Modelos de Gestão Receitas do sector da indústria extractiva: como garantir a transparência e inclusão?

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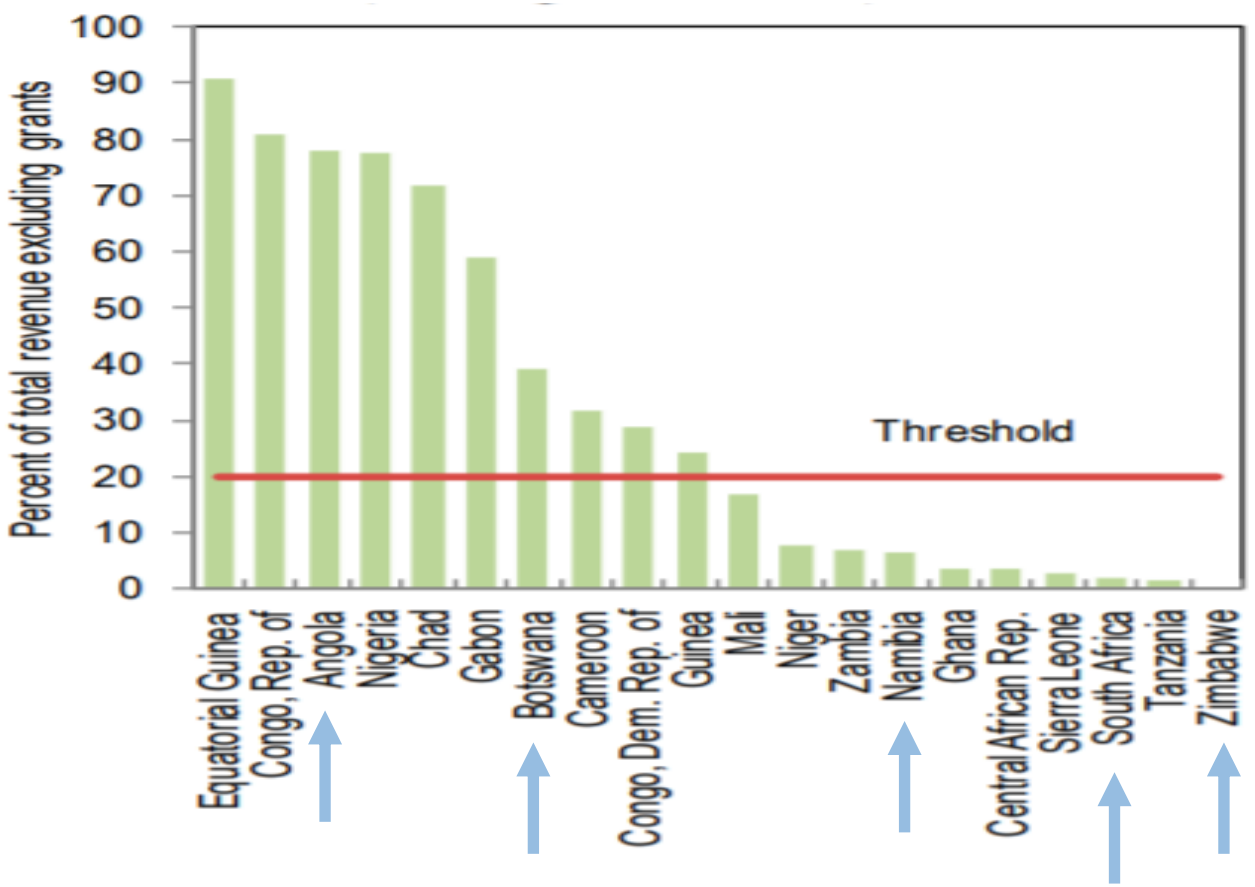
Outline

1. Resource revenues: what makes them special?
2. Problems and challenges created by resource revenues
3. Resource revenue management models
4. Transparency and Inclusion

1. Resource revenues
(% of total revenue)



Notes: Threshold for resource dependence (20%) according IMF definition. Values: average 2005-2010.
Source: Thomas and Trevino (2013)

1. Special properties of resource revenues

- **Finite**: ~20-50 years project lifespan
  - Who should benefit from it? (Yesterday's), today's or tomorrow's generation?
- **Extracted:** not produced
  - Who should benefit from it? Company vs Country
- **Ownership:**
  - Belongs to the people, which is represented by the government
- **Generate rents:**
  - Price – costs = rents
- **Volatile**: commodity price follows random walk
  - Unpredictable -> difficult to plan with

1. Special properties of resource revenues

- **Can harm other industries**:
  - Dutch disease
- **Geographically fixed**:
  - Who should benefit from it? Total vs local population
- **Huge:** relative to rest of the economy
  - Especially in low-income countries
  - Dwarves other government income/tax

Combination of these properties makes resource revenues special and different from traditional taxes

2. Problems and challenges created by resource revenues

- **Resource curse**
  - **Economic perspective**: Dutch disease, lack of absorptive capacity -> too much (wasteful) spending, inflation, exchange rate appreciation, reduction in competiveness, tradable (manufacturing) sector suffers, lower income
  - **Political perspective**: RR creates incentives for rent-seeking, corruption, wasteful public spending -> less productive activities, less tax revenues, interruption of the social contract and, lower income

    Conflict
- **Intergenerational fairness**
  - Natural resource are owned by the population,
    - but which generation? Today, tomorrow (or even yesterday). and even
    - But which population (local, total)?

Difficult to find a balance, many Trade-offs, high uncertainty
=> Resource Revenue Management

3. Resource revenue management

- **Resource revenue management** is the **system** put in place by the government dealing with resource revenues that covers everything from **collecting** to **spending** of resource revenues.

- **Basic objective**: of RR management is to avoid the negative impacts RR can have and use the revenues in the most beneficial way for society.
  - **Specific objectives**:
    - Macroeconomic stabilization,
    - Long-term sustainability
    - Fair allocation and distribution of resources
    - Promote growth and development

3. Resource revenue management

- **Known approaches include:**
  - Norwegian model
  - SWF
  - Stabilization fund
  - Investment fund
  - Export oriented investment
  - Investing in how to invest
  - Citizen dividend
  - …

- **Specifically applied in one context, but unlikely to work in another context**
- **Success depends on institutions, capacity, resource wealth relative to economy**

Toolbox

3. Resource revenue management

Revenue collection

- Objective: Collect as much revenues as possible (extracted, economic rents)
  - Natural resources
  - Contracts and licenses
  - Production
  - Revenue collection

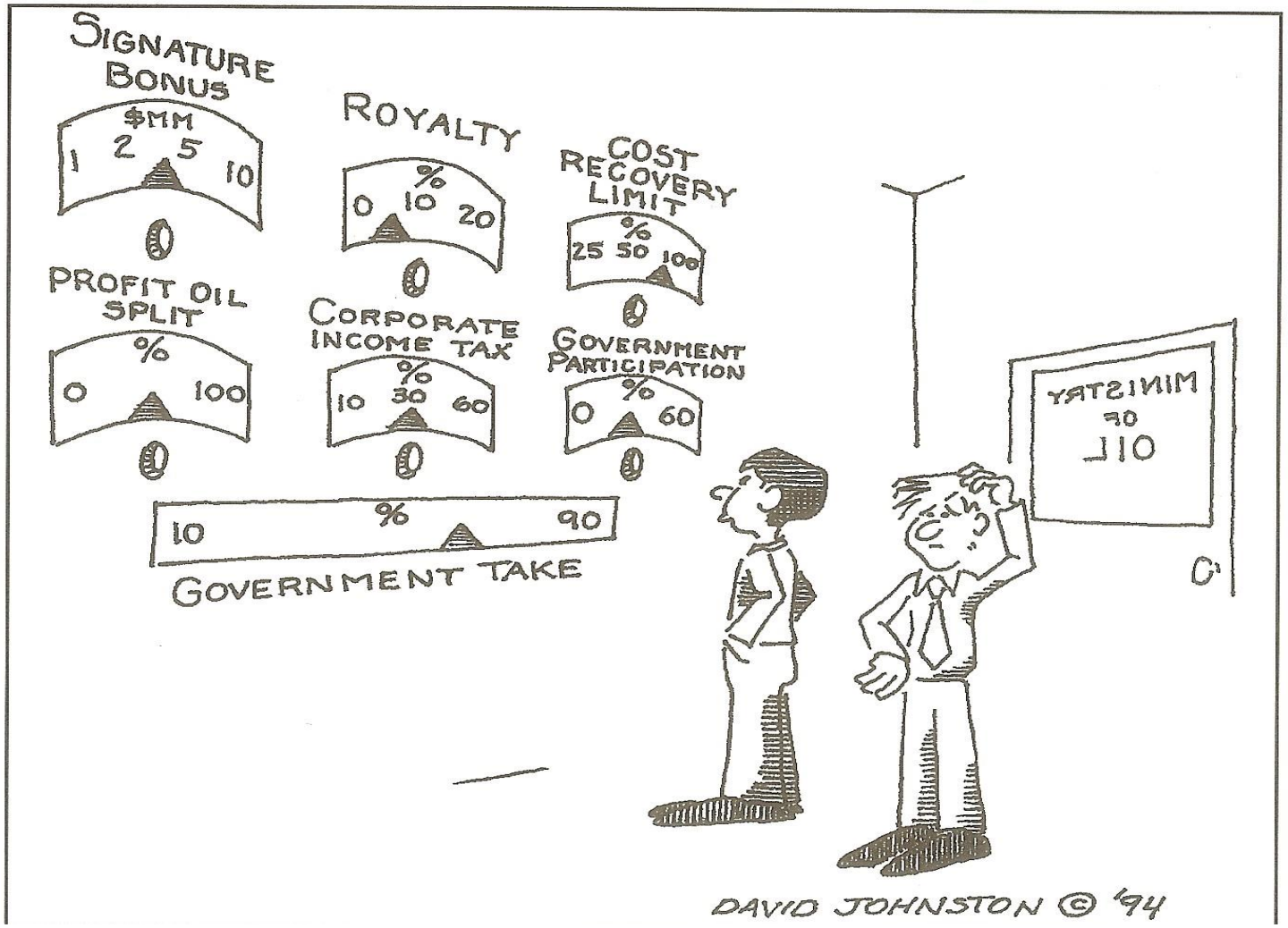
Revenue spending

- Objective: Spend the resource revenues in the most beneficial way for society
  - Revenue allocation
  - Social and economic spending
  - Public benefit

3. Resource revenue management: Collection

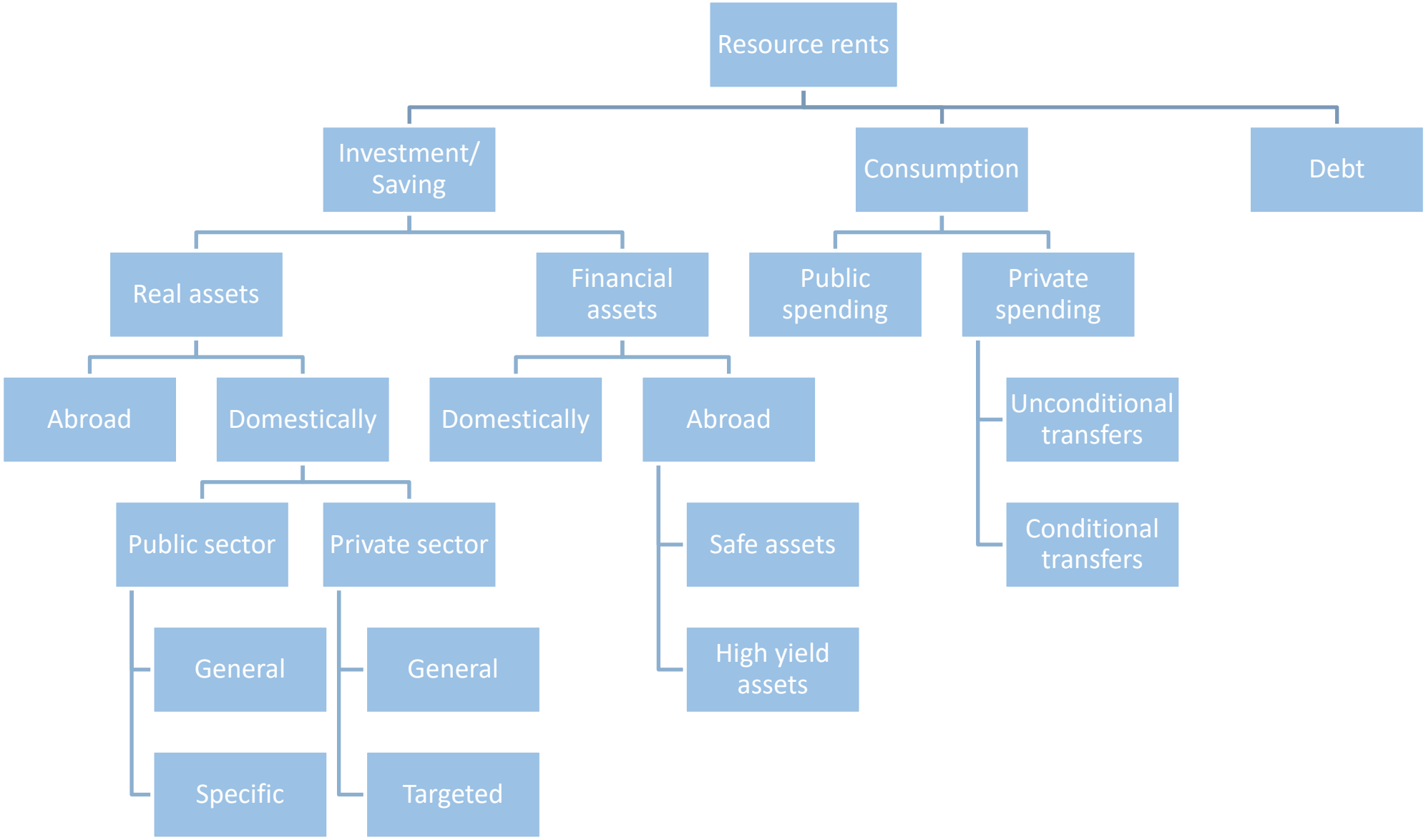
Revenue collection:
Complex due to many Instruments:

- Signature bonus
- Royalty
- Profit/production sharing agreements
- Government participation
- Corporate income tax



3. Resource revenue management: Spending

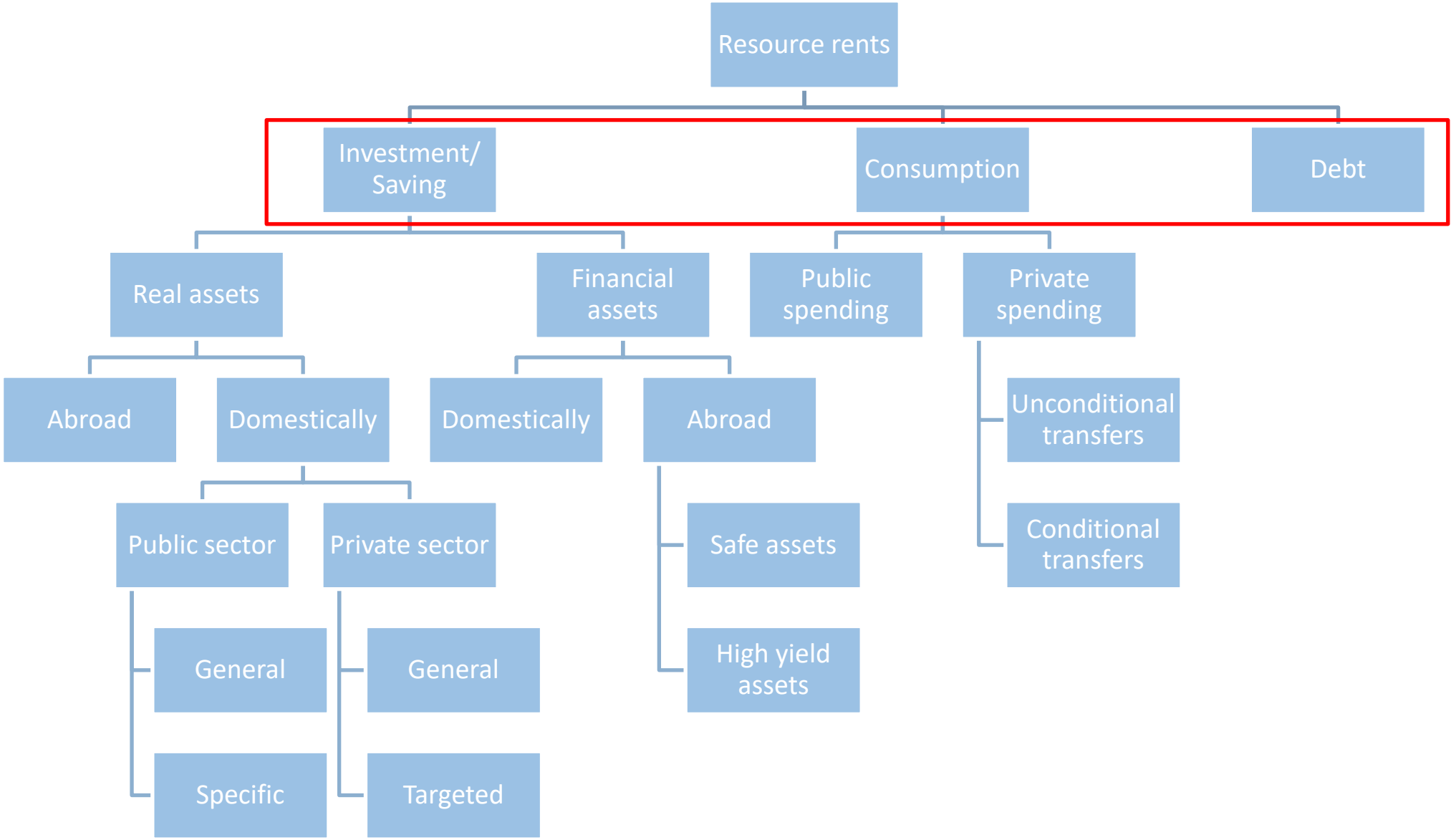
Trade offs



3. Spending: Intergenerational efficiency

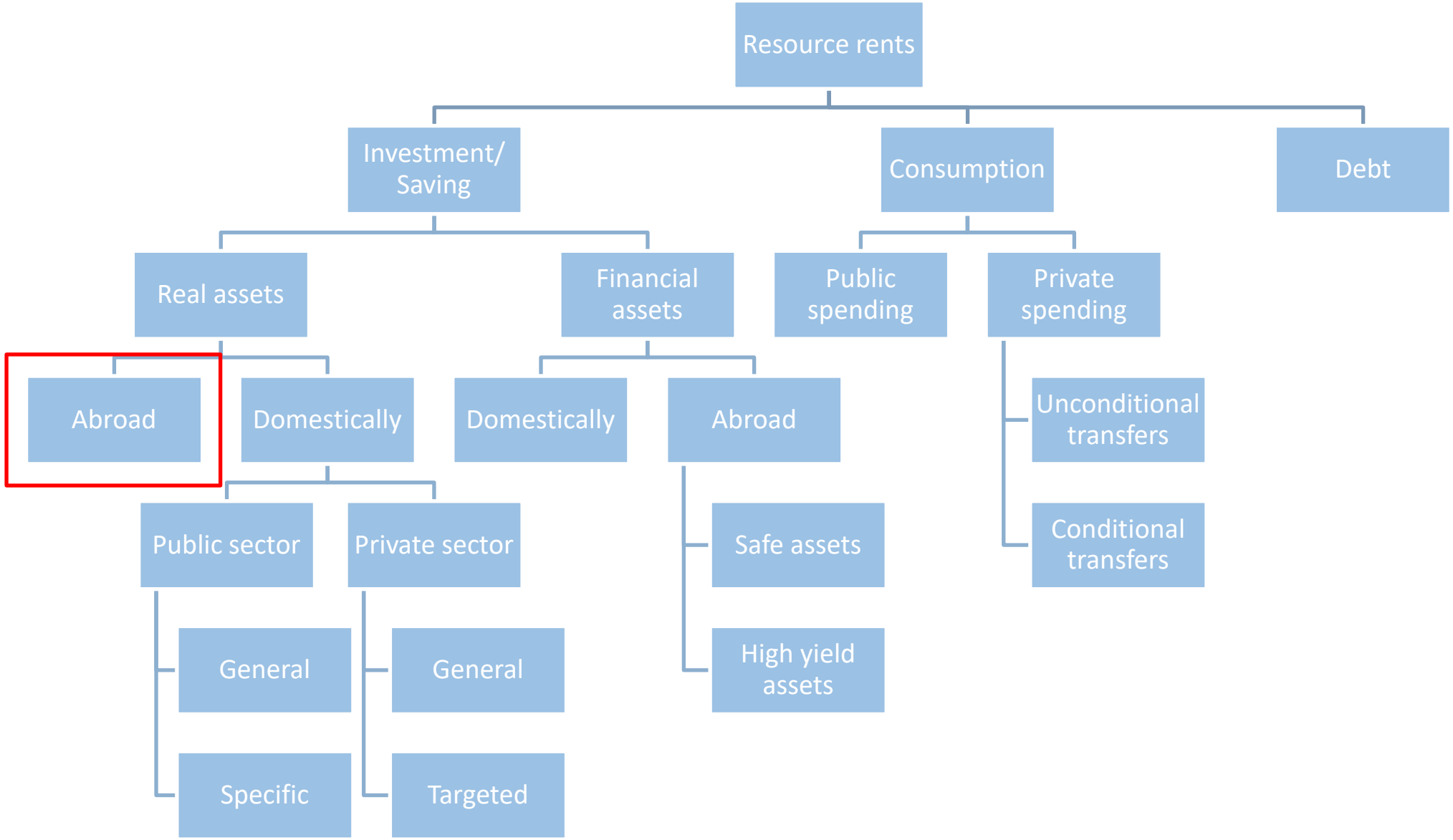
Challenge:
Decision makers tend to prefer consumption which is rarely sustainable.

Challenge:
Debt already acquired before production.



3. Spending: Investment/ Saving

Challenge:
Difficult to measure the returns from these partnerships



3. Spending: Investment/ Saving

Challenges:

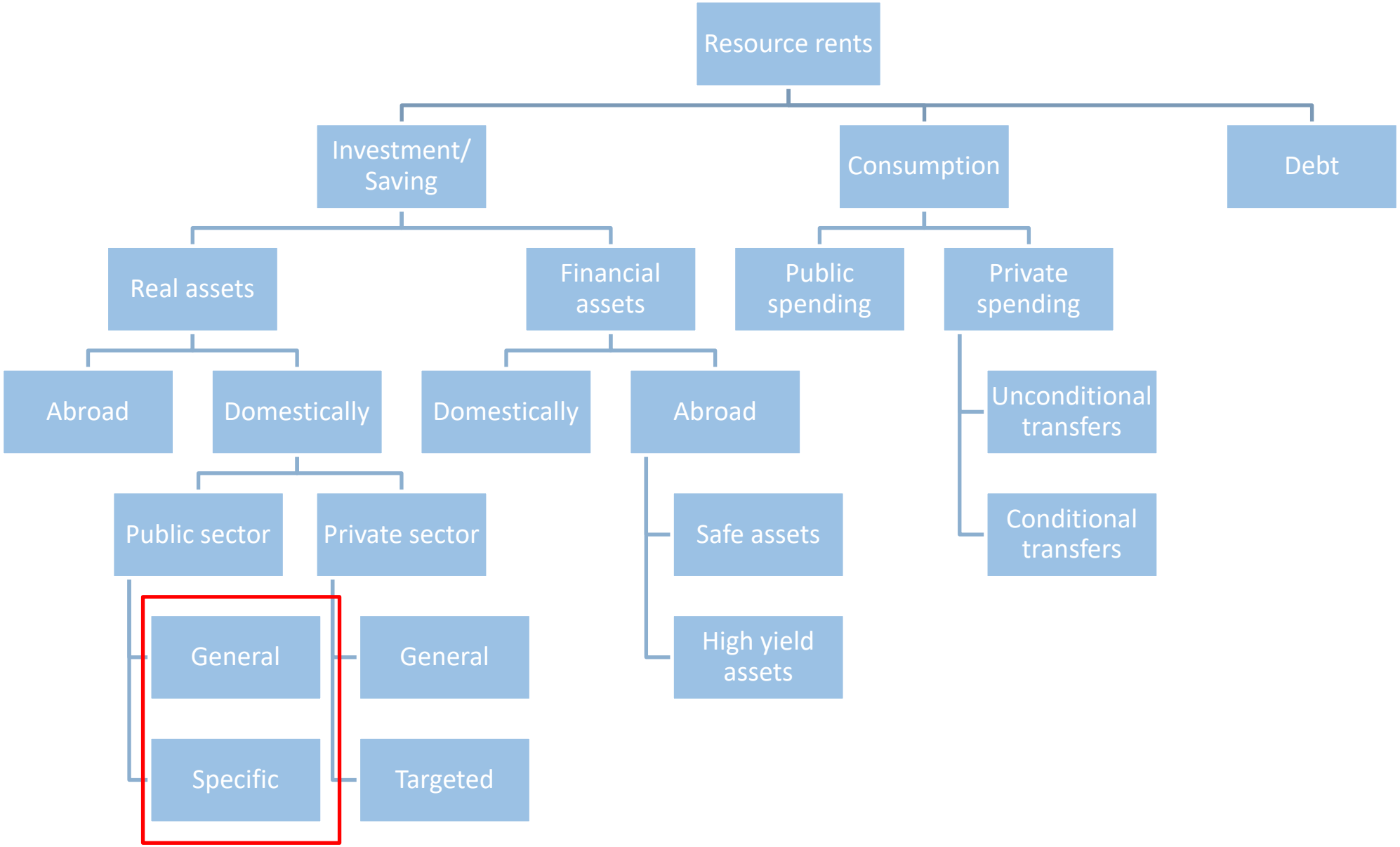
Absorptive capacity.

Dutch Disease.

Waste.

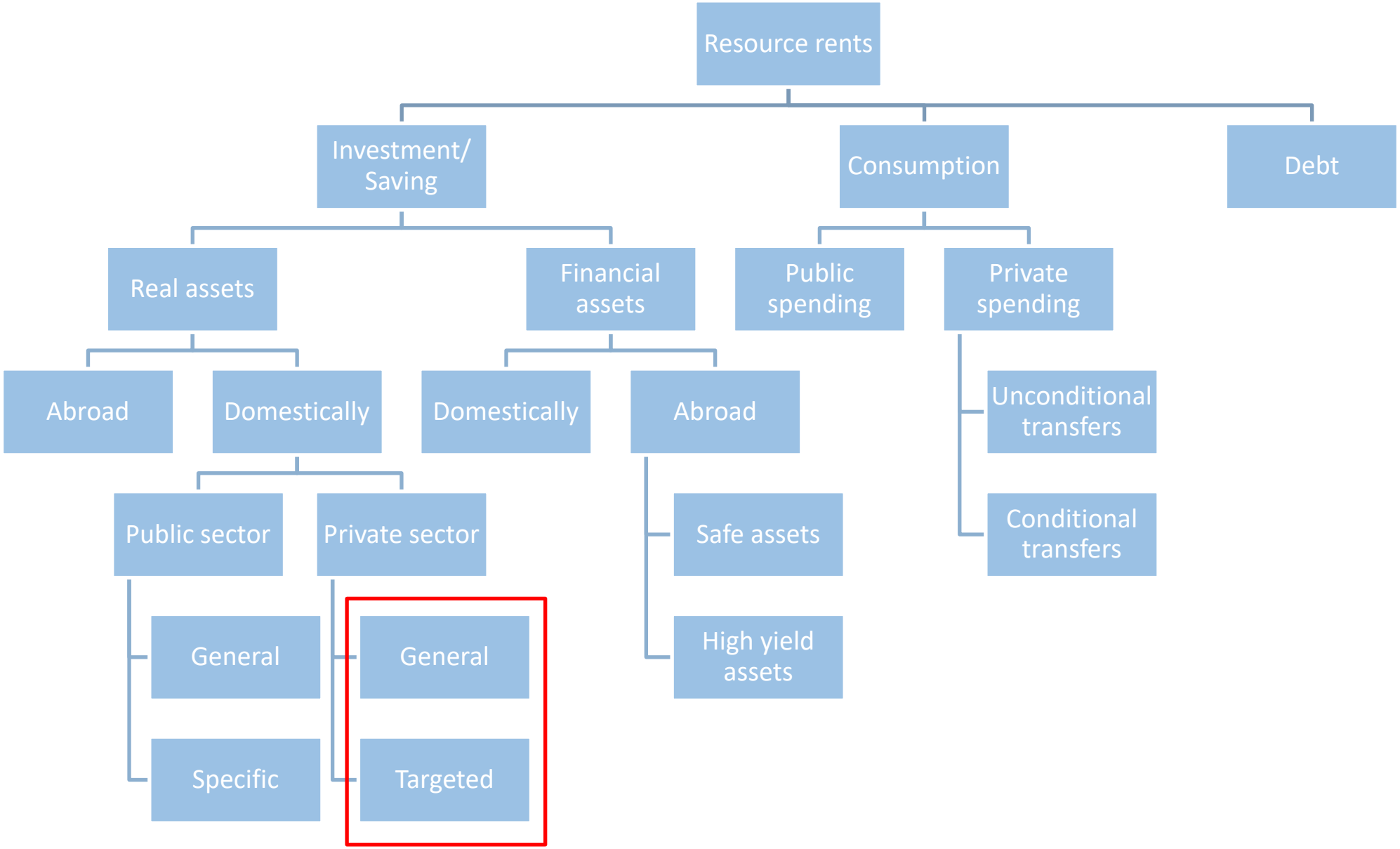
Low (social) returns.

Incentives for rent-seeking, corruption.



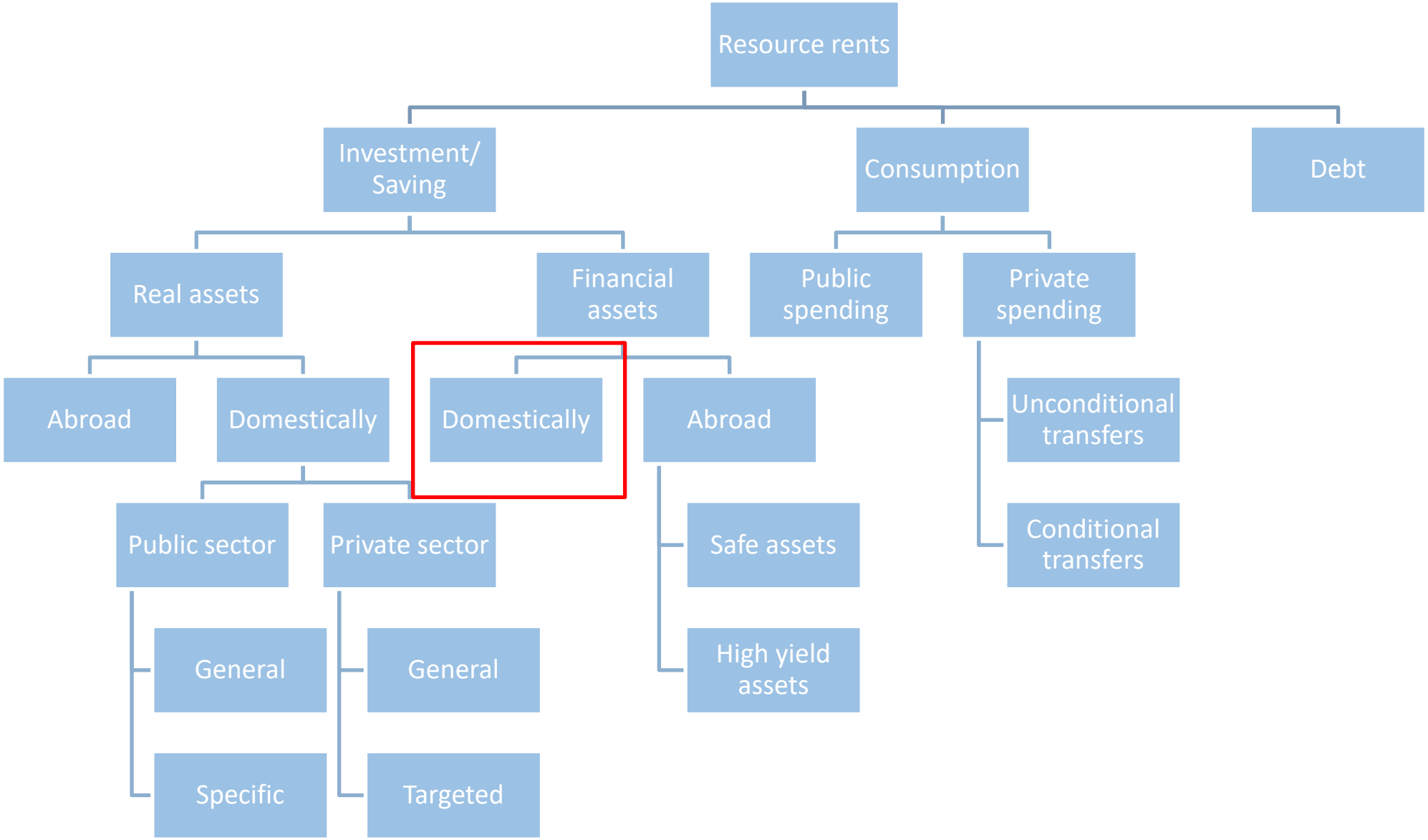
3. Spending: Investment/ Saving

Challenge:
Credit rate is determined by risk.
Too high subsidies can lead to too risky investments with high rate of defaults.



3. Spending: Investment/ Saving

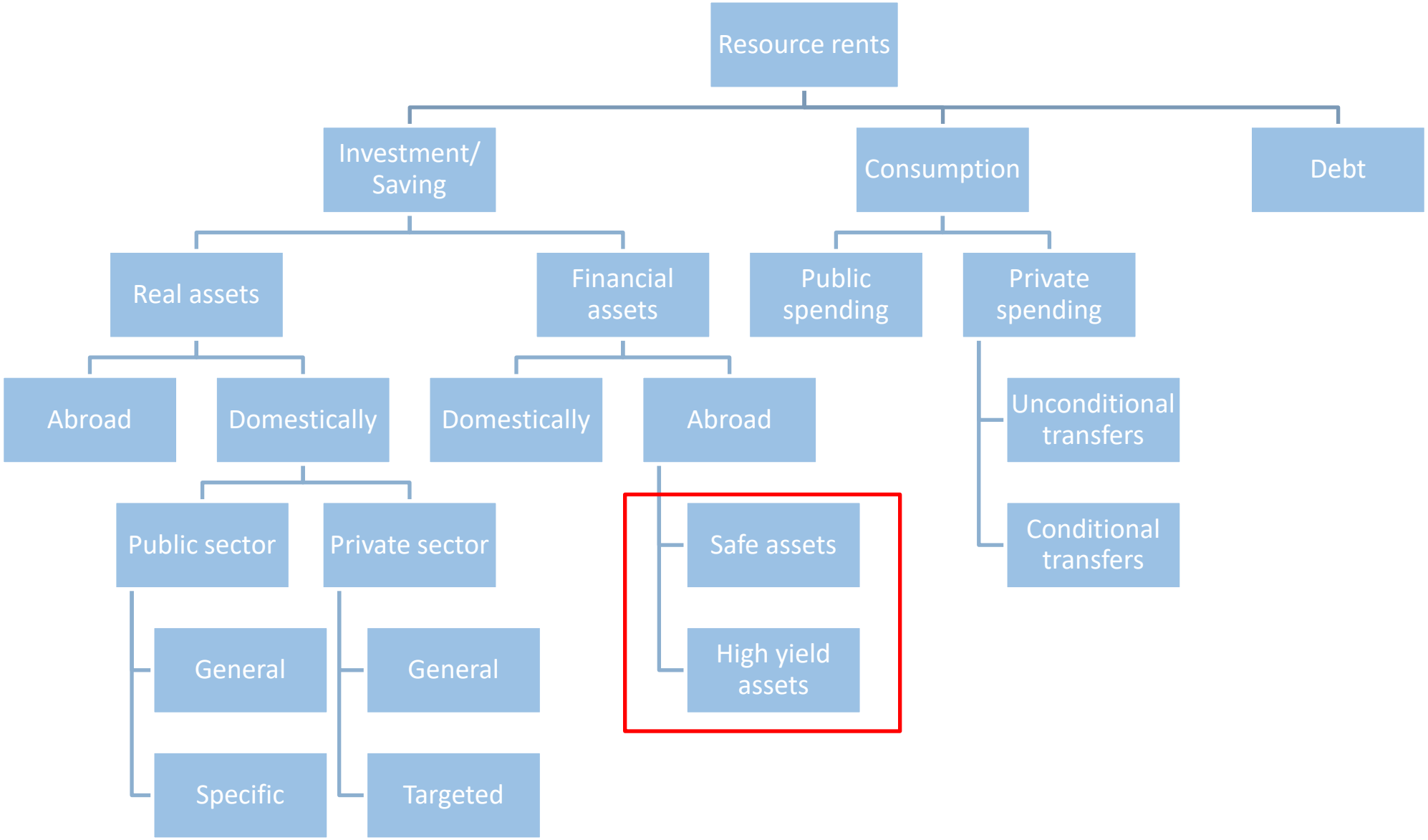
Risks:
Returns depend on domestic economy which is correlated with resource revenues.
No smoothing.



3. Spending: Investment/ Saving

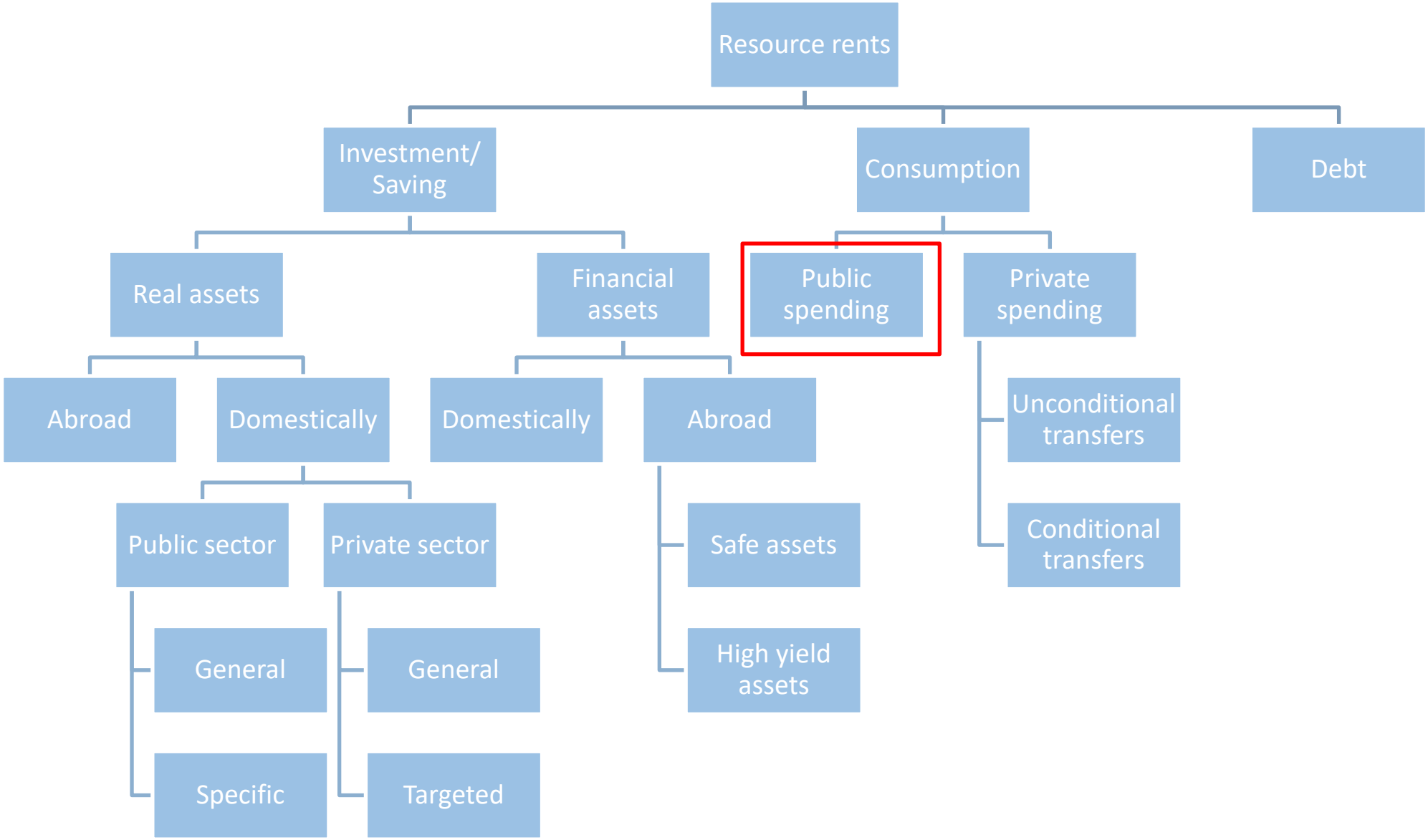
Challenges:
Can have lower return than investing in local economy or repaying debts

Advantage:
Reduces Dutch Disease, gives time to absorb, fair for future generation



3. Spending: Consumption

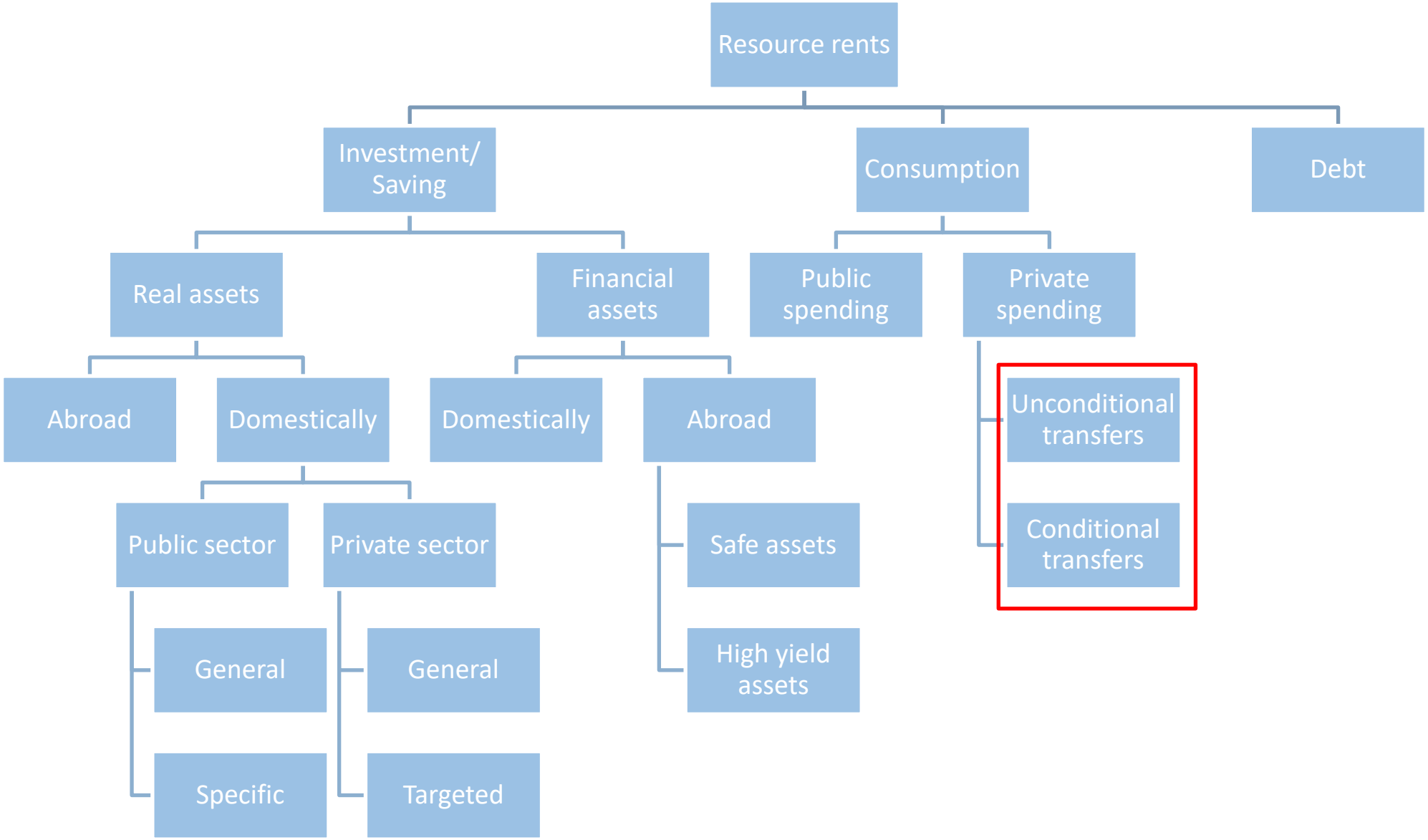
Challenges:
Unsustainable, inefficient public sector, Dutch disease, difficult to cut in bad times



3. Spending: Consumption

Challenges:
Alternative government income needed (tax or Resource Revenues).

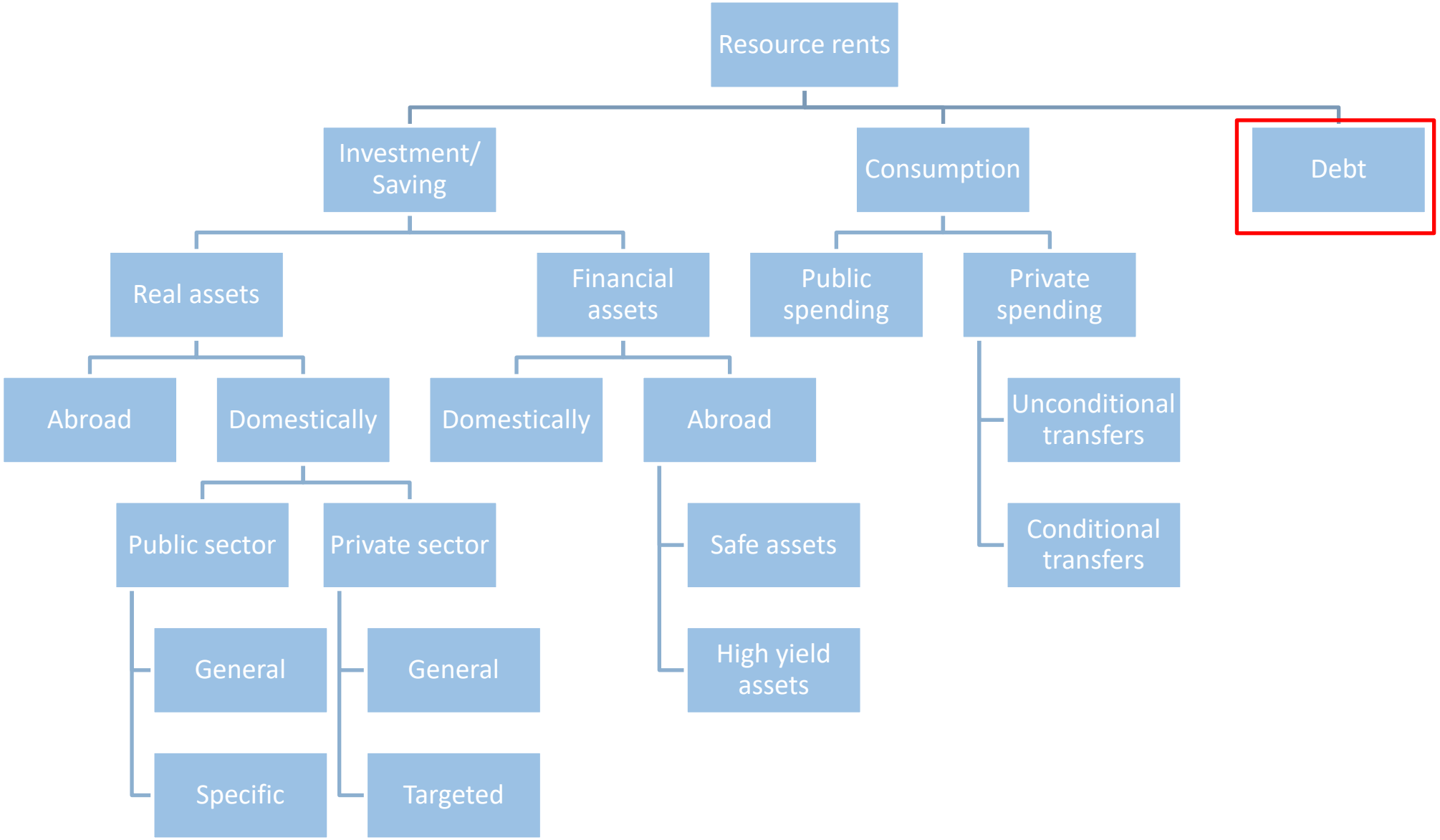
Challenges:
Subsidies difficult to reverse in bad times, leads to borrowing.



3. Spending: Debt

Can make sense if interest rate is high or debt level unsustainable

<u>Challenges:</u>
Intergenerational inefficient, no borrowing constraints leads to risky and unsustainable decisions



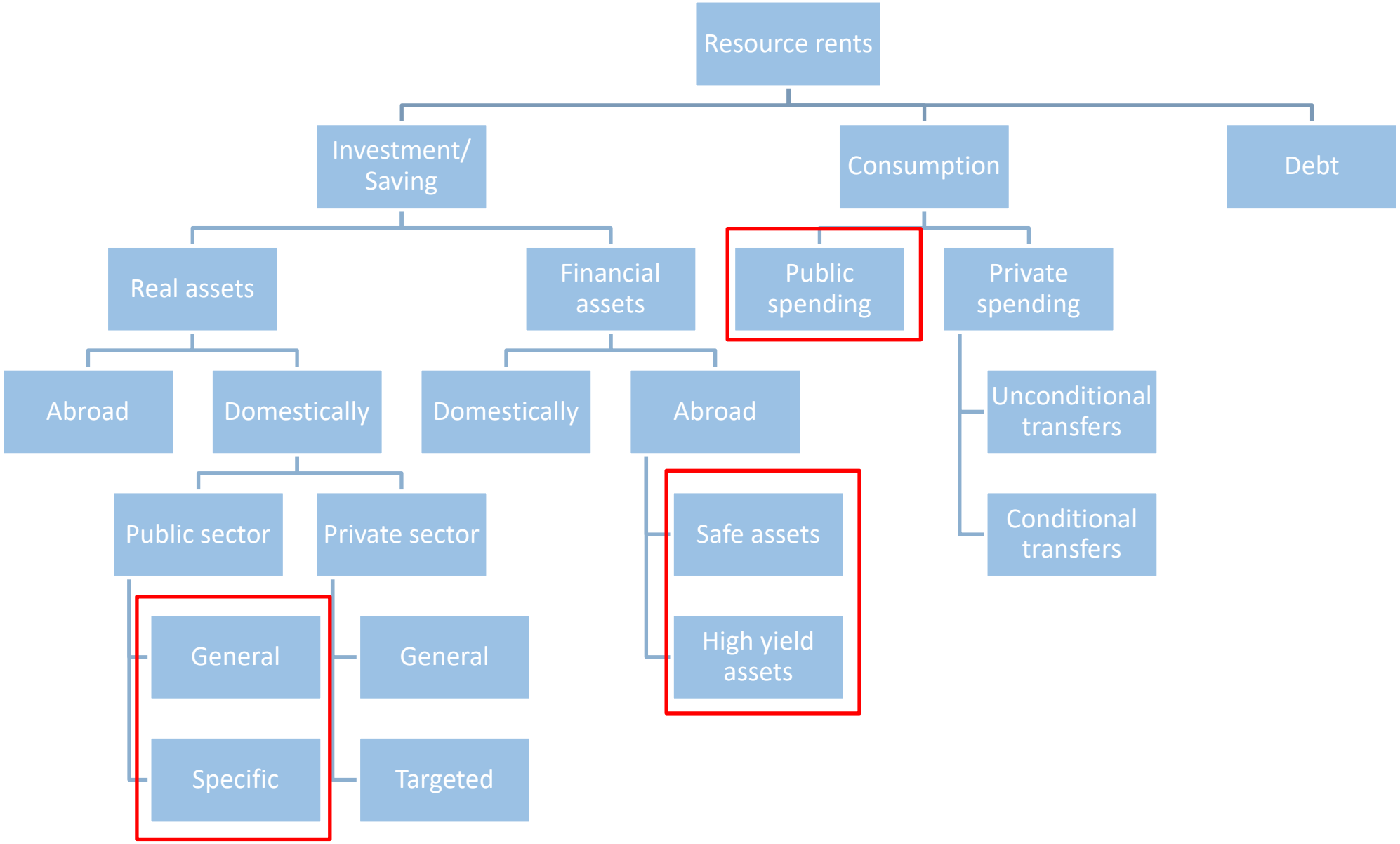
3. Spending: Most countries

Combination:

Investment fund

Saving fund for future generations (Sovereign Wealth Fund)

Stabilization fund



4. Transparency

- How to promote growth and development while avoiding the potential negative impacts of resource revenues?

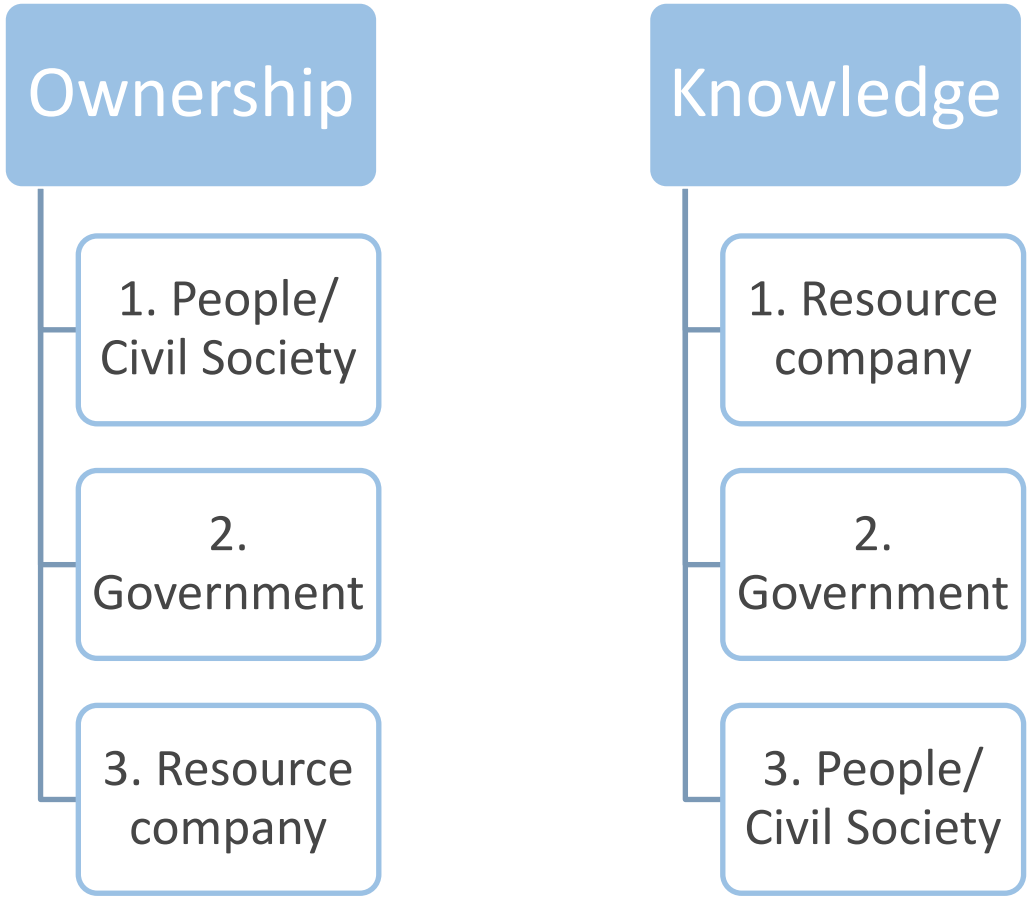
- One solution proposed by many:

Promote transparency

- **Theory of change**: by making information available, the public will be able to hold these companies more **accountable** for their actions, and diminish corruption.

How to promote transparency?

4. Why is there less transparency in the extractive industry?



Structure create incentives to hide information to increase personal benefits on the costs of social benefits.

4. How to increase transparency in the EI?

1. Identify the Actors involved

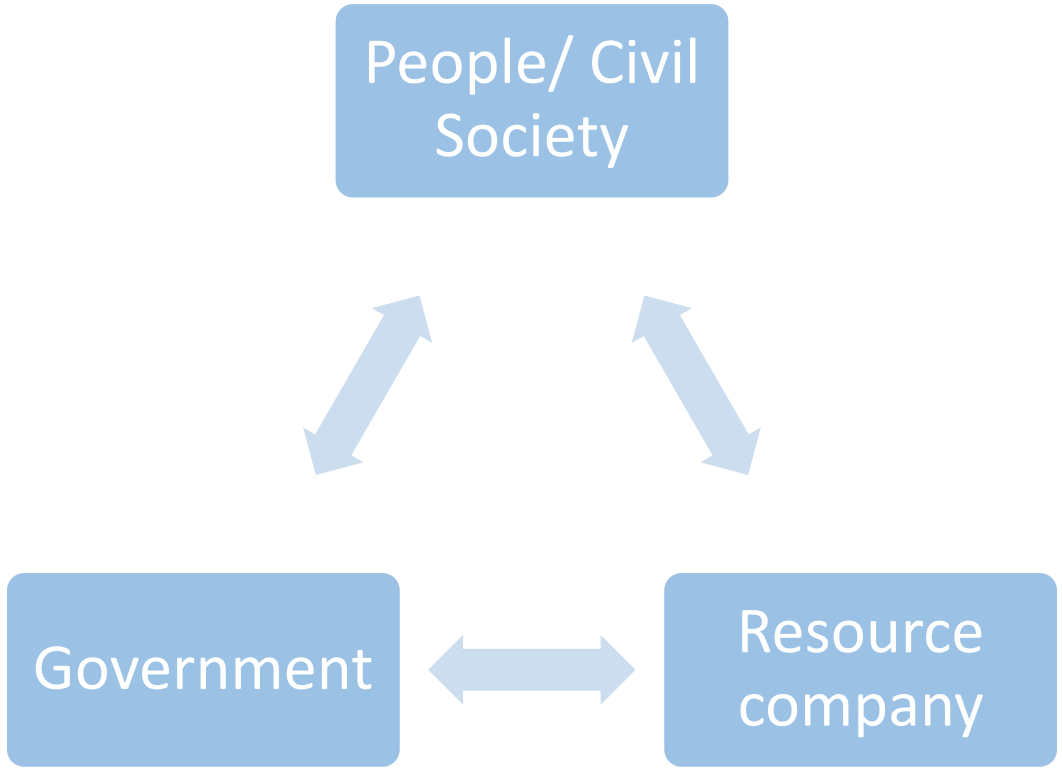
2. Create commitment to be transparent

3. Create and distribute Information

4. Is transparency enough?
   Generate capacity to understand the information

4. How to increase transparency in the EI?

1. Identify the Actors involved



4. How to increase transparency in the EI?

2. Create commitment to be transparent

- No direct (personal) incentive to commit.

– Friendly approach
  - Demonstrate benefits
  - Argue that mandate lines up with RR management objective

– Forcing approach
  - Create oversight mechanism
    – Compare results of forecasting/simulation models with company reports and different government reports
    – Double check with buyers information
    – Point out discrepancies in the media
  - Start owner initiative (follow example of Exxon being forced to invest in clean energy)

4. How to increase transparency in the EI?

3. Create and distribute Information

- Create information
  - Collect information from different sources and combine them to provide a full picture
    - Official reports
    - High tech/ Low tech oversight: satellite data or counting ships

- Distribute information
  - Reachable: Electronic data, machine readable data
  - Target the information
    - Academic reports, policy briefs
    - Documentary shows, radio
    - Internet, radio, TV

4. How to increase transparency in the EI?

4. Is transparency enough?
   Generate capacity to understand the information

- All the information is useless if not understood
  - Know the audience
  - Target the information accordingly
    - Chose the right media outlet
  - Teach the audience

Conclusion

- “One Size fits all” solutions do not work
  - Countries need individual solutions from the toolbox
- Transparency is fundamental.
  - Bu
- Capacity on all levels needed

Thank you

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