Making the most of resource wealth

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- Correlates of resource abundance
- Revenue management: principles
- Revenue management: implementation
- Long-run growth

I: Correlates of resource abundance

Cross-country:

- Adverse effect of resource abundance on growth, savings
- Interaction with governance
- Role of volatility

Sub-national:

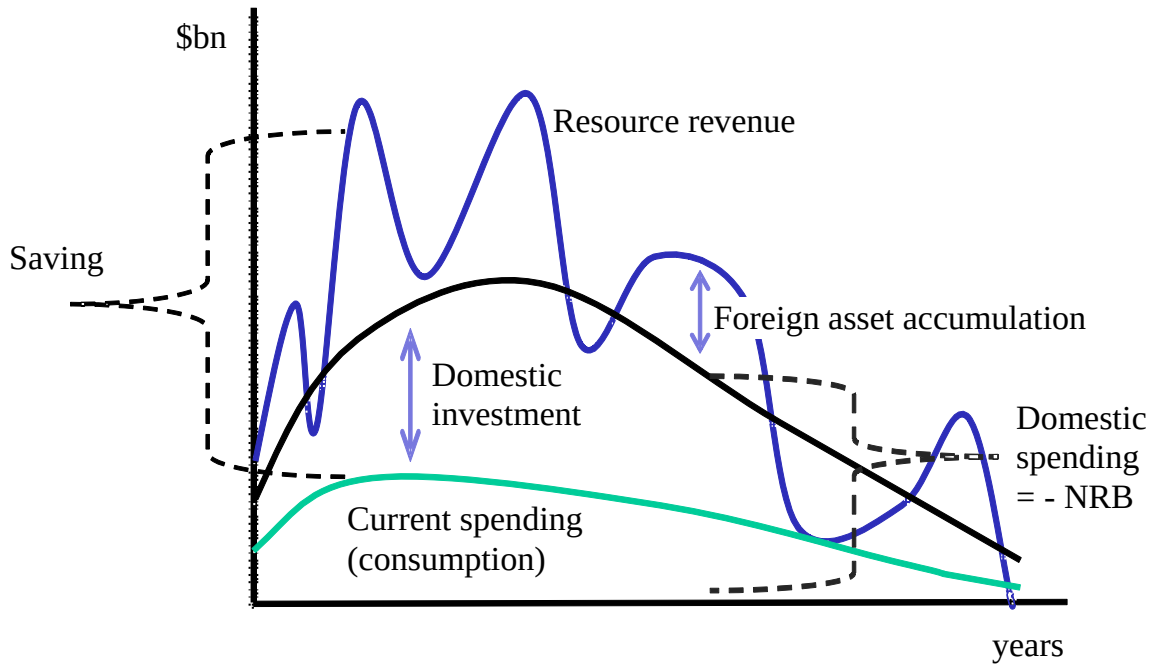
- Revenue: Brazil
- Local impact: Peru, Indonesia, Tanzania

Case studies: country experiences are different

- Fail to capture revenue: Zambia: copper royalty of 0.8%
- Boom and bust: Cameroon: income pc doubled then halved, 1970-85-95
- Save too little: Nigeria: real savings -30% GDP: $400bn theft 1960-99:
- Private sector profligacy: Kazakhstan: Govt. oil receipts 2000-08 $47bn, $37bn placed in savings fund/ Banks borrowed $46bn from abroad.
- Inefficient public spending: Iran
- Success stories: Botswana, Chile, Malaysia, Norway

Many stages – and can fail at any one: 'weakest link' problem

II: Revenue management



- Investment in the domestic economy:
- Share of savings high and rising
- Offshore funds to smooth
  - Short run stabilization
  - 'Parking' to support efficient investment/ spending path
  - Little role for 'Norwegian' style inter-generational fund

III: Implementing revenue management

Controlling spending:

- Fiscal rules
- Role of finance ministry
- Public narrative – managing expectations

Spending effectively

- Government capacity to design/ procure/ implement
  - Public Investment Management Index
- Supply response of the economy
  - Absorptive capacity and short run Dutch disease
  - Understand short run supply response – construction
  - Implications for rate of increase of spending

Spending channels and private/ public interaction

- Citizen dividends/ tax reductions/ subsidies/ conditional transfers
- Private investment
  - Infrastructure to raise returns
  - Government lending (less borrowing) to reduce interest rates

IV: Translating into long-run growth

Private sector investment the ultimate source of growth

- Diversification is hard: each $1 resource *exports* raises imports ~ 20c and reduces non-resource exports ~75c. (5c saved abroad)

- General infrastructure/ skills

  Transport, power, skills, urban

Growing from the resource sector?

- Downstream: further use of the resource
  - Firm commercial basis:
  - Transport cost wedges: gas → power

- Upstream: supply industries
  - Promote capabilities of domestic firms:
    - FDI literature
    - Policy: Developing links with local firms (rather than broad local content requirements)

Concluding comments

- Opportunity for transformative change
- Much improved policy in many resource rich economies
- Weakest link problem → technically difficult
  - Economics:
  - Political economy
  - Hard to manage expectations
- Learn from success stories – but tailor to circumstances.