

Forum on Financial Reform for Economic Development in Asia

*Plenary E: Public Financial Management—
Driving Future Outcomes from Past Experience*

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Outlines

- What is JICA?
- Intro: What are Resources and Resource Rich Countries? What are their concerns?
 1. What is Resource Revenue? How do they manage it?
 2. How are Resource Revenue and Corruption related?
 3. Possible Technical Assistance by development partners.

What is JICA?

Volume of JICA's Assistance (JFY 2014, US\$1=¥115)

US\$ 9.70 billion

* JICA's total disbursements

541 projects

number of Technical Cooperation projects
(ongoing)

US\$ 1.53 billion

Technical Cooperation expenses

9,889 experts dispatched

24,101 training participants

US\$ 0.97 billion

Amount of concluded Grant Agreements

159 projects (56 countries)

number of new Grant Aid implemented

US\$ 7.20 billion

Amount of Loan Aid disbursements

US\$ 8.45 billion (JFY 2015)

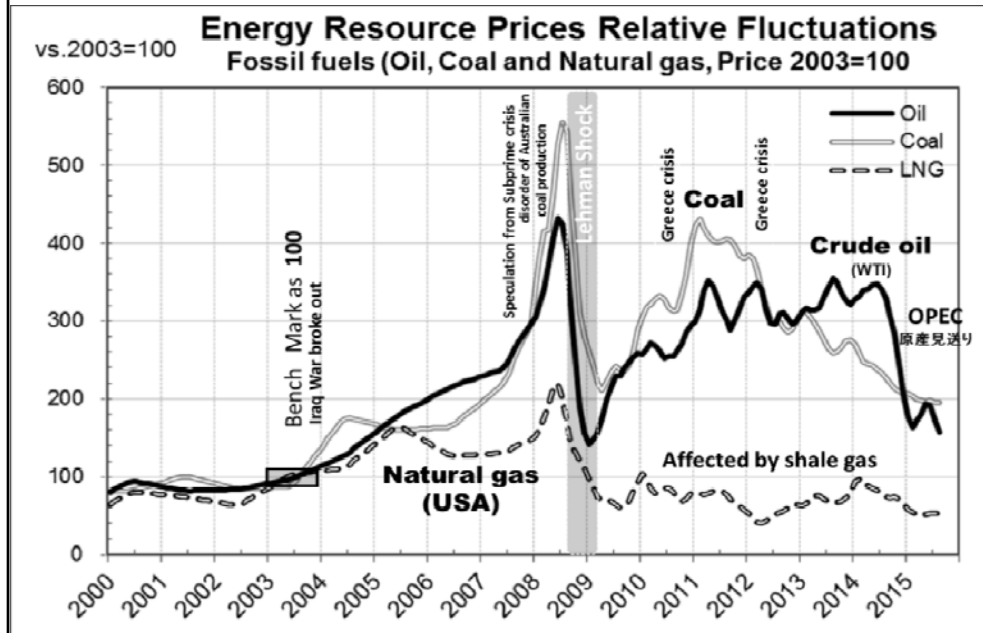
51 projects (23 countries)

number of Loan Aid projects provided

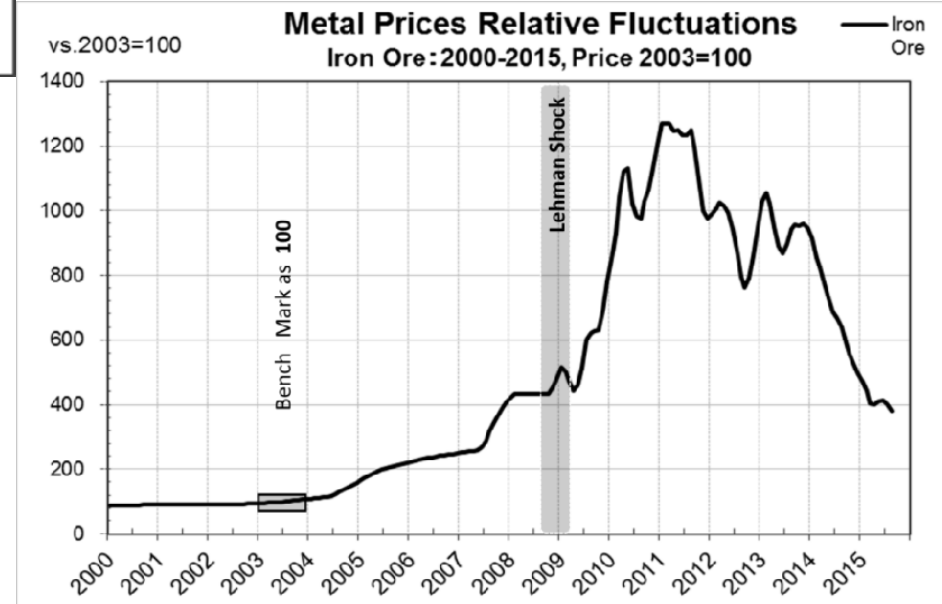
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Trends in Commodity Prices

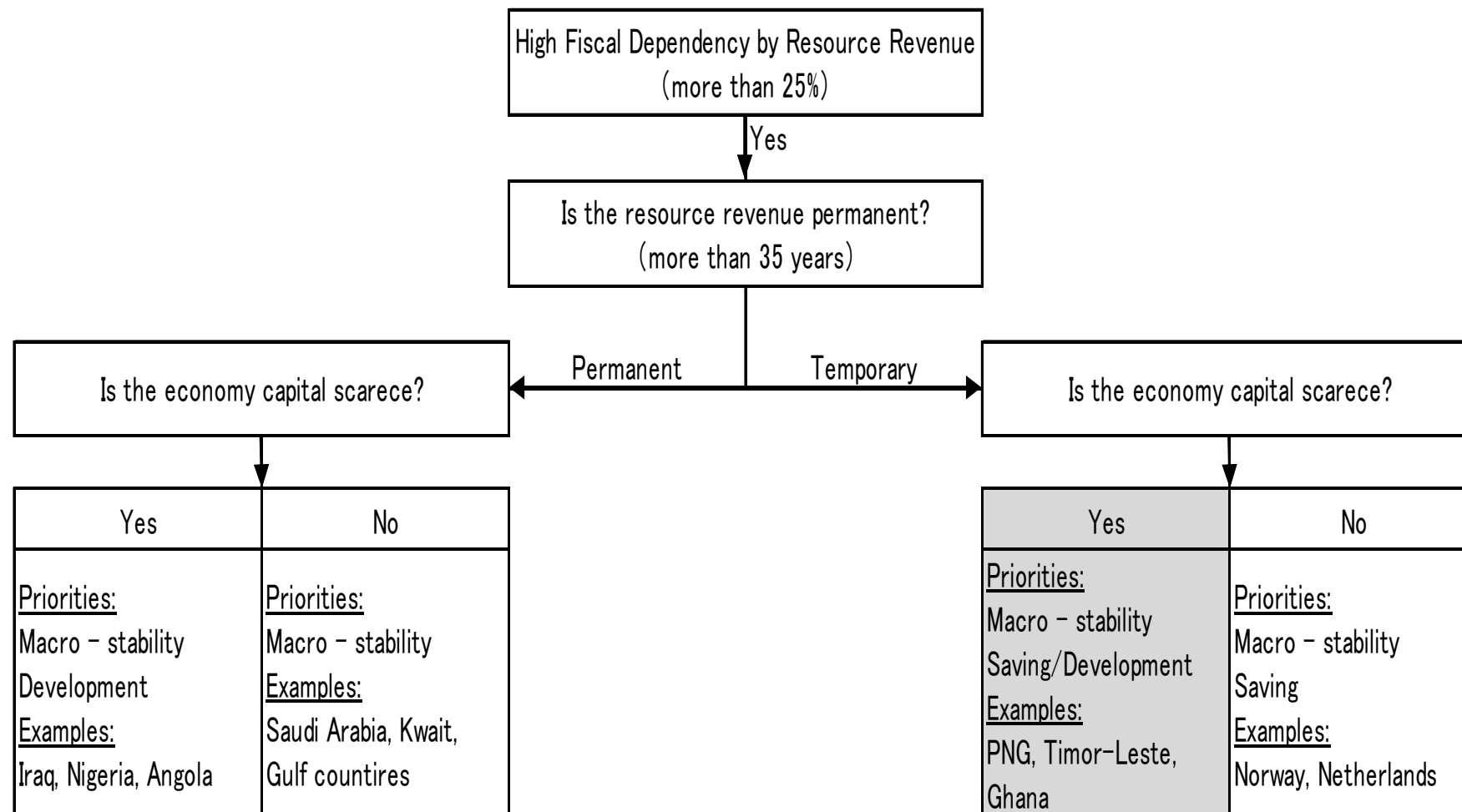


Sources: Japan Coal Energy Center (JCOAL), JOGMEC, IMF Primary Commodity Prices

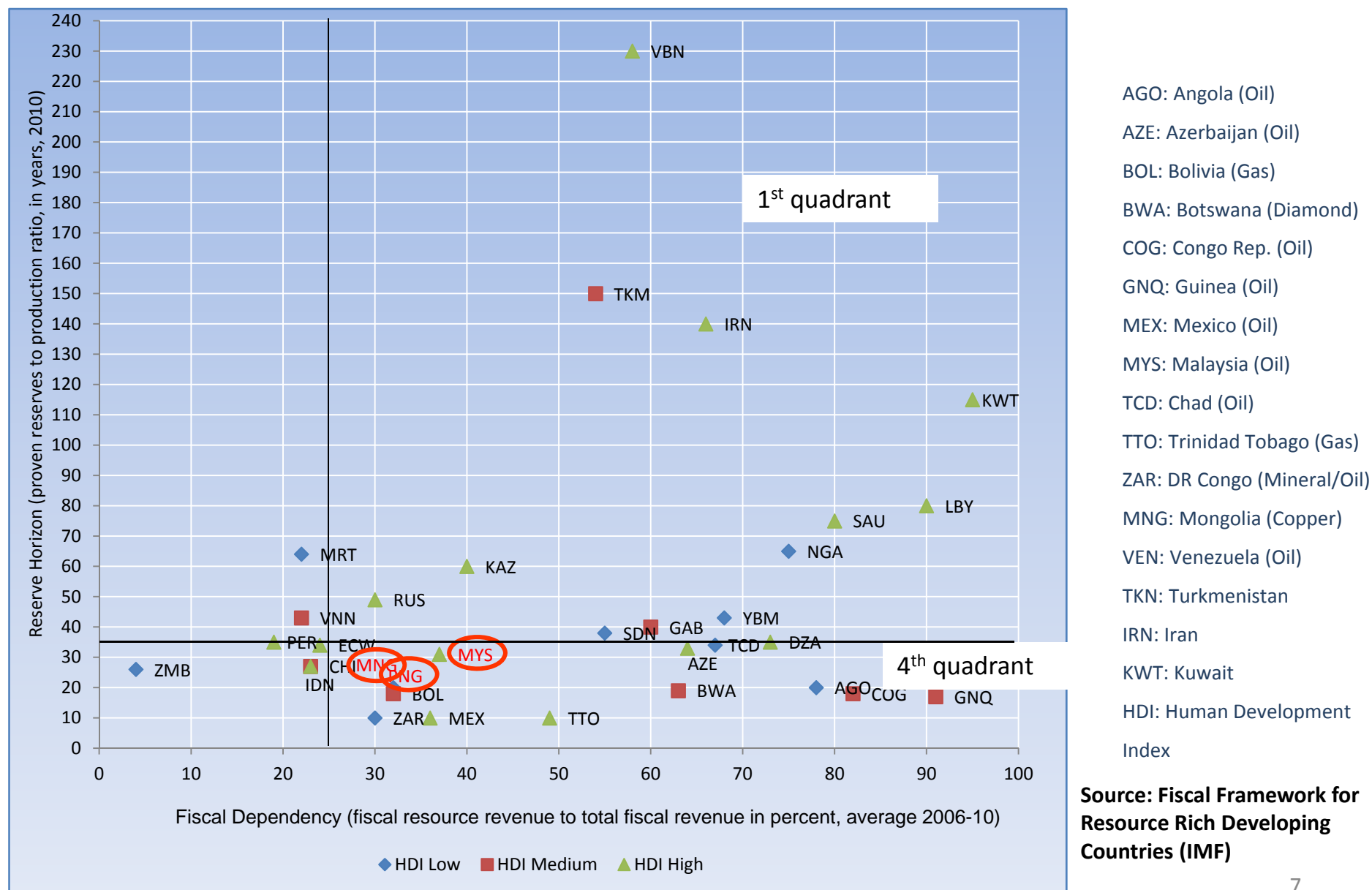


Source: IMF Primary Commodity Prices data

Definition of Resource Rich Countries and Fiscal Framework



Types and Definition of Resource Rich Countries

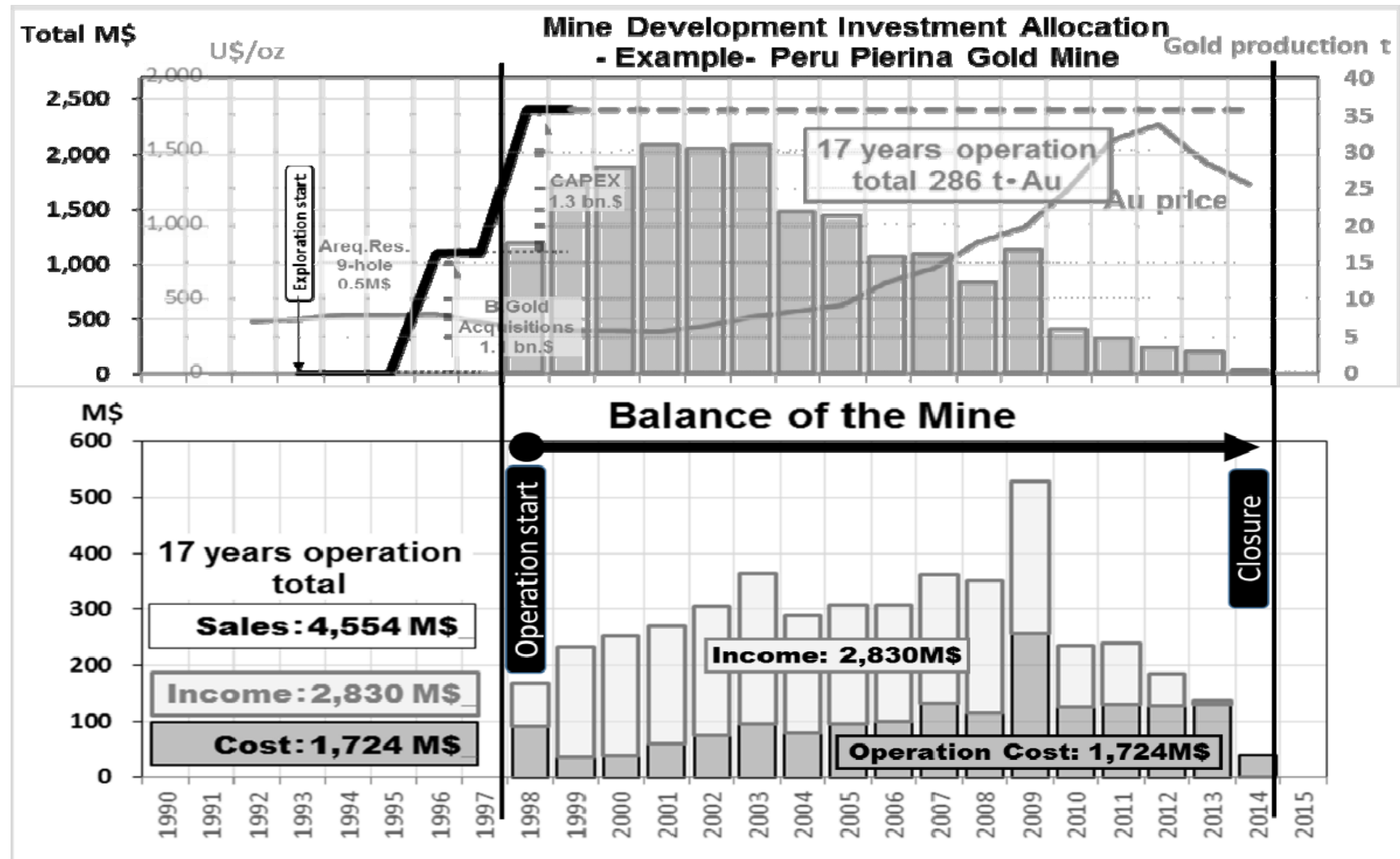


Source: Prepared by JICA Study Team based on Figure 1 of IMF Staff Discussion Note, May 16, 2012

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What is Resource Revenue?



Sources: Prepared by referring to Barrick Gold Annual Report, JOGMEC Report, and Mineral Commodity Summaries

Fees Paid at the Stages of Exploration and Production

Stages	Fees	Remarks
Prospecting	Prospecting Fees	A company makes a contract on mining area with the government and is given a lease for exploration and production of natural resources. A contract specifies duration of lease consisting of prospecting, construction and production. A prospecting fee is paid on mining area per hectare as a fee keeping a right on mining area contracted.
Construction	Extension of Prospecting Fees	A company keeps paying a prospecting fee to keep a right on mining area contracted during construction.
Exploration/ Production	Royalty	Royalty is a fee to keep a right on mining area at the stage of exploration and production. Royalty is charged on a physical volume or the value of production or profit. Royalty base is different by RRC.

Source: Prepared by JICA Study Team based on JOGMEC information on royalty

Resource and Non-Resource Fiscal Revenue and Expenditure Items

Resource-related and Non Resource-related Fiscal Balance

	Revenue (example)	Expenditure (example)
Resource-related	Mining rights revenue	Exploration cost (shouldered by host country)
	Royalty, Mining tax, Income tax from mining corporation	Relevant infrastructure development, Resource management cost
Non Resource-related	Tax (Income Tax (corporate and individual), Property tax, custom, etc)	Current expenditure (salaries, operation and maintenance cost)
	Non-tax (Dividends from SOE, Public service fee)	Investment expenditure (Infrastructure building, R & D, etc)
Total Fiscal Balance	Σ Revenue	Σ Expenditure

Concept of Fiscal Dependency on Resource Revenue

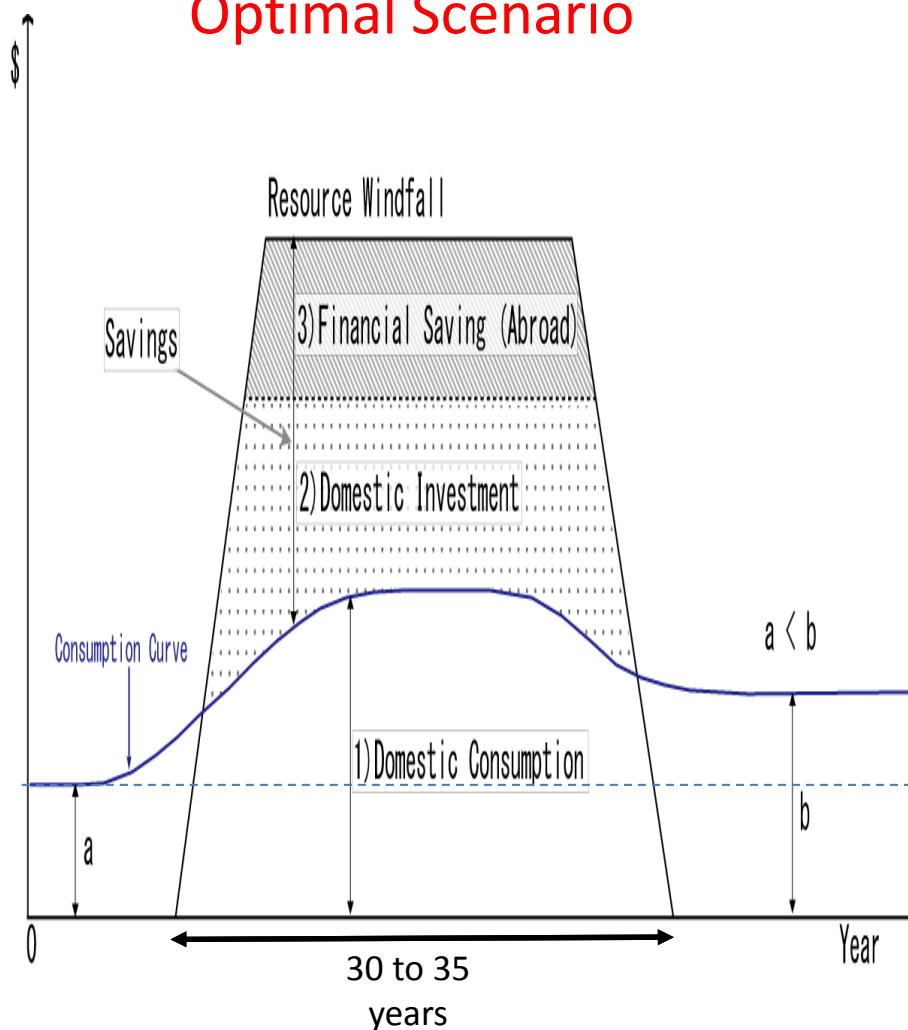
<u>Fiscal Structure with High Dependency on Resource Revenue</u>		<u>Fiscal Structure with Low Dependency on Resource Revenue</u>	
Resource Revenue	Resource-related Expenditure	Resource Revenue	Resource-related Expenditure
	(Non Resource) Investment Expenditure		(Non Resource) Investment Expenditure
	(Non Resource) Current Expenditure	Non Resource Revenue	(Non Resource) Current Expenditure
Non Resource Revenue			
Source: Study Team			

Fiscal anchors against unstable resource revenue caused by price volatility

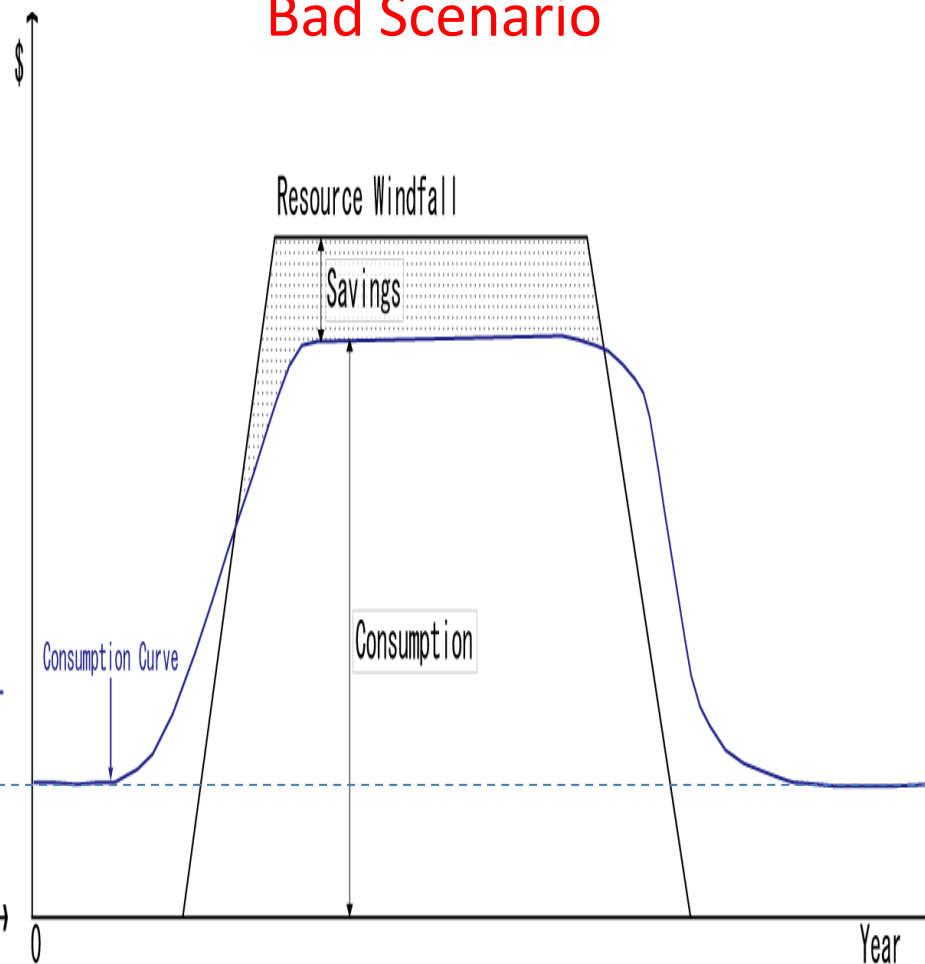
- Revenue side
 - Non Resource Primary Balance (NRPB) – more strict
 - Relevant with a relatively short reserve horizon.
 - Protect government finance.
 - But countries could be reluctant to accept (too strict).
 - Structural Primary Balance (SPB)
 - Resource revenue is decomposed into a structural and a cyclical components; revenue in a cyclical component is delinked to fiscal revenue.
- Expenditure side
 - Expenditure Growth Rule (EGR)
 - Allows government investment to be expended in line with non-GDP growth rate.

Optimal Allocation of Resource Revenue

Optimal Scenario



Bad Scenario



Source: JICA Study Team Based on Figure 4In "Macroeconomic Policy Framework for Resource-Rich Developing Countries" IMF, 2012

Fund Management Options - Sovereign Wealth Funds

- Fiscal Stability
 - Royalties paid to a mining agency are transferred to a stabilization fund administered by MOF. Fund money is then transferred to a treasury account for fiscal revenue.
- Saving
 - To prepare for short and medium-term volatility in income, repayment of external debts, and public investment for economic development.
- Investment (domestic social capital development)
 - Usually administered by a “Fund”, an autonomous entity independent from the government, whose revenue and expenditure are treated as “extra-budgetary operations”.

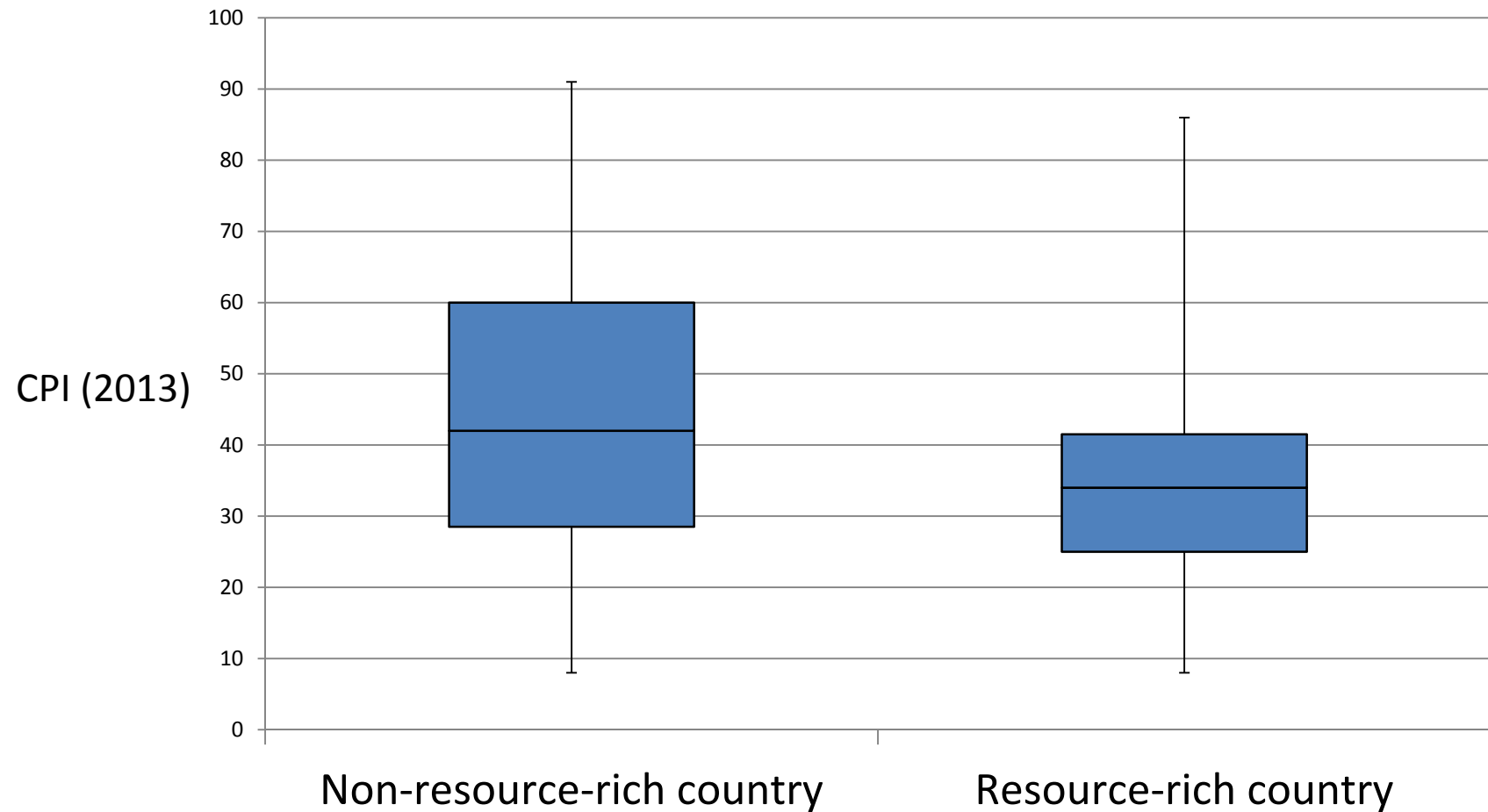
Budget Reliability and Medium-Term Budget Plan

- PFM requires budget integration, reliability and transparency with attention paid to “management for unreported extra-budgetary expenditure” and “debt management”
 - Debt sustainability linked with counter cyclical budget is suggested.
- Budget reliability is a prerequisite for fiscal anchors.
- Budget authorities need to prepare estimates of macro-economy, fixed liabilities, contingent liabilities and resource prices.
 - Fiscal revenue plan for RRDC shall be made based on conservative estimate of resources prices while fiscal expenditure is estimated based on more accurate cost estimation.

Outlines

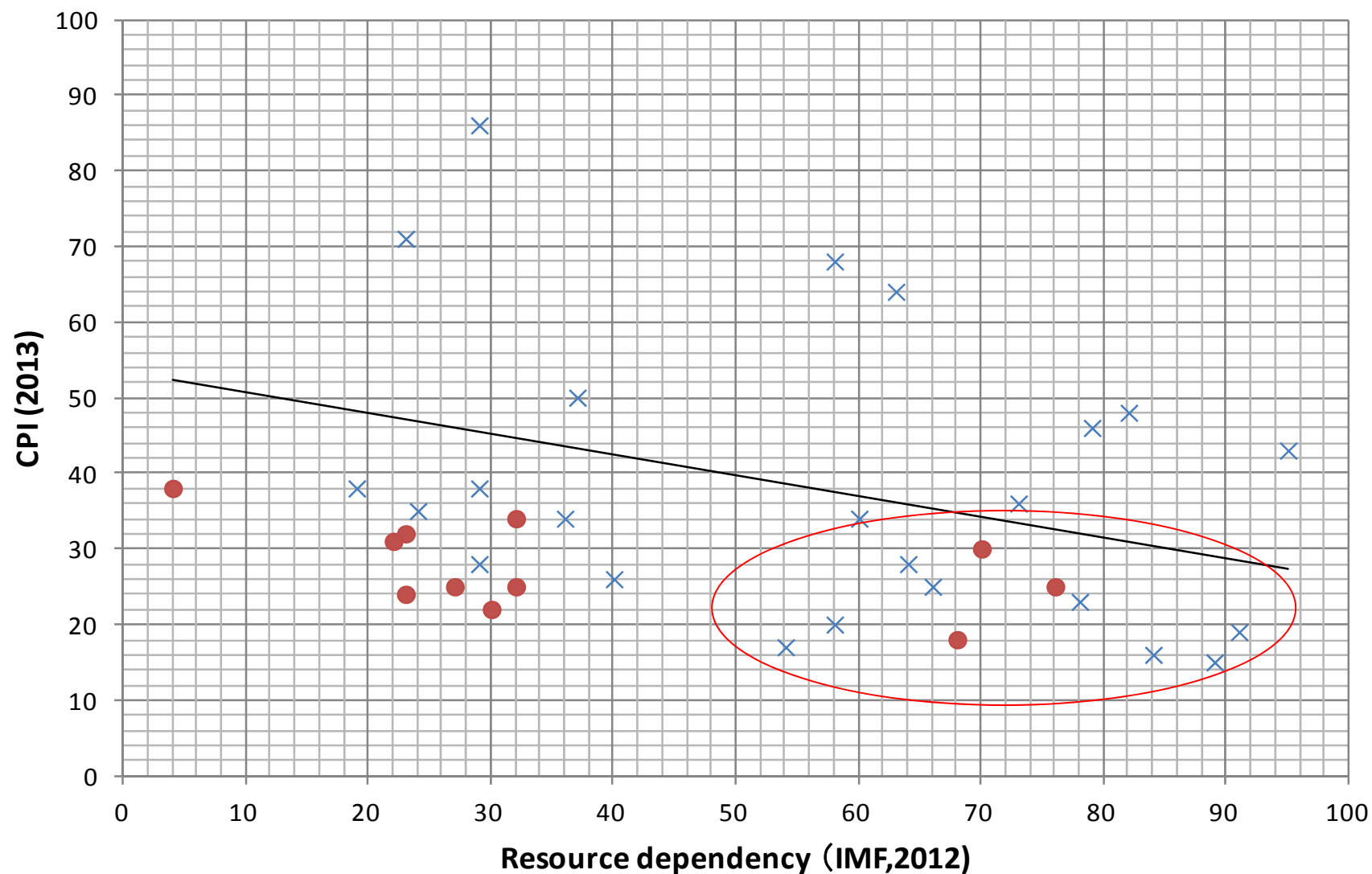
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Natural Resource and Corruption



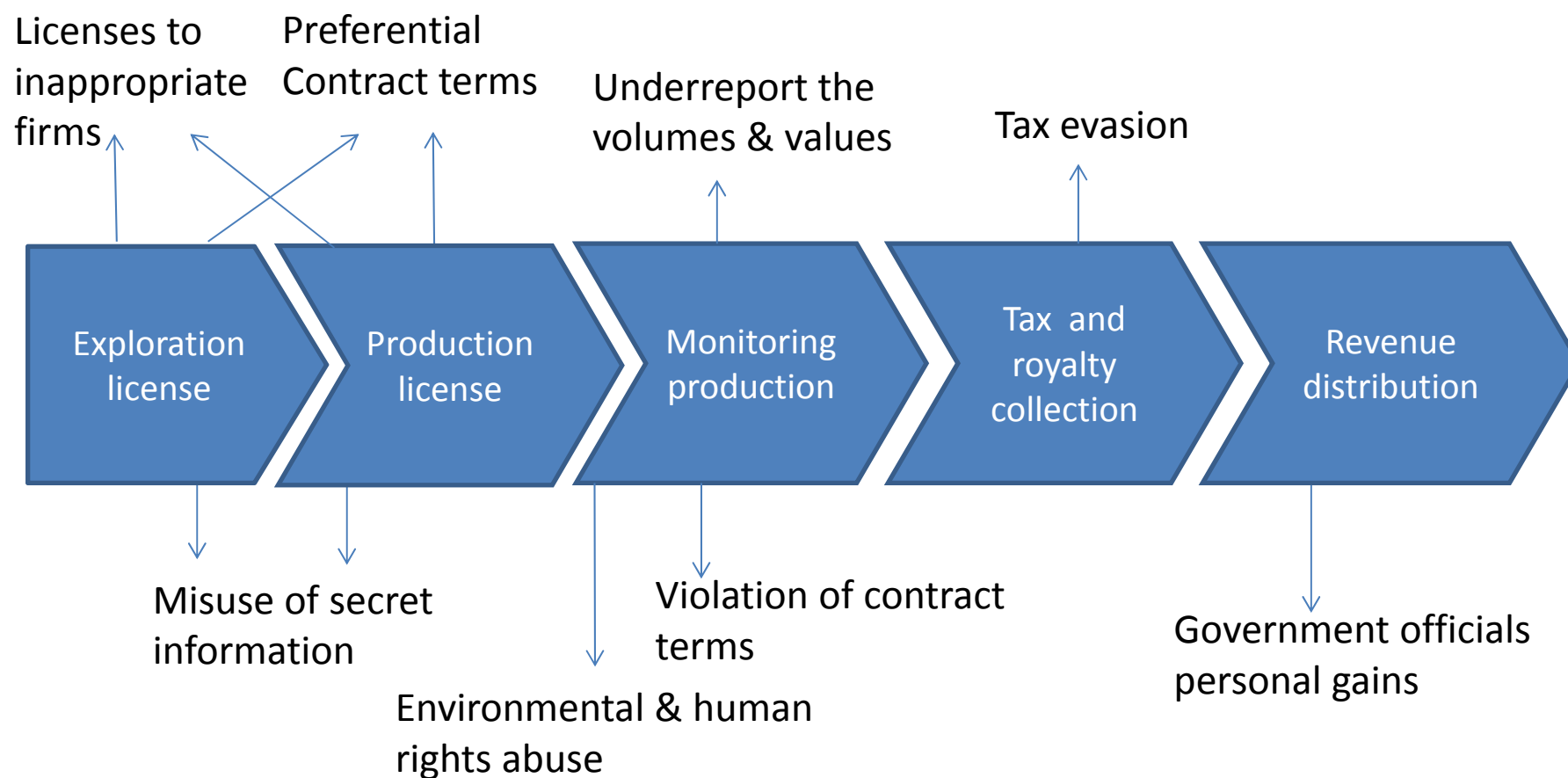
Source : Prepared by JICA Study Team based on Transparency International (2013)

Resource Dependency and CPI



Source: Prepared by JICA Study Team by referring to Transparency International (2013) and IMF (2012)

Mapping Corruption Risks in the Extractives Chain

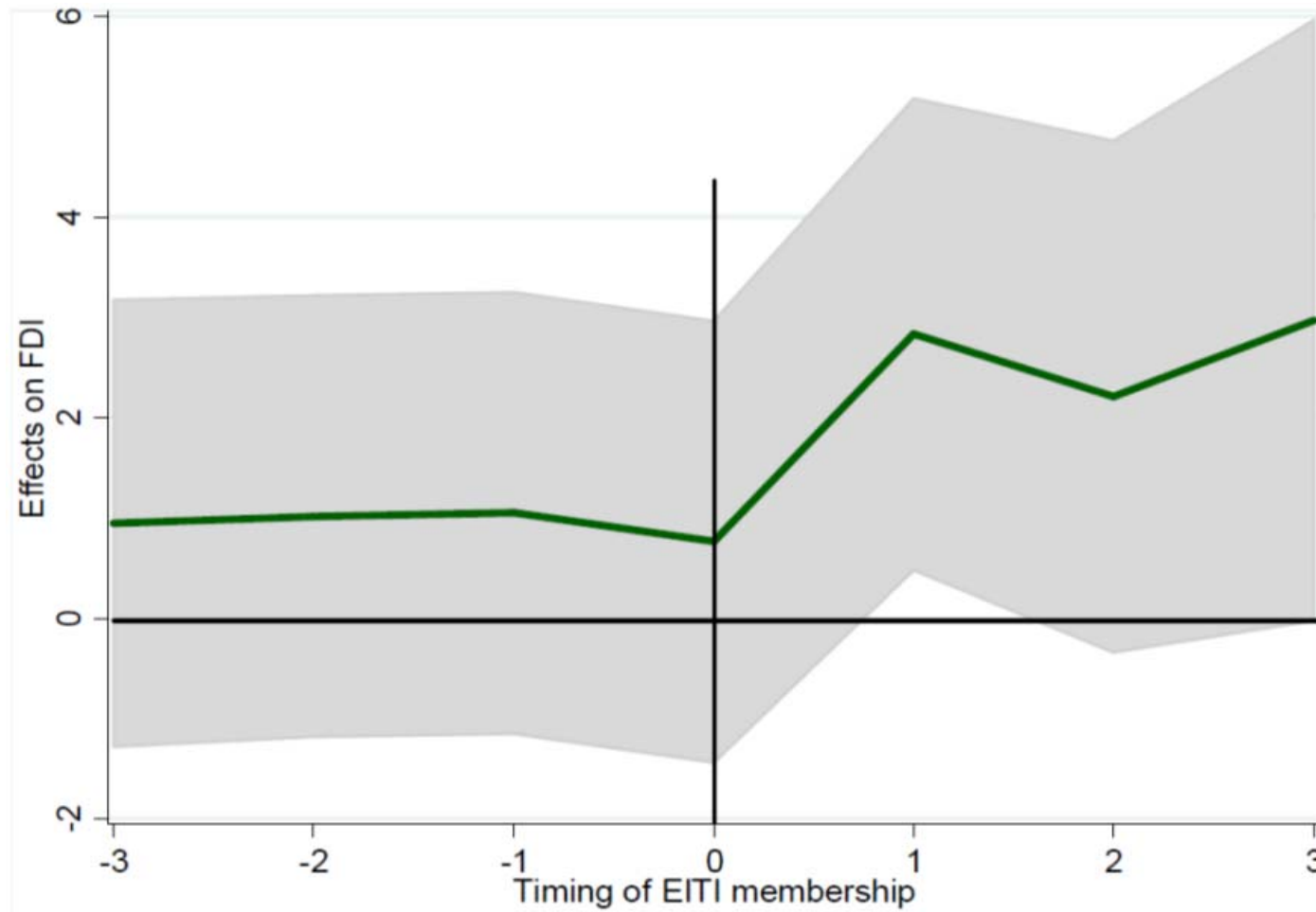


Source : Natural Resource Governance Institute
Study on Economic and Fiscal Policies in Resource Rich Countries

Measures Against Corruption

- Establish Rule of law
 - information disclosure, company's responsibilities for employee's compliance, a just tender system, and imposing penalties
- Establish Anti-Corruption Body
 - prosecute reported or discovered corruption practices and audit commissions to check financial flows on regular basis
- Become a Member of Extractive Industries Transparency Initiative (EITI)
 - promote transparent management of natural resources, compare the payment and its receipt disclosed by companies and governments to identify the gaps, and to draw and implement a work plan to narrow them

The Effect of Becoming EITI Candidate on FDI Inflows



Source: Schmaljohann (2013)

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1. TA for Price Volatility Countermeasures

- Increase non-resource fiscal revenue
 - Strengthen tax revenue, e.g. general tax, corporate income tax, personal income tax, to reduce dependency on resource related fiscal revenue
 - Broaden tax base, strengthen tax collection, enforce a fair taxation system, income redistribution
- Promote pro-poor policies, redress subsidies (e.g. fuel) that rather benefit high income group
 - Support to inclusive growth, income inequality, social safety net, etc.
- Mitigate risks for fiscal stabilization & saving fund to avoid being used for politically motivated purposes
 - Support to strengthen fund's institutional rulings, autonomy, authority and supervisory function by parliament and financing authority
 - Governance (central/local), anti-corruption, etc.

2. TA for Resource Revenue Management

- Accounting Management
 - Corporate income tax, royalty, dividend, license and other fees, collected and managed by different government agencies
 - TA shall be provided for support to consistent disclosure of each country's accounting basis and reporting which fully secures compliance with the International Public Sector Accounting Standards (IPSAS)
 - Audits (Internal/External)
- Resource Revenue Flow
 - EITI supports to enhance transparency in resource revenue flow, and participation to EITI is effective to improve governance. EITI MDTF provides advisers and consultants to assist in implementation, sharing best practices, and providing grants to help support EITI implementation. Bilateral donors also provide bilateral funds and technical assistance

3. TA for Optimum Allocation of Resource Revenue

- TA for set up of SWF
 - It is considered appropriate to be operated by an autonomous entity independent from government fiscal authority, and managed by financial professionals
 - However, in developing countries, particular purpose of the fund should be aligned to the plan of the government
- Manage the revenue into three outlays:
 - 1) Consumption, 2) Development investment, and
 - 3) Savings