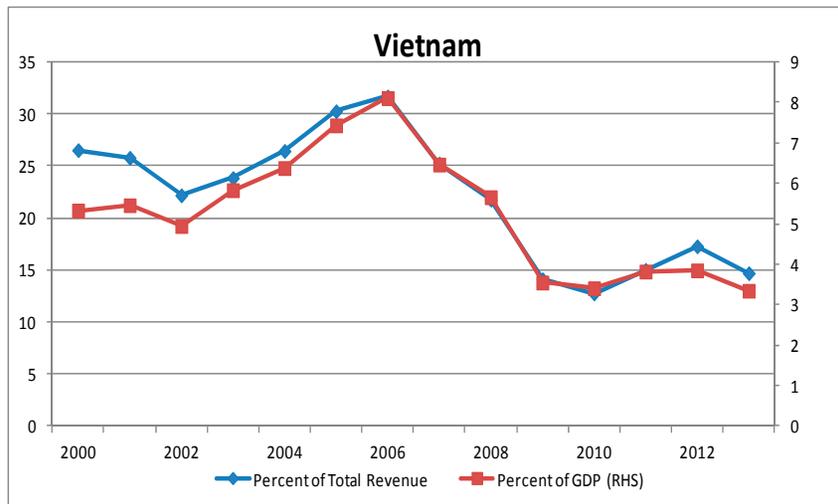
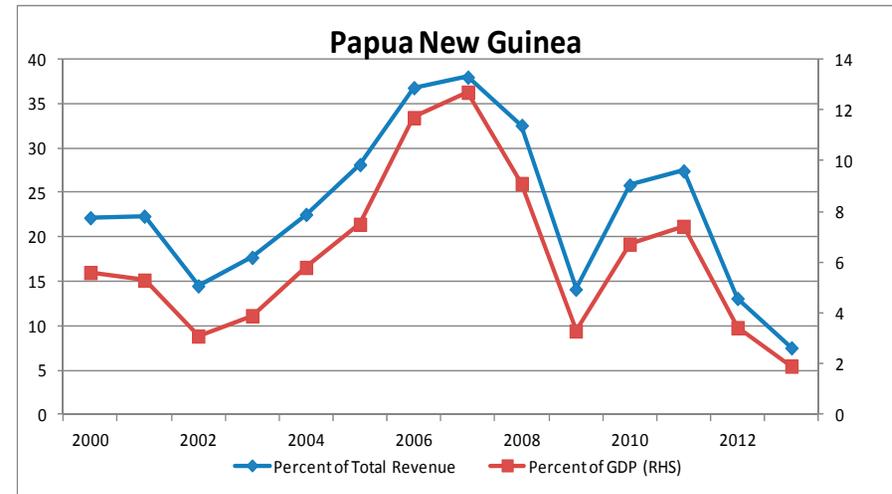
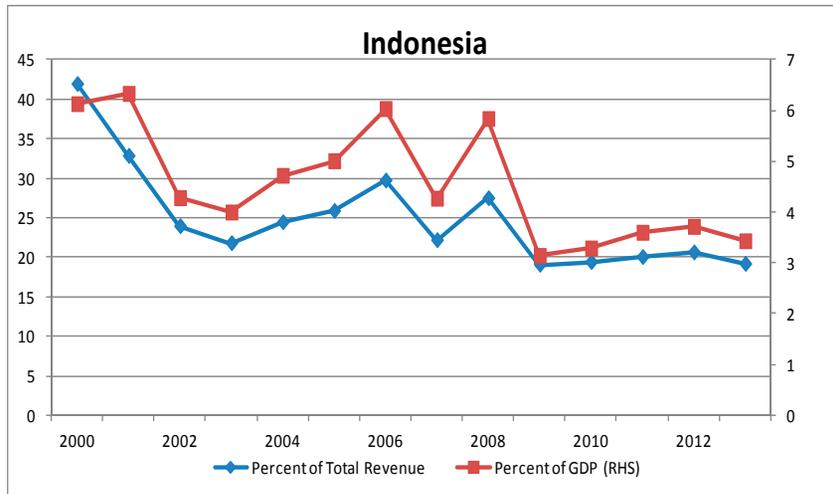
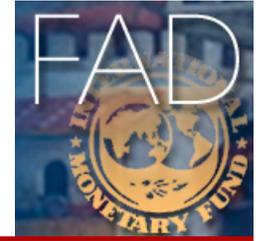


# Natural Resources Revenue: ...and cost volatility



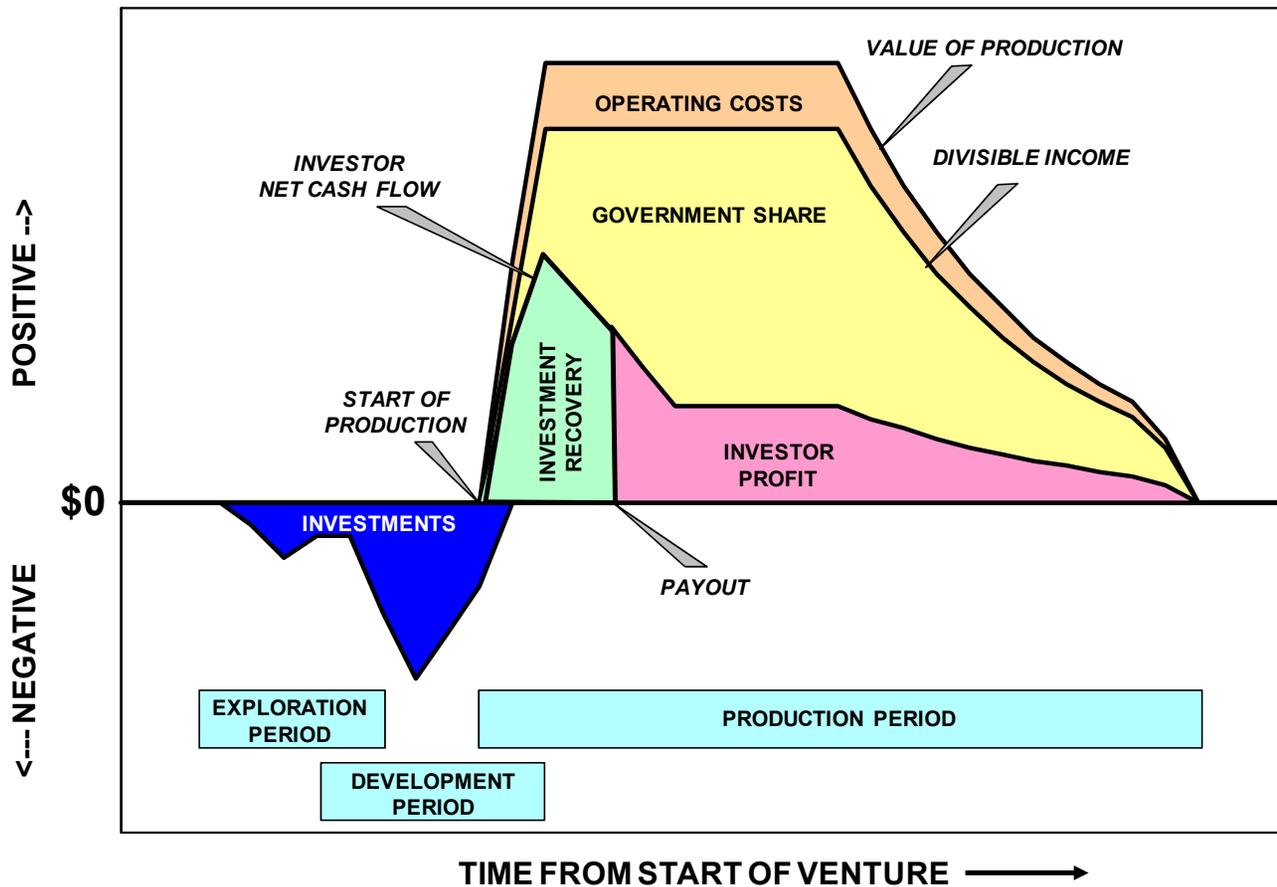
Source: <http://ihsindexes.com/>

# Natural Resources Revenue: ...resulting in volatile government revenue from EI



Source: Staff Estimates

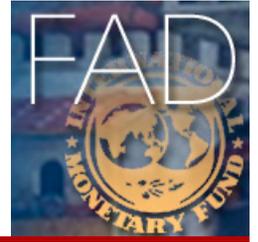
# Natural Resources Revenue: high sunk costs, long production periods



Source: Exxon Mobil

# Natural Resource Management (Pillar IV): Key Extractive Industry (EI) Characteristics

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- Substantial rents
- Pervasive uncertainty
- High sunk costs, long production periods
- Asymmetric information - (companies probably know more)
- Extensive involvement of multinationals and state owned enterprises
- Exhaustibility - resource revenues are transformation of finite assets in the ground into other assets



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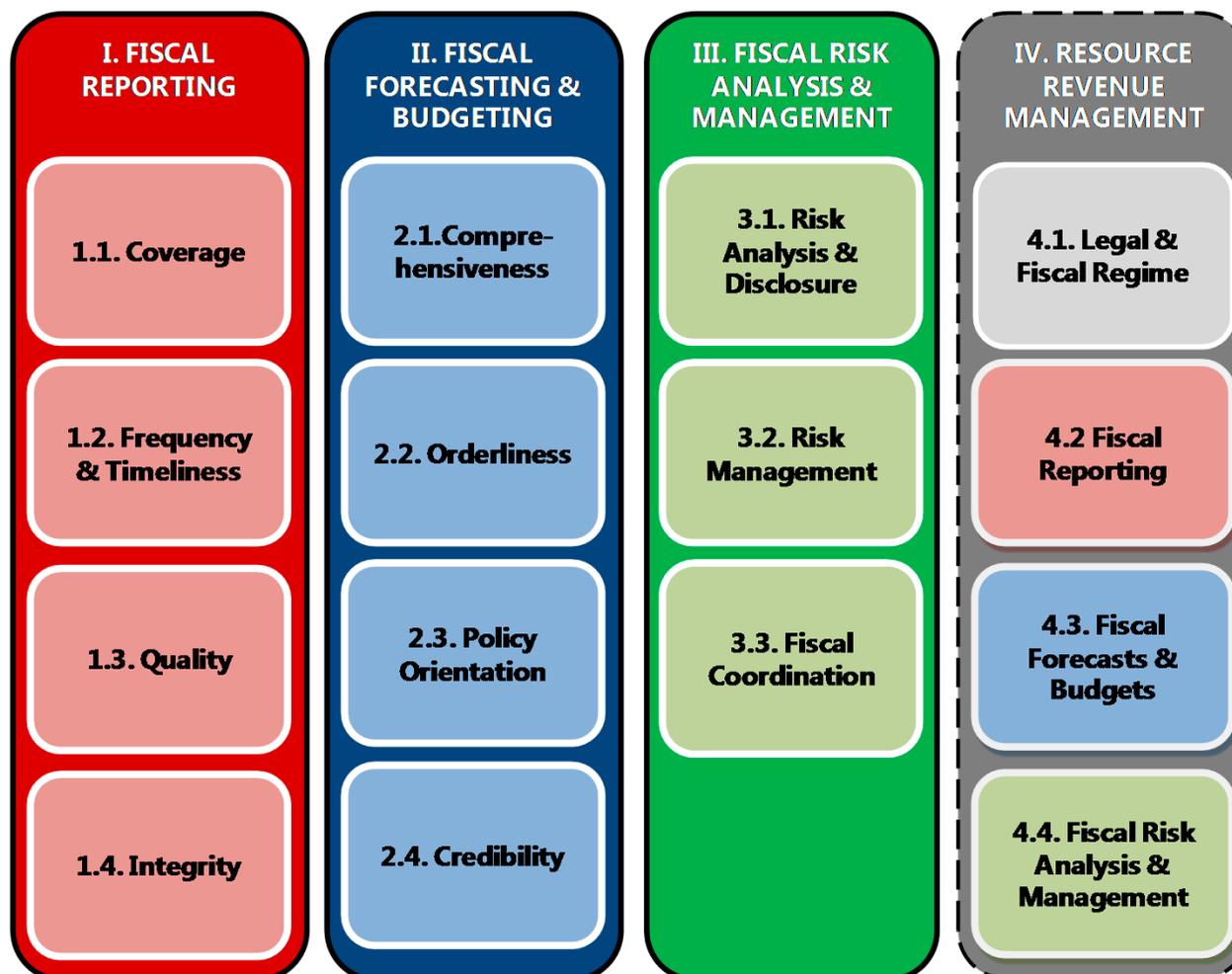
# The IMF's Fiscal Transparency Framework

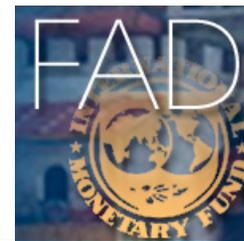


# New Fiscal Transparency Code

## Architecture of the New Code

### Four Pillars of the New Code





## New Fiscal Transparency Code: Differences between 2007 and 2014 Codes

Objective	2007 Code	2014 Code
<b>Focus on outputs rather than processes</b>	30 of 45 principles were procedural in nature	31 of 36 principles focus on quality or content of fiscal information
<b>Take account of different levels of country capacity</b>	“Code of Good Practices”	Basic, Good, and Advanced Practice
<b>Greater emphasis on fiscal risk disclosure and management</b>	1 principle on fiscal risk 5 others risk-related	12 principles focused on fiscal risk
<b>Align with recent advances in standards &amp; practices</b>	<b>Institutions:</b> General Government <b>Stocks:</b> Financial Balance Sheet <b>Frequency:</b> Quarterly <b>Classification:</b> GFSM 2001 <b>Accounting:</b> GAAP <b>Budgeting:</b> N/A	<b>Institutions:</b> Public Sector <b>Stocks:</b> Full Balance Sheet <b>Frequency:</b> Monthly <b>Classification:</b> GFSM 2014 <b>Accounting:</b> IPSAS <b>Budgeting:</b> PEFA & OECD



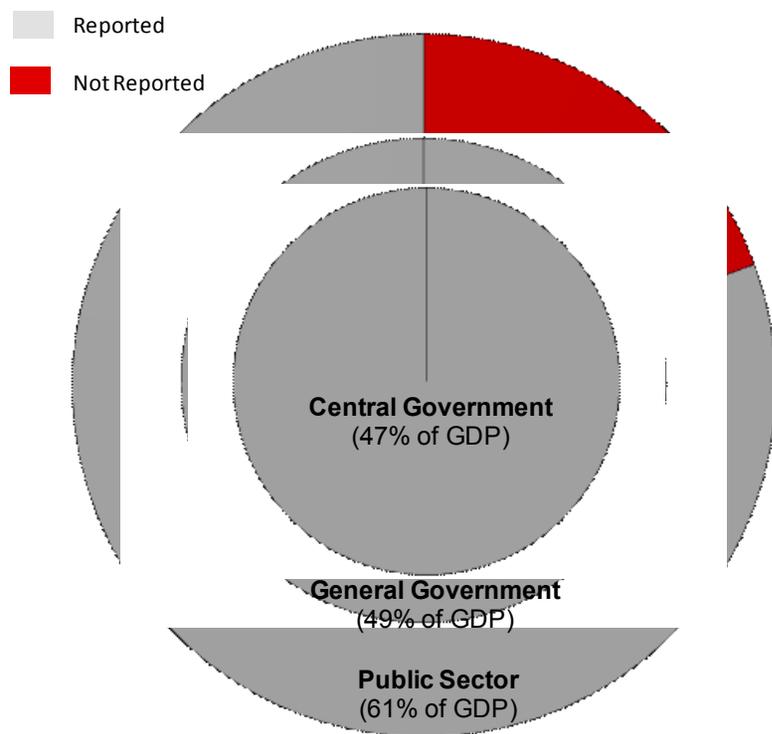
# New Fiscal Transparency Code: Graduated Practices

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
I	<b>FISCAL REPORTING</b>	<b>Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance</b>			
1.1	<i>Coverage</i>	<i>Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector and its sub-sectors according to international standards</i>			
1.1.1	Coverage of Institutions	Fiscal reports cover all entities engaged in public activity according to international standards.	Fiscal reports consolidate all central government entities.	Fiscal reports consolidate all general government entities and report on each subsector.	Fiscal reports consolidate all public sector entities and report on each subsector.
1.1.3	Coverage of Stocks	Fiscal reports include a balance sheet of public assets, liabilities, and net worth.	Fiscal reports cover all cash, deposits, and debt	Fiscal reports cover all financial assets and liabilities.	Fiscal reports cover all financial and non-financial assets and liabilities, and net worth.
1.1.2	Coverage of Flows	Fiscal reports cover all public revenues, expenditures, and financing.	Fiscal reports cover cash revenues, expenditures and financing.	Fiscal reports cover cash flows and accrued revenues expenditures, and financing.	Fiscal reports cover cash flows ,accrued revenues, expenditures, and financing, and other economic flows.

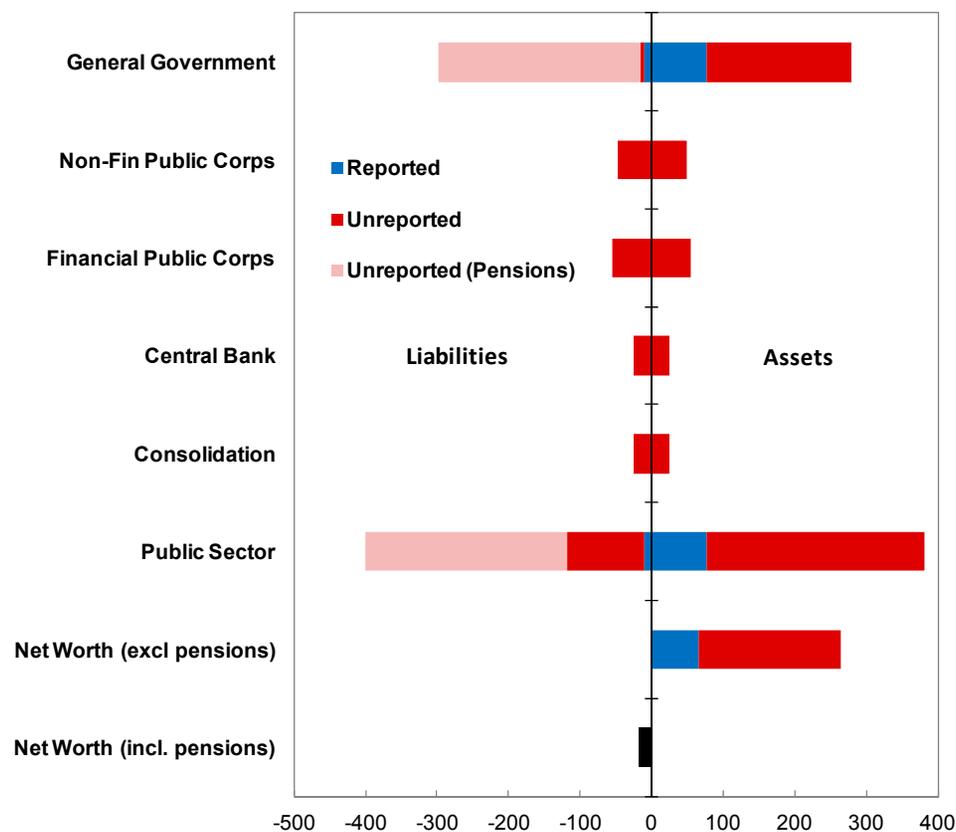
# Fiscal Reporting

The “State” is bigger than we think... ...with a more extensive balance sheet

**Ireland: Coverage of Fiscal Reporting**  
(Percent of expenditure, 2012)



**Russia: Reporting of Assets and Liabilities**  
(Percent of GDP, 2012)

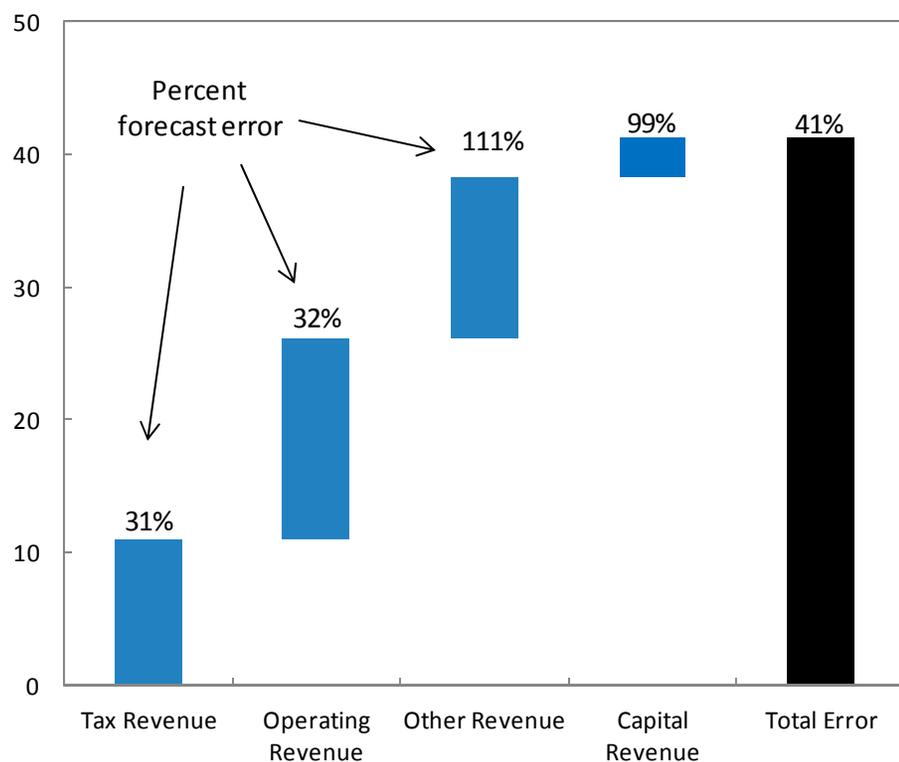




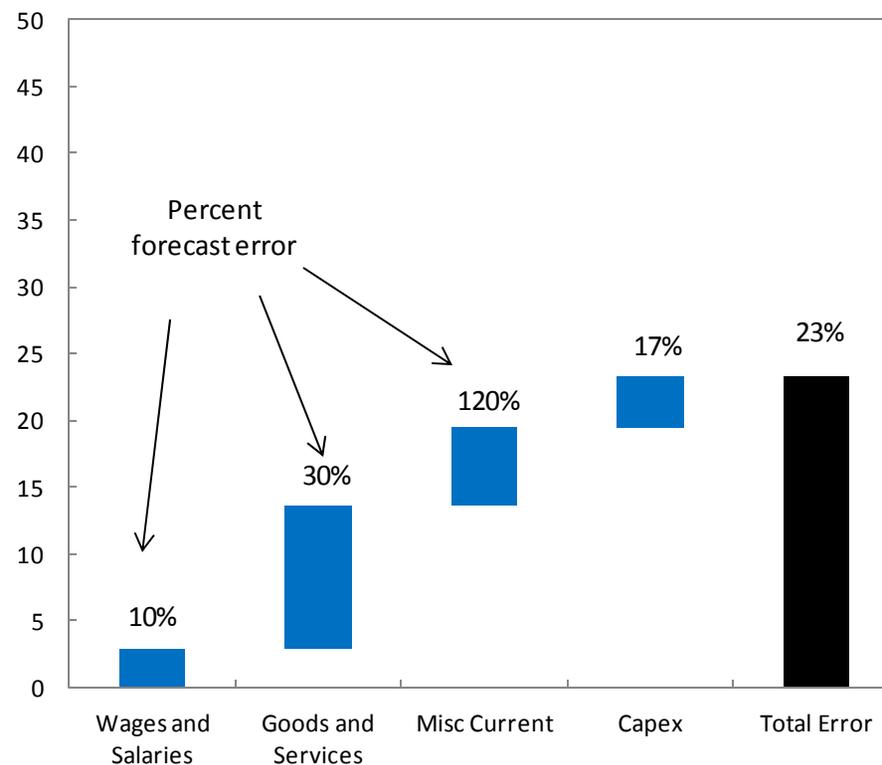
# Fiscal Forecasting and Budgeting

## Budgets are not always a reliable guide to future revenues and spending

**Bolivia: Year-ahead Revenue Forecast Errors**  
(Percent of total forecast revenue, 2010-11)



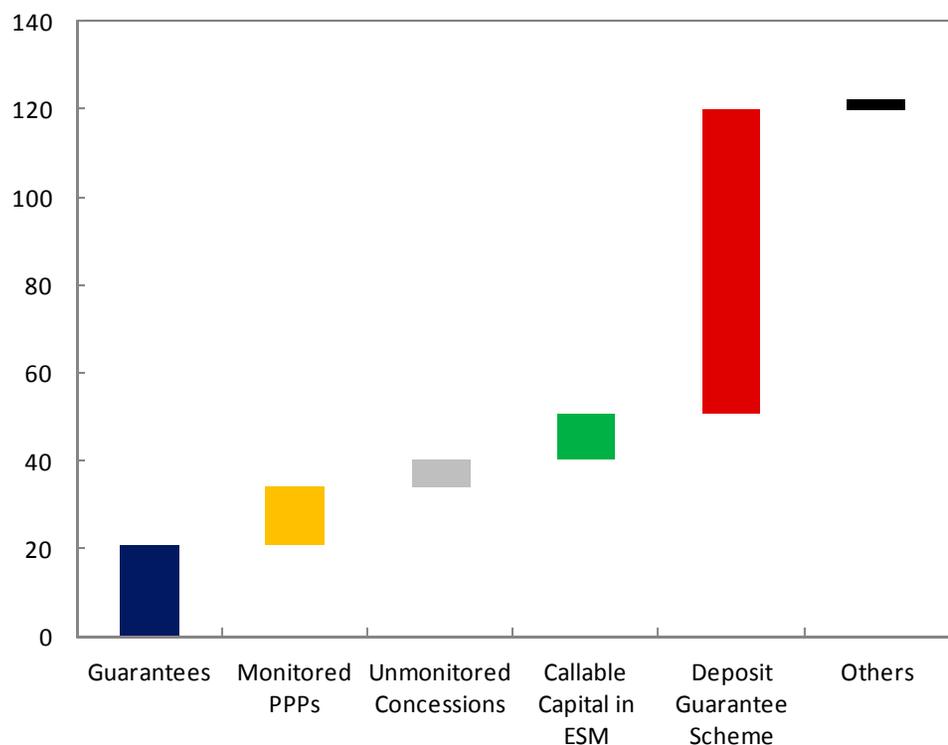
**Bolivia: Year-ahead Expenditure Forecast Errors**  
(Percent of total forecast expenditure 2010-11)



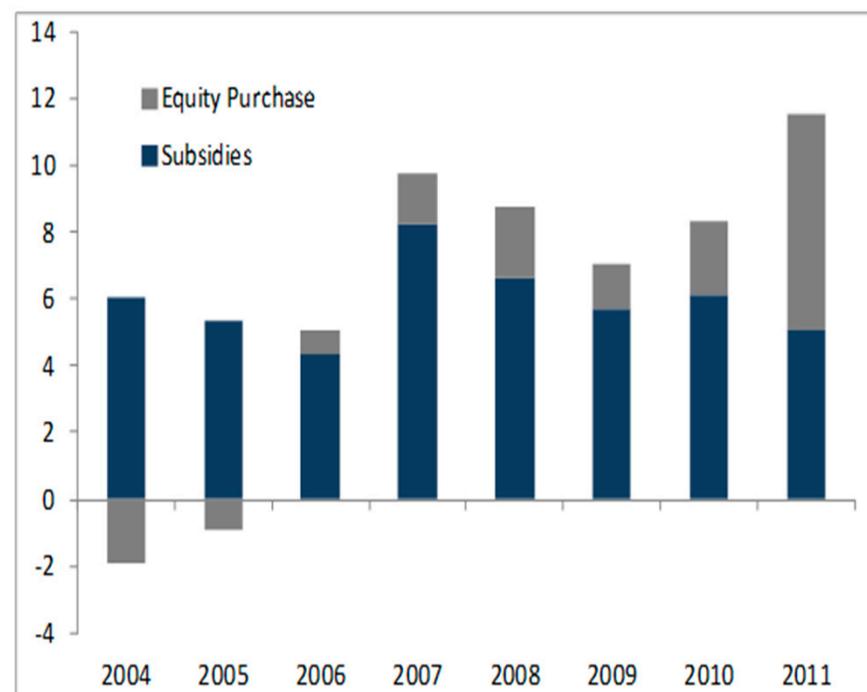
# Fiscal Risk Management

**Contingent liabilities can be very large And public corps pose significant risks**

**Portugal: Quantified Contingent Liabilities**  
(Percent of GDP)

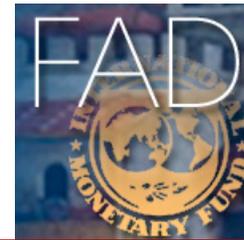


**Russia: Equity Purchases and Subsidies**  
(Percent of GG Expenditure)



# **New Fiscal Transparency Code: Resource Revenue Management:**

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## **2007**

- **Separate IMF “Guide on Resource Revenue Transparency”**
- **Companion to 2007 version of the Code**
- **Adapted Code’s principles for resource-rich countries**
- **Basis for Natural Resource Module of Fiscal ROSC**

## **2014**

- **Version of Code dedicated to Natural Resource Management**
- **Principles evaluated according to Basic, Good & Advanced Practices**
- **New Guide on Resource Revenue Transparency and Accountability to accompany Code**
- **Natural Resource Revenue Statistics Reporting Template**



# Natural Resource Management: Approach & Principles

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The new code will aims to respond to developments since 2007:

## 1. Changing commercial structure of extractive industries

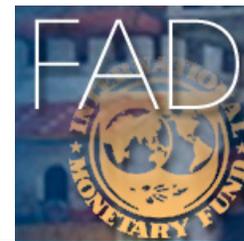
- Increased recognition of commodity pricing challenges
- New commodity sources (LNG, shale oil/gas, oil sands, rare earths)
- Increasing role of trading companies, oil service companies

## 2. Changing International Fiscal Architecture

- New work on Base Erosion and Profit Shifting (tax treaties, transfer pricing)
- Increasing importance of transparency of Beneficial Ownership (e.g. for taxing indirect transfers)

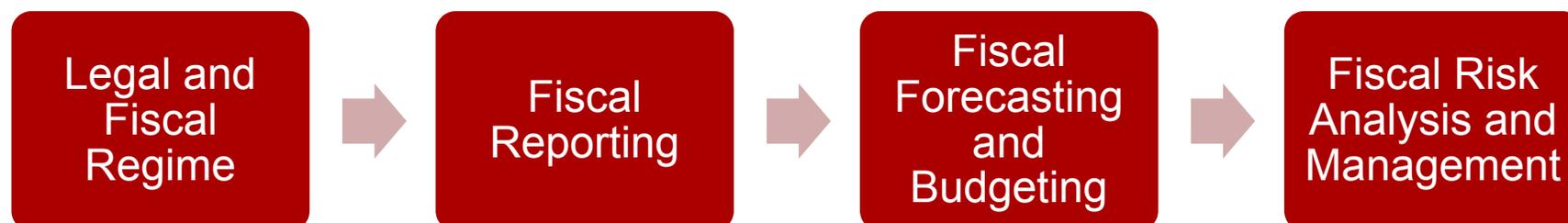
## 3. New International Standards

- Revenue transparency as a new norm (EITI), focus now on contract transparency
- New standards for reporting on environmental, social and governance matters
- New initiatives on EI governance
- Introduction on 'home country' reporting requirements



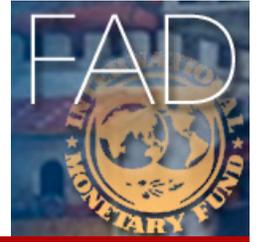
# Resource Revenue Management Process

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# Transparency Principles: Legal and Fiscal Regime

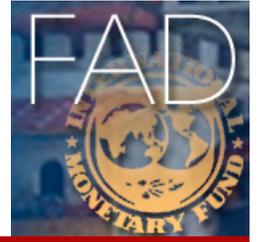
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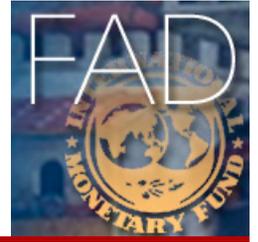
- Legal framework for Resource Rights
- Allocation of Resource Rights
- Disclosure of Natural Resource Rights Holdings
- Fiscal regime for Natural Resources
- Assessment and Collection of Resource Revenues

# Transparency Principles: Fiscal Reporting

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- Reporting on Stocks: Subsoil Assets
- Reporting on Flows:
  - Commodity Production
  - Resource Revenues (Project Level Reporting)
  - Commodity Pricing
  - Reporting by Resource Companies
  - Integrity of Resource Revenue Data (EITI Reconciliation)
- Reporting on Tax Expenditures in the Resource Sectors

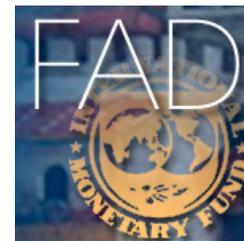


# Transparency Principles:

## Fiscal Forecasting and Budgeting

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- Forecasting of Resource Revenue:
  - Reporting on Forecasting Assumptions
  - Forecast Reconciliation
- Resource Revenue Management Objectives
- Allocation of Resource Revenues
  - Disclosure in budget documentation
  - Borrowing against future resource revenue streams
  - Subnational governments
- Natural Resource Funds



# Transparency Principles:

## Fiscal Risk Analysis and Management

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- Macroeconomic Risk
- Social and Environmental Risk
- Long-Term Sustainability Analysis
- Public Corporations
- Government Equity Participation



# Fiscal Transparency Evaluation: Targeted Recommendations

## Russia: Summary Assessment of Fiscal Reporting

PRINCIPLE		ASSESSMENT	IMPORTANCE	REC
1.1	Coverage of Institutions	<b>Good:</b> Fiscal reports consolidate all general government units	<b>High:</b> Public corporations with expenditure of 28% of GDP in 2012 outside consolidated fiscal reports	1
1.2	Coverage of Stocks	<b>Good:</b> Fiscal reports cover all conventional financial and non-financial assets and liabilities	<b>High:</b> Subsoil assets of 200% of GDP and pensions liabilities of 285% of GDP not included in balance sheets.	2,3
1.3	Coverage of Flows	<b>Good:</b> Fiscal reports cover cash and accrued revenues and expenditures	<b>Medium:</b> Non-recognized non-recoverable claims of 0.4% of GDP reduce reliability of the fiscal balances	3
1.4	Tax Expenditures	<b>Basic:</b> There is annual disclosure of revenue loss due to some tax reliefs subsidies	<b>Medium:</b> Estimated 1-2% of GDP in annual revenue foregone due to tax expenditures.	4
2.1	Frequency of In-year Fiscal Reports	<b>Advanced:</b> Cash-based budget execution reports are published on a monthly basis	<b>Low:</b> Monthly fiscal reports are published within 30 days	
2.2	Timeliness of Annual Financial Statements	<b>Advanced:</b> Annual financial statements are published in a timely manner	<b>Low:</b> Annual reports are published within 5 months of the end of the financial year	
3.1	Classification	<b>Good:</b> Fiscal reports include an administrative, economic and functional, classifications comparable with international standards	<b>Medium:</b> Inconsistent classifications of some transactions lead to different levels of the fiscal balances	
3.2	...	...	...	

# Fiscal Transparency Evaluation: Sequenced Action Plan



## Ireland: Fiscal Transparency Action Plan

Action	2013	2014	2015	2016	2017
<b>1. Expand Institutional Coverage of Budgets, Statistics, and Accounts</b>					
<b>a. Present all gross revenues and expenditures of central government entities in budget documentation</b>		Incorporate NPRF into budget documentation	Incorporate Non-Commercial Semi-State Bodies into budget documentation	Incorporate all central government entities in budget documentation	Integrate non-commercial semi-state bodies into departmental votes
<b>b. Combine Finance and Appropriation Accounts into a consolidated Central Government Financial Statement</b>	Combine the information in the notes to the Appropriation Accounts to produce a summary report	Combine Finance and Appropriation Accounts into a partial Central Government Financial Statement based on existing accounting policies	Incorporate SIF and NPRF into partial Central Government Financial Statement	Incorporate Non-Commercial Semi-State Bodies into consolidated provisional Central Government Financial Statement	Prepare comprehensive consolidated Central Government Financial Statement for audit by C&AG
<b>c. Provide an overview of the gross revenues and expenditures of the general government and its subsectors</b>	Reconcile gross revenues and expenditures of Exchequer and general government in budget	Provide summary of gross revenues and expenditures of central government in budget	Provide summary of gross revenues and expenditures of central, local, and general government in budget	Publish quarterly statistics on gross revenues and expenditures of central, local, and general government sectors	Publish monthly statistics on gross revenues and expenditures of central, local, and general government sectors



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**Thank you**