

GOVERNANCE FOR DEVELOPMENT

How to manage revenues from extractives? There's a book for that!

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Offshore oil and rig platform. Photo: © curraheeshutter / Shutterstock.

Countries with large nonrenewable resources can benefit significantly from them, but reliance on revenues from these sources poses major challenges for policy makers. If you are a senior ministry of finance official in a resource-rich country, what are the challenges that you would face and how can you strengthen the fiscal management of your country's oil and mineral revenues?  Consider some of the issues that you would likely encounter:

For many resource abundant countries, large and unpredictable fluctuations in fiscal revenues are a fact of life. Resource revenues are highly volatile and subject to uncertainty. Fiscal policies will need to be framed to support macroeconomic stability and sustainable growth, while sensibly managing fiscal risks. Also, there is a question of how to decouple public spending (which should be relatively stable) from the short-run volatility of resource prices.

Another issue is that underground oil and minerals that provide resource revenues are finite, and can become obsolete with technological change. This forces policy makers to consider key inter-generational welfare, sustainability, and asset allocation questions. Policy makers need to decide how much of the resource revenues should be consumed now, and how much needs to be put away for the future.

They need to explore different approaches that can help ensure that resource wealth will be transformed into other forms of productive capital. In order to maximize returns, public savings should be allocated towards different types of assets depending on the circumstances.

Despite the vast risks that loom in the medium term, the fiscal discussion and planning in resource-rich countries often unduly focus on the short term. Fiscal planning and annual budgets need to also incorporate longer-term perspectives for a more sustainable economic outlook.

Faced with these challenges, many resource-rich countries have set up different mechanisms to help improve their fiscal management. Many governments whose main source of revenue is derived from finite natural resources have set up resource funds, and some have implemented fiscal rules for more prudent fiscal planning and management.

Funds are set up to help meet goals such as saving for future generations or covering unanticipated budget deficits. Rules provide a concrete framework to guide fiscal policy. However, policy makers considering these mechanisms are confronted with key questions such as what design features can work well, which ones would best be avoided, and what are the institutional pre-requisites for successful implementation.

The World Bank's handbook *Fiscal Management in Resource-Rich Countries*, the second in a two-volume series, aims to address these issues and many other questions. Whereas the **first volume** provided an **overview of issues central to extractive industries economics and sector policy**, this second volume focuses on fiscal management. It is designed to help policy makers and other interested stakeholders work through critical questions, including many that don't always receive the attention that they need.

The volume first discusses fiscal policy around four related dimensions: policies for short-run stabilization; management of fiscal risks and vulnerabilities; promotion of long-term sustainability; and public financial management, public investment systems, and fiscal transparency. It then examines some

institutional mechanisms that countries have used to help fiscal management. These include medium-term frameworks, fiscal rules, fiscal councils, and resource funds. The volume also discusses revenue earmarking and the resource prices used in government budgets, and outlines important fiscal indicators for resource-rich countries.

In spite of the recent slump in oil and mineral prices, the resource sector still occupies an outsize space in the economies of many resource-rich countries. In many cases, the slump has brought their resource dependence into sharper focus.

For economists, public finance professionals, and policy makers working in resource-rich countries, an in-depth understanding and analysis of the fiscal policy and public financial management issues specific to such contexts is essential. This [practical guide](#) aims to point these professionals in the right direction.

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Policy makers face obstacles managing resource revenues-this practical handbook can help 

Managing revenues from extractives can feel like you're in a maze. Follow this guide 4 better results 

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