

## Precepts 7 and 8: Revenue Management

*The government should invest revenues to achieve optimal and equitable outcomes, for current and future generations.*

*–Precept 7, Natural Resource Charter*

*The government should smooth domestic spending of revenues to account for revenue volatility.*

*–Precept 8, Natural Resource Charter*

If managed well, the revenues from resource extraction can finance growth in the non-resource economy and improve standards of living. If managed poorly, the government can squander revenues and subject the economy to economic shocks, leading to wasteful spending, poorer public and private sector investment choices, over-borrowing, debt crises and ultimately poorer human development.

Government policy must respond to three characteristics of resource revenues. The primary questions listed below address each one.

First, revenues from non-renewable resources are finite. Typically, resource revenues last only a few decades and decline as the resource is depleted or becomes unprofitable to extract. A government therefore has a limited window in which to invest well so that the country becomes more prosperous than it was before extraction. This is a long-term policy challenge lasting a few decades.

Second, resource revenues can be large enough to overwhelm an economy, leading to so-called “Dutch disease.” Dutch disease is a condition whereby a large inflow of foreign currency leads to deindustrialization or a failure to industrialize. This is due to inflation, exchange rate appreciation, and labor and capital shifting from other industries into a growing resource sector. While Dutch disease is a challenge in only a handful of countries, governments must manage the rate of spending so as not to distort other aspects of the economy.

Third, resource revenues are particularly volatile. When governments decide their level of spending based on these volatile revenues, the consequences for economic growth and poverty reduction can be dire. In fact, expenditure volatility is the most significant revenue management challenge in most resource-rich countries.

There are several reasons why revenue volatility is such an important issue. One, when spending increases too quickly, a government may find it difficult to adjust to managing a greater number of and larger spending programs, which can lead to poorly conceived, designed and executed projects. In these situations, governments sometimes spend on conspicuous, relatively unproductive infrastructure projects rather than social programs or well-conceived, productive infrastructure.

Two, when revenues decline unexpectedly, governments often respond by borrowing unsustainably or cutting expenditures, leading to half-finished or unmaintained infrastructure, public sector layoffs or debt crises.

Three, revenue volatility makes development planning much more difficult, as officials in ministries and social programs find it difficult to plan in advance.

Four, since the government procurement is often the main source of large contracts in resource-rich countries, the private sector is particularly vulnerable to government spending volatility, leading to bankruptcies in the wider economy when commodity prices decline. Governments must prepare for fluctuations based on changing prices, costs of extraction and production rates, and then smooth year-to-year public spending when they occur.

Additionally, since government decision-makers often view natural resource revenues as politically “free money” (because they did not have to tax people to collect them), there is an incentive to treat these revenues as extra cash to spend on superfluous projects. The government can mitigate this by subjecting natural resource revenues to high degrees of transparency and oversight.

In confronting these challenges, governments have a set of tools called the fiscal framework, which may include medium-term expenditure or fiscal frameworks (MTEFs or MTFFs) and fiscal rules, which are numerical, permanent constraints on public finances. Governments also often establish special institutions to manage natural resource revenues, including state-owned companies (such as national oil companies and national mining companies), development banks, sovereign wealth funds (SWFs) and other types of extra-budgetary funds. (See Collier et al. 2010 and IMF 2012 for introductions to revenue management in resource-rich countries.)

Many institutions ostensibly established to address the three issues listed above sometimes themselves become sources of mismanagement, patronage or corruption. For instance, approximately half of the sovereign wealth funds in resource-rich countries have become “parallel budgets,” spending on projects inside the country outside normal budgetary procedures and oversight.

The questions in these precepts assess the government’s fiscal framework in response to the three characteristics of resource revenues and their policy horizons: short-, medium- and long-term. They also explore some of the political considerations mentioned above. However, while this structure is useful to analyze revenue management, a government does not have the luxury of neatly establishing policies in a vacuum, but must contend whatever it inherits from previous governments: for instance, the market may be in a downturn and unable to generate revenues that can be saved, or the previous government may have borrowed heavily restricting the present government’s actions.

## PRIMARY QUESTIONS

### 7.1 | Long-term fiscal sustainability

**Is the government’s spending and borrowing fiscally sustainable given that non-renewable natural resources are finite?**

### 7.2 | Absorptive capacity

**Does the government adequately manage the rate of spending in the domestic economy?**

### 7.3 | Expenditure volatility

**Is government spending independent of short-term changes in revenues?**

### 7.1 | Long-term fiscal sustainability

**Is the government’s spending and borrowing fiscally sustainable given that non-renewable natural resources are finite?**

“Fiscal sustainability” refers to the government’s ability to continue servicing its debt without an unrealistically large future correction to the balance of income and expenditure. This definition implies that either the government is maintaining a modest debt-to-gross domestic product ratio or that fiscal revenues are growing faster than gross domestic product (GDP) over the long-term. Thus fiscal sustainability involves limiting borrowing (and consequently limiting the fiscal deficit over the long-term), investing resource revenues well for economic growth, supporting economic diversification and expanding the tax base so that revenues keep flowing into government coffers after resource wealth is depleted.

The essence of the challenge of governments is to overcome short-term temptations and achieve long-term goals. Many governments now enshrine sustainability goals in their fiscal frameworks, including permanent numerical targets—or fiscal rules—to guide year-to-year spending, borrowing and saving decisions. Other governments are working to expand their tax bases, for instance through introduction of personal income taxes. Still others are focusing on investing in public services and infrastructure to generate economic growth. These measures can help governments adhere to their goals in the face of immediate economic and political pressures to spend on conspicuous and potentially unproductive infrastructure projects or raise public sector salaries unsustainably.

Secondary question	Guidance
<p><b>7.1.1 Sustainability metrics</b></p> <p>Do sustainability indicators suggest that the government’s use of resources and its spending policy is sustainable over the long term?</p>	<p>Three useful indicators of fiscal sustainability are: 1) The IMF’s Debt Sustainability Analysis (DSA); 2) credit default swap spreads; and 3) the adjusted net savings (ANS) rate.</p> <p>Data on all three of these indicators may not be available for a country, but most countries are likely to have a publicly available summary of the first indicator on its DSA.</p> <p>The IMF’s <a href="#">Debt Sustainability Analysis</a> has three parts. First, an assessment of the current debt situation of the country, the maturity of the debt held, whether the country has fixed or floating exchange rates, whether the debt is indexed, and who holds the debt. Second, it identifies vulnerabilities in the debt structure and the government’s policies of spending and borrowing that might give rise to problems in the future. And third, an examination of alternative debt policies for the government.</p> <p>Credit default swap (CDS) spreads the price of insuring against a default on a bond. A rise in the CDS spread on government bonds indicates that financial market participants think there is an increasing likelihood that the government will default or delay payments on its bonds. This therefore acts as an indicator of how fiscally sustainable financial market participants think the government is acting. However, CDS spread data are only available for those countries that have publicly traded sovereign bonds.</p> <p>The Adjust Net Savings rate compares the amount of human or physical capital the government and citizens accumulate in the economy, the amount of income earned from economic activity, and the depletion of natural resources (including oil, gas and minerals).</p> <p>If ANS is positive in a given year, a country has saved more than the value of the income it has consumed and the value depleted from natural resources. If negative, a country has consumed or depleted more resource than the income it earned: it has either had to borrow from abroad or it has depleted its stock of natural resources.</p> <p>The ANS rate equals gross domestic savings calculated as:</p> <p>GDP</p> <ul style="list-style-type: none"> <li>• <i>plus</i> education expenditure (as a proxy for human capital accumulation)</li> <li>• <i>less</i> final consumption expenditure (total consumption)</li> <li>• <i>less</i> the value of consumption of fixed capital</li> <li>• <i>less</i> energy depletion, mineral depletion, net forest depletion, and carbon dioxide and particulate emissions damage.</li> </ul> <p>The inclusion of energy and mineral depletion in the ANS formula makes it a useful indicator of the sustainability of government policy with regard to resource management: if the government does not invest revenues from energy and mineral depletion, then gross domestic savings may not be large enough to counter the high value of depletion, and the ANS becomes negative.</p> <p><i>Researchers should consider:</i></p> <ul style="list-style-type: none"> <li>• What has been the country’s ANS over the past ten years?</li> <li>• Has the rate been positive on average?</li> <li>• What accounts for the result?</li> </ul> <p>Researchers can find ANS data for most countries in the World Bank Development Indicators database: <a href="http://data.worldbank.org/indicator/NY.ADJ.SVNG.GN.ZS">http://data.worldbank.org/indicator/NY.ADJ.SVNG.GN.ZS</a></p>

<p><b>7.1.2</b> <b>Fiscal framework and fiscal rules</b></p> <p>Does the government have a fiscal framework that promotes long-term fiscal sustainability and includes numerical targets?</p>	<p>A fiscal framework is a set of legislated rules that governs how the government spends, saves (in cash or foreign assets), borrows and invests. A fiscal framework stands in place of ad hoc decisions made by government each year to encourage consistency in fiscal decision making across political and economic cycles. It can help manage long-term sustainability challenges, medium-term absorptive capacity constraints (see Q7.2) and medium-term expenditure volatility (Q7.3).</p> <p>To achieve long-term fiscal sustainability, most countries must keep long-term deficits under control. Medium-term fiscal frameworks can help achieve this goal by encouraging governments to take a multi-year approach to budgeting. However, one tool governments commonly use to focus attention on fiscal sustainability is a “fiscal rule.” A “fiscal rule” is a permanent constraint on public finances, expressed as a numerical target. This target can be an annual or multi-year target. (See IMF 2009 and Bauer et al. 2014.)</p> <p><i>There are many types of fiscal rule, including:</i></p> <ul style="list-style-type: none"> <li>• Expenditure rule: Limit on total, primary, or current spending, either in absolute terms, growth rates, or in percent of GDP (e.g., real current expenditure growth ceiling of 4 percent. [Peru])</li> <li>• Balanced budget rule: Limit on overall, primary, or current budget balances in headline or structural terms (e.g., structural deficit cannot exceed 2 percent of GDP [Mongolia])</li> <li>• Debt rule: Limit on public debt as a percent of GDP (e.g., total central and local government debt should not exceed 60 percent of GDP [Indonesia])</li> <li>• Revenue rule: Ceiling on overall revenues or revenues from oil, gas or minerals spent; remainder is saved in a sovereign wealth fund or used to pay down debt (e.g., revenue entering the budget from the petroleum fund cannot exceed 3 percent of national petroleum wealth (not revenue) [Timor-Leste])</li> </ul> <p>Strong lobbying for spending will often test the fiscal rule set by the government. Officials must enact robust measures to ensure that future governments resist these temptations, including establishing rules in law and strong penalties for non-compliance.</p> <p><i>Researchers should consider:</i></p> <ul style="list-style-type: none"> <li>• Does the government have a medium- or long-term fiscal framework, and does it contain clear objectives for revenue management? Are these objectives simple enough that oversight actors and citizens can judge whether the government is following them?</li> <li>• Do the objectives in the fiscal framework set the country on a sustainable spending and borrowing path that addresses the deficit/surplus, debt stocks, capital accumulation in the economy, poverty levels and economic growth?</li> <li>• Is the fiscal framework based on realistic projections of future resource and non-resource revenues, including realistic price scenarios and proper modeling?</li> <li>• Is the fiscal framework based on on- and off-budget expenditure forecasts and projections on government liabilities?</li> <li>• Are forecasts subject to regular evaluation and sensitivity analysis?</li> <li>• Has the government enacted a fiscal rule?</li> <li>• If the government uses a fiscal rule:             <ul style="list-style-type: none"> <li>◦ Are fiscal rules set in legislation?</li> <li>◦ Does the fiscal rule balance development needs against absorptive capacity constraints?</li> <li>◦ Does the rule provide flexibility in the event of some extreme negative event (e.g., a natural disaster)?</li> <li>◦ Does legislation or regulation require the government to disclose information needed to calculate whether the government is adhering to the fiscal rules? Is this information actually disclosed?</li> <li>◦ Does the government face penalties for breaking the fiscal rules?</li> </ul> </li> </ul>
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<p><b>7.1.3</b> <b>Compliance with fiscal framework and fiscal rules</b></p> <p>Has the government adhered to its fiscal framework including any fiscal rules set? Are there verification and enforcement measures to promote compliance with any fiscal rules, and has the government complied with these targets?</p>	<p>Setting the right fiscal framework for the country is important, but the challenge comes in actually following these rules. Few governments in the world have consistently kept to the rules they set themselves. Sometimes rules are broken explicitly; in other cases, governments use accounting practices to superficially follow the rules. Making fiscal practices transparent so people know whether the government has adhered to the rules, and empowering oversight actors to monitor government activities are essential for promoting compliance with fiscal frameworks and fiscal rules.</p> <p><i>Researchers should consider:</i></p> <ul style="list-style-type: none"> <li>• Does the legislature or an equivalent appointed body monitor whether the government follows the fiscal rule?</li> <li>• Is adherence subject to an external audit? Does the auditor disclose the results?</li> <li>• Do non-governmental organizations (NGOs), think tanks, media and other civil society groups use government information to monitor whether the government has broken the fiscal rule, and inform the public when this happens?</li> <li>• Has the government adhered to the fiscal rules so far? If not, what were the causes of deviations?</li> <li>• Has the rule proven effective in delivering on the objectives set in the government’s fiscal framework?</li> </ul>
<p><b>7.1.4</b> <b>Debt policy</b></p> <p>Does the government have a well-defined debt management policy, including provisions on the collateralization of government assets, borrowing terms, and transparency requirements?</p>	<p>The Natural Resource Charter states that, to be successful, the government must manage revenues taking into account the amount of the resources depleted, the rest of the economy and the amount the government borrows. Countries have often suffered when government policy only addresses one element, such as resource revenue, without considering the whole system of public finances, including the overall debt of the government.</p> <p>Many resource-rich countries have failed to manage debt levels. Partly this is because a resource boom can create greater access to credit – sometimes before resource revenues have even begun to accrue. If the government has not used the proceeds from borrowing in a sustainable manner to generate taxes to repay debt, countries can find themselves in serious trouble during a commodity price downturn or once natural resources are exhausted.</p> <p><i>A government’s debt policy should follow the following principles:</i></p> <ul style="list-style-type: none"> <li>• It should articulate the use of government savings as part of a debt management strategy, and set out, in law, the times when savings can or should be used to pay down debt.</li> <li>• It should set limits to the government deficit, such as fiscal rules, influenced by the government’s net saving position (i.e., both saving and borrowing). It is important to avoid simultaneously saving resource revenues and borrowing to finance a continuing deficit: the return from saving revenues in a savings fund is unlikely to be higher than the cost of borrowing.</li> <li>• It should manage external borrowing—debt denominated in foreign currency. While a government can, in principle, repay domestic denominated debt by printing domestic currency, repaying foreign denominated debt requires earning foreign exchange from exports. A resource-rich country’s main source of foreign exchange is the export of resources; but in a commodity price downturn, the country will have less access to foreign exchange.</li> <li>• It should manage the use of resource revenues as collateral (e.g., oil-backed loans). In most cases loans backed by future resource revenues should be avoided given the inherent uncertainty of the value of revenues in the future.</li> <li>• It should address both central government debt, subnational government debt and off-budget debt borrowing by related-party entities such as state-owned enterprises.</li> </ul> <p>The IMF’s Debt Sustainability Analyses are a useful resource to assess the countries debt position. See <a href="https://www.imf.org/external/pubs/ft/dsa/">https://www.imf.org/external/pubs/ft/dsa/</a>.</p>

<p><b>7.1.4</b> <b>Debt policy</b> <i>(continued)</i></p>	<p><i>Researchers should consider:</i></p> <ul style="list-style-type: none"> <li>• Does the government borrow in accordance with the principles listed above?</li> <li>• Does the law require the government to disclose the level of national government debt and off-budget debt?</li> <li>• Is available data on government debt disaggregated by maturity/term of loan, foreign or domestic lender, and interest rate?</li> <li>• Does the government monitor private sector debt?</li> </ul>
<p><b>7.1.5</b> <b>Expanding the tax base</b></p> <p>Is the government helping to expand the non-resource tax base?</p>	<p>Most low- and middle-income resource-rich countries have a relatively narrow tax base that relies heavily on the extractive sector or a small number of trade taxes (e.g., customs duties). Expanding the tax base to cover corporate income in all sectors, or increasing value-added tax collection, for example, can help improve long-term fiscal sustainability. Furthermore, governments can eliminate discretionary tax holidays and improve enforcement of tax collection.</p> <p><i>Researchers should consider:</i></p> <ul style="list-style-type: none"> <li>• What are the government’s plans to expand the tax base beyond the extractive sector?</li> <li>• What processes are in place to streamline government decisions around tax exemptions?</li> <li>• Does the government sufficiently fund the internal revenue authority and improvements of tax audit capacity?</li> <li>• Does the government have adequate computerized information systems to manage tax collection?</li> <li>• If corruption is a problem in the tax collection system, what is the government doing to address it?</li> </ul>

## 7.2 | Absorptive capacity

### Does the government adequately manage the rate of spending in the domestic economy?

Economies in some resource-rich countries have limited absorptive capacity. This means that they cannot supply the goods and services the government demands with its resource revenues. Low absorptive capacity can be due to lack of skilled workers (e.g., managers, engineers, construction workers, doctors or teachers), weaknesses in managerial systems, or lack of complementary infrastructure. For instance, the government may wish to double the education budget; however, the money will be wasted if there are not enough teachers, schools and administrators to transform the money into more education for students. Instead, the extra spending might be absorbed by construction companies and existing salaried employees in the form of higher costs and wages. Or the government may simply spend it frivolously.

Thus, spending above absorptive capacity constraints often leads to inflation as businesses and workers in the economy raise their prices to meet demand; or it may lead to an appreciation in the exchange rate as the government purchases foreign goods and services. This effect is intensified if a resource boom also leads to greater private sector demand.

Inflation and exchange rate appreciation (together termed a real effective exchange rate appreciation) can harm growth in non-resource sectors and so detract from one of the most important goals of resource revenue management: to grow the non-resource economy. This is because inflation and an exchange rate appreciation reduce the real value of goods and services the government can buy with a given amount of revenue, and so reduce the potential value of investment the government can make to support economic growth.

To combat this problem, governments can—in the short term—manage any rise in demand from the public or private sectors by saving a portion of currency inflows in bank accounts and investing the money outside the country. In the long term, the government can increase the efficiency of public sector spending, and increase the capacity of the economy to meet a rise in demand.

To find the ideal rate of spending and saving, the government must monitor absorptive capacity and create a fiscal framework to guide decisions on how much to spend, how much to save, and where to park the excess revenues until they can efficiently be spent domestically.

Secondary question	Guidance
<p><b>7.2.1</b> <b>Absorptive capacity metrics</b></p> <p>How effective is the government at transforming money into productive assets or social services?</p>	<p>General price inflation and exchange rate appreciation in the economy are important indicators of whether the government has managed to control spending in line with the absorptive capacity of the economy. Other useful indicators are measures of the quality of infrastructure and productivity of workers.</p> <p>Researchers can find historical data on the real exchange rate in the World Bank Development Indicators.</p> <p><i>Researchers should consider:</i></p> <ul style="list-style-type: none"> <li>• How has the government managed significant inflation or exchange rate appreciation in the past? Has it cut back spending, for instance?</li> <li>• How effective is the government at transforming money into productive investments? (See World Bank’s Governance Indicators, PEFA assessments and the IMF’s PIMI index.)</li> </ul>
<p><b>7.2.2</b> <b>Absorptive capacity monitoring</b></p> <p>Does the government have adequate information to assess whether the growth of total spending (including government spending) exceeds the limits of absorptive capacity?</p>	<p>Changes in the real exchange rate (i.e., the exchange rate combined with domestic inflation) helps indicate whether spending levels are appropriate. If the government efficiently produces well-constructed inflation data, it can promptly discern whether the real exchange rate has appreciated. (See Q7.2.1.)</p> <p>Identification of specific sectors where prices are rising and understanding whether there are bottlenecks to increasing supply can also inform policies on spending rates and bottleneck reform efforts directed towards those sectors.</p> <p><i>Researchers should consider:</i></p> <ul style="list-style-type: none"> <li>• Does the government track the real exchange rate? How frequently?</li> <li>• Does the government track inflation in the major sectors of the economy? How frequently?</li> </ul>
<p><b>7.2.3</b> <b>Managing domestic spending</b></p> <p>Does the government use surplus revenues to repay foreign denominated debt or save in foreign assets to avoid breaching absorptive capacity constraints?</p>	<p>When available government revenues exceed what can be effectively absorbed by the domestic economy, the government must keep revenues offshore. To do this, governments can either pay down foreign debt, buy foreign assets through central bank reserves, or place revenues in a savings fund, such as a sovereign wealth fund, and invest the fund abroad. (See Q7.3.3 on the governance of these funds.)</p> <p>Lending to the domestic private sector does not avoid absorptive capacity constraints. Domestic lending can fuel inflationary spending by the private sector. Similarly, buying debt denominated in domestic currency is problematic. If the country employs a flexible exchange rate, buying domestic denominated debt raises the demand for the currency which can lead to exchange rate appreciation. If the country has a fixed exchange rate, the monetary base expands and there is similar risk for real effective exchange rate appreciation.</p> <p><i>Researchers should consider:</i></p> <ul style="list-style-type: none"> <li>• Does the government have a system to manage surplus revenues?</li> <li>• Are surplus revenues managed offshore through either investments or debt repayment?</li> <li>• Does the government avoid lending to the domestic private sector or buying domestic denominated debt?</li> </ul>
<p><b>7.2.4</b> <b>Monetary policy</b></p> <p>Does the central bank help mitigate the potential negative impacts associated with resource-dependence, including real exchange rate appreciation or exchange rate and revenue volatility?</p>	<p>In resource-rich countries, monetary policy can serve as a tool to respond to the challenges of real exchange rate appreciation. Just as the government can draw excess cash out of the economy, so can the central bank. This is usually done by selling treasury bills (government bonds), though central banks have many tools at their disposal.</p> <p><i>Researchers should consider:</i></p> <ul style="list-style-type: none"> <li>• Does the central bank have a clear statement on monetary policy?</li> <li>• Is the central bank the sole authority responsible for monetary policy? Does the government resist being involved in central government operations?</li> <li>• What tools does the central bank use to help with either macroeconomic stabilization or monetary sterilization (e.g., open market operations, reserve requirements, capital controls)?</li> </ul>

**7.3 | Expenditure volatility**

**Is government spending independent of short-term changes in revenues?**

Governments in resource-rich countries must cope with particularly large fluctuations in revenue. If the government allows its spending to fluctuate alongside changes in revenues, it is likely to prioritize conspicuous and potentially unproductive infrastructure projects and will struggle to deliver on medium-term programs. Commodity booms can lead to increased spending on anything from higher civil service salaries and “white elephant” projects, to educational programs and infrastructural needs. Conversely, when revenues fall, the government can find it politically difficult or economically untenable to quickly defund these initiatives, leading to over-borrowing or harmful spending cuts to social services. Further, volatility in the resource sector can cause volatility in the rest of the economy creating a challenging environment for businesses to operate and plan.

To avoid these problems, governments should decouple spending from short-term fluctuations in revenues. Governments can do this by establishing and enforcing fiscal rules to constrain government spending, and using savings in foreign assets or debt to cushion changes in revenues. However, the government must understand whether a revenue fluctuation is short- or long-term. If the long-term, then decoupling spending from the change in revenue will eventually result in greater indebtedness. In these cases, the challenges of long-term sustainability addressed in Q7.1, are relevant. Unfortunately, correctly analyzing the difference between short-term and long-term fluctuations is difficult: it requires governments having a clear understanding of why revenues have changed. (Revenue forecasting is useful here—see Q7.1.2.)

Secondary question	Guidance
<p><b>7.3.1</b> <b>Volatility metrics</b></p> <p>Has government spending been stable relative to government revenues during the past ten years?</p>	<p>Comparing total government spending with total government revenues indicates how successfully the government has smoothed spending in the face of revenue volatility. Ten years will typically cover at least one major commodity price change, but where information is available researchers should examine a longer time period.</p> <p>Total government spending and revenues are found in the IMF’s Government Financial Statistics database.</p>
<p><b>7.3.2</b> <b>Expenditure smoothing</b></p> <p>Does the government have a fiscal framework to govern short-term expenditure smoothing, with appropriate numerical targets, and does the government comply with the framework?</p>	<p>A fiscal framework is a set of legislated rules that govern how the government spends, saves (in cash or foreign assets), borrows and invests. A fiscal framework stands in place of ad hoc decisions made by government each year to encourage consistency in fiscal decision-making across political and economic cycles. It can meet both long-term sustainability challenges (see Q7.1), medium-term management of absorptive capacity (see Q7.2) and short-term management (e.g., the management of volatility).</p> <p>Over the commodity cycle a government’s fiscal framework can guide reactions to sharp changes in resource revenues. For example, a government could have a goal to maintain expenditures at a certain rate of growth independent of revenue fluctuations.</p> <p>A government may use a fiscal rule to control spending in the short-term. It may pair such a rule with a debt policy to park surplus revenues or pay down public debt in boom times. (See Q7.3.3.)</p> <p>For the very short-term management of volatility, a government may also consider purchasing financial instruments (financial futures or options) to smooth revenues; this reduces the need to smooth expenditures. The government can do this either by buying futures that lock in the commodity price the government will receive, or by purchasing options that set a minimum price for which companies will sell the commodity to the government. Options are effectively insurance against a drop in the commodity price. However, they can be extremely expensive and options markets only exist for a 1-2 year timeframe. Therefore this “hedging” option does not achieve the same goals as a fiscal rule.</p> <p><i>Researchers should consider:</i></p> <ul style="list-style-type: none"> <li>• Does the government have a clearly articulated policy on expenditure smoothing in a fiscal framework?</li> <li>• Has the government created the fiscal tools that would implement that policy (e.g., a fiscal rule, stabilization funds, or debt policy)?</li> </ul>



<p><b>7.3.3</b> <b>Sovereign wealth fund</b></p> <p>If the government has a sovereign wealth fund, is it managed in a transparent, accountable and efficient manner, and does the investment strategy help achieve the fund's objectives?</p>	<p>Sovereign wealth funds (SWFs) are funds with fiscal or macroeconomic objectives—such as the objectives addressed in questions 7.1, 7.2 and 7.3—that hold state assets, at least partially, abroad. These funds can invest in a variety of assets, including equity in companies, government or corporate debt, or other funds.</p> <p>Some resource-rich countries use SWFs to hold resource revenues. In these cases, SWFs are typically used for one of four objectives, sometimes simultaneously:</p> <ol style="list-style-type: none"> <li>1 As a long-term foreign asset saving vehicle, holding assets for the long term to provide an income in perpetuity.</li> <li>2 As a short-term stabilization fund, a store of value to liquidate when government revenues are too low to support necessary expenditure.</li> <li>3 As a parking fund, a way to park surplus revenue offshore to mitigate against absorptive capacity concerns. (See Q7.2.)</li> <li>4 As a domestic investment fund, or an off-budget vehicle to finance investment projects in the country. However, it is not good practice to use funds for domestic spending. Many natural resource funds are explicitly prohibited from investing in domestic assets, for three main reasons:             <ul style="list-style-type: none"> <li>• Investing inside the country would undermine any attempt by the fund to sterilize large inflows of foreign capital.</li> <li>• Spending directly out of the natural resource fund bypasses the normal budget process.</li> <li>• Spending directly out of the natural resource fund could bypass parliamentary, auditor, media or citizen oversight.</li> </ul> </li> </ol> <p>Resource-rich countries do not necessarily need SWFs. Indeed, if the risks of poor governance are high enough, it is preferable to have no fund at all. Instead, savings might be held in central bank reserves. If a country has an SWF, or an intention to establish one, researchers should assess:</p> <ol style="list-style-type: none"> <li>1 Operations             <ol style="list-style-type: none"> <li>a. Is there clarity around fund objectives; deposit, withdrawal and investment rules; and exemptions when these are made? (See RGI 2013, Q4.3.1.57 and Q4.3.1.59.)</li> <li>b. Has the government adhered to these rules?</li> <li>c. Does the government require that withdrawals/spending from the natural resource fund pass through the normal budget process? (See RGI 2013 Q4.3.1.061.)</li> <li>d. Is there a pre-defined set of asset classes that the fund can invest in?</li> <li>e. Does the fund avoid investing in domestic assets (whether government debt, development banks, or direct equity in companies)?</li> </ol> </li> <li>2 Oversight             <ol style="list-style-type: none"> <li>a. Are the identities of the ultimate authority, fund manager and operational manager specified?</li> <li>b. Are their responsibilities well defined in law? (See RGI 2013 Q4.1.1.051)</li> <li>c. Are there ethical and conflict of interest standards for fund managers and staff?</li> </ol> </li> </ol> <p>Are there penalties for misconduct of managers and staff?</p> <p>Do legislators, independent external auditors, or others (e.g., civil society groups) have formal oversight of the fund? (See Q4.2.2.056a-b.)</p>
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<p><b>7.3.3</b>  <b>Sovereign wealth fund</b>  <i>(continued)</i></p>	<p>3. Transparency</p> <p>a. Does the fund make its financial reports publicly available on an easy-to-access webpage on a quarterly or annual basis? (See RGI 2013 Q4.2.1.055.)</p> <p>b. Are there periodic external audits of the fund, and are all audits (internal and external) made public?</p> <p>c. Is the following information made publicly available:</p> <ul style="list-style-type: none"> <li>• size of the fund(s)</li> <li>• deposit and withdrawal amounts</li> <li>• returns on investments</li> <li>• detailed asset allocation (asset class)</li> <li>• detailed asset allocation (specific assets)</li> <li>• commodity prices and other fiscal assumptions used to calculate the deposit and withdrawal amounts allowed under fiscal rules.</li> </ul> <p>See also NRG-CCSI 2014 for policy briefs and case studies on funds.</p>
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## ANNEX 7. PRECEPTS 7 AND 8: REVENUE MANAGEMENT

This transparency table summarizes key disclosures relating to precepts 7 and 8 and should be completed alongside it. It also includes key disclosures relating to revenue sharing addressed in precept 9. (General transparency requirements that support this precept are covered in the transparency table for precept 2.) Unless otherwise stated, disclosures should be made by government in line with the standards of open data outlined in Q2.1.4. Existing country-specific research on some disclosure items may be available in the [Resource Governance Index](#) (RGI) country questionnaires using the indicated question numbers.

For each disclosure, researchers should consider the following questions:

- Is *all* latest information available? If not, what are the exceptions?
- Is *all* historical information available? If not, what are the exceptions?
- Is information provided in sufficient time to enable effective monitoring and scrutiny of activity?
- Is information available in a machine-readable format? Are there any other barriers to access to information? (See Q2.1.4 for background.)

Disclosure item	Guidance
<b>Numerical formulas of fiscal rule</b>	Documents/text detailing any numerical formula used as part of a fiscal rule.
<b>Total general and resource revenue received</b>	Table or set of tables detailing revenues received by the government, with a specific separation for extractive resource revenue.  <b>Related standards:</b> EITI 2016, 5.3
<b>Total government expenditures</b>	Table or set of tables detailing the value of expenditures by the government.  <b>Related standards:</b> EITI 2016, 5.3
<b>Foreign and domestic national debt</b>	Table or set of tables showing the value of government debt disaggregated by denomination: foreign and domestic.

<b>Rules on transfers of revenues to subnational authorities</b>	<p>Documents/text specifying: which subnational authority should receive the revenues, the formula governing how much revenues should be transferred, and the periods in which revenues should be paid. In some cases, countries operate different systems for different commodities and revenues streams (e.g., one for the distribution of royalty revenue and another for the distribution of a special mining tax revenue). Transfers may be directly from central to subnational authority, or may include the use of regional funds or accounts that hold revenues for subsequent distribution.</p> <p><b>Related standards:</b> EITI 2016, 5.2</p> <p><b>Resource Governance Index:</b> 2013: question 5.3.1.070 and 5.3.1.071</p>
<b>Value and date of transfers to subnational authorities, and names of authorities receiving the transfers</b>	<p>Table or set of tables showing value of inter-government transfers, dates of transfers and the names of the authorities receiving the transfers. Separate data should be published by both the central government agency making the transfer and the subnational agencies receiving the transfers.</p> <p><b>Related standards:</b> EITI 2016, 5.2</p> <p><b>Resource Governance Index:</b> 2013: questions 5.2.1.066 to 5.2.1.069</p>
<b>Rules detailing deposits and withdrawals from savings funds</b>	<p>Documents/text detailing terms that govern how deposits and withdrawals can be made from any savings funds operated by the government.</p> <p><b>Resource Governance Index:</b> 2013: See question 5.2.1.057 to 5.2.1.060</p>
<b>Value of assets in savings funds</b>	<p>Table or statement in a document such as the saving fund's annual report detailing the value of assets in each financial year.</p> <p><b>Resource Governance Index:</b> 2013: questions 4.3.1.053 and 4.3.1.054</p>
<b>Value and date of deposits made into savings funds</b>	<p>Table of data or statement in a document such as the saving fund's annual report detailing the value and date of deposits made into the fund in each financial year.</p> <p><b>Resource Governance Index:</b> 2013: questions 4.3.1.053 and 4.3.1.054</p>
<b>Value of withdrawals made from savings funds</b>	<p>Table or statement in a document such as the saving fund's annual report detailing the value and date of withdrawals made into the fund in each financial year.</p> <p><b>Resource Governance Index:</b> 2013: questions 4.3.1.053 and 4.3.1.054</p>
<b>Asset allocation by savings funds</b>	<p>Table or statement in a document detailing assets held by the savings fund: by class of asset (e.g., foreign equity, corporate debt, etc.) and details of specific and significant assets held (e.g., investments in a specific business).</p> <p><b>Resource Governance Index:</b> 2013: questions 4.3.1.053 and 4.3.1.054</p>

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