**Worksheet G**
**VII. Revenue management**

**Background:** Strong management of resource revenues combines knowledge of economic pitfalls with managing expectations for short-term wins. Political parties can be influential in spurring a strong governance response. Just after Ghana discovered oil, the two major parties tried to out-boast each other, each casting themselves as the party that would get oil flowing the soonest and spend the oil revenues quickest. This race towards spending, which was unfortunately followed by a steep decline in oil prices, quickly resulted in large public debt.[177] Thankfully, more recently, the parties have developed new positions addressing revenue volatility and used those positions to inform public debate on these topics.

The policy position must set out clear rules for saving and borrowing related to natural resources. Resource revenues should be collected, managed and distributed transparently and accountably, and in the long-term interests of citizens. The party should also ensure that there is robust oversight of the government's fiscal framework for the sector, including by oversight institutions, civil society and the media.

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**Costs and trade-offs**

*When developing policy stances related to* **exhaustibility** *it is particularly important to consider:*

- How much longer resource revenues are expected to be available and the needs of the current population for investment vs the expected needs of future generations

- The financial and political implications of maintaining a future generations fund, as well as the risk of corruption

*When developing policy stances related to* **decoupling expenditures from revenues** *it is particularly important to consider:*

- How predictable revenues (or prices) have been over the past five years

- How well the budget responds to price shocks

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[177] See the Ghana case study in Chapter 2.

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- The costs and benefits of maintaining a stabilization fund, including the political implications of not spending all the revenues in a high-price year

*When developing policy stances related to **the absorption of revenues into the national economy** it is particularly important to consider:*

- The absorptive capacity of the private sector

- The absorptive capacity of the public sector and the highest rate of efficient spending

- The return on investment when spending beyond the absorptive capacity, and the financial and political implications of putting aside some of the revenues in a parking fund until they can be spent more efficiently

*When developing policy stances related to **resource-backed loans** it is particularly important to consider:*

- The total expected revenues from extraction and the certainty rate of those expectations

- The political and development advantages of having greater access to revenues now, weighed against the implications of not having revenues later

- The likely interest rates of such loans and how the rate of debt might compare with the overall budget and the volume of resource revenues

For more information on these policy issues, please refer to Precepts 7 and 8 in the Charter Benchmarking Framework and the NRGI primers on revenue management and distribution, fiscal rules and natural resource funds, subnational revenue distribution and subnational revenue management.[178]

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[178] The Revenue Management and Distribution primer is available at <https://resourcegovernance.org/analysis-tools/publications/primer-revenue-management-and-distribution>; the Fiscal Rules and Natural Resource Funds primer is available at <https://resourcegovernance.org/analysis-tools/publications/primer-fiscal-rules-and-natural-resource-funds>; the Subnational Revenue Distribution primer is available at <https://resourcegovernance.org/analysis-tools/publications/primer-subnational-revenue-distribution ; and the Subnational Revenue Management primer is available at <https://resourcegovernance.org/analysis-tools/publications/primer-subnational-revenue-management>.

| Guiding questions | Current orientation |
|---|---|
| • Does the party already have a stance (formal or informal, public or internal) on what rules should exist to address the challenges of revenue volatility, exhaustibility and economic distortion related to natural resources (i.e., on resource funds and monetary policy)? If so, what is that stance? | |
| • Does the party already have a stance (formal or informal, public or internal) on how any revenue transfers should be managed by subnational authorities? | |
| • What do the party base and its core constituencies think about how resource revenues should be managed (i.e., about resource funds, monetary policy and subnational transfers)? What does the wider population think? | |

| Guiding questions | Current framework |
|---|---|
| • What is the current fiscal framework for natural resource revenues? Does the government adhere to this 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?[179] | |
| • Has the government adequately managed the rate of spending in the domestic economy? Is government spending independent of short-term changes in revenues (i.e., has spending been stable relative to revenues for the past ten years)? | |
| • How efficient is the government at transforming money into productive assets or social services? | |
| • Is there a sovereign wealth fund? If so, what is its purpose and how is it managed?[180] | |
| • Are revenues transferred to subnational governments? If so, how are these transfers managed, accounted for and reported on?[181] | |
| • How does the country perform on the 'Revenue Management' component of the Resource Governance Index? What underlying rules and practice indicators does the country perform poorly on and why?[182] | |
| • If the country is an EITI member, what were the findings and recommendations around the 'Revenue Allocations' requirement in the most recent EITI report?[183] | |

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[179] Information on the current framework may be available in the RGI data under questions 2.1.2a-2.1.2b and 2.1.3a-2.1.3b.

[180] Information on the current framework may be available in the RGI data under questions 2.3a, 2.3.1 a-c, 2.3.2a-2.3.2d, 2.3.3a-b, 2.3.4a-e, 2.3.5a-d, and 2.3.6a-c (law).

[181] Information on the current framework may be available in the RGI data under questions 2.2.a-2.2.5a.

[182] For detailed answers to these questions, refer to the downloadable RGI Data explorer available at <http://www.resourcegovernanceindex.org/about/data-and-source-documents> (component 2.2). For a quick snapshot of the subcomponent and indicator scores, see the country profiles at <http://www.resourcegovernanceindex.org/country-profiles> (select your country, scroll down to the Full Scores section, and click + to expand the relevant scores).

[183] Find the most recent report and other information on country progress on the EITI website at <https://eiti.org/countries>.

| Policy options | Stances |
|---|---|
| **Given that non-renewable natural resources are finite, what should the government do to ensure that its spending and borrowing are fiscally sustainable?**<br><br>• How should the government assess its use of resources and its spending policy to ensure they are sustainable over the long term? (e.g., which sustainability indicators should it refer to?)<br><br>• Should the government revise the fiscal framework to ensure that it promotes long-term fiscal sustainability and includes numerical targets?<br><br>• How should the government ensure that the fiscal framework is adhered to, including any fiscal rules? What verification measures should be put in place or better enforced to promote compliance?<br><br>• Should the government establish/enforce a well-defined debt management policy, including provisions on the collateralization of government assets, borrowing terms and transparency requirements?<br><br>• How should the government ensure that it is helping to expand the non-resource tax base? | *Example stance:* The party believes that the government's management of natural resources should be fiscally sustainable. We therefore commit to establishing rules to limit borrowing, invest resource revenues responsibly, support economic diversification and expand the tax base. |
| **What should the government do to better manage the rate of spending in the domestic economy?**<br><br>• What should be done to ensure that money is efficiently transformed into productive assets or social services?<br><br>• What information should the government use to assess whether the growth of total spending (including government spending) exceeds the limits of absorptive capacity?<br><br>• How should the government avoid breaching absorptive capacity constraints? (e.g., should it use surplus revenues to repay foreign denominated debt or save in foreign assets?)<br><br>• How should the central bank help mitigate the potentially negative impacts associated with resource-dependence, including real exchange rate appreciation or exchange rate and revenue volatility? | *Example stance:* The party believes that the rate at which natural resource revenues are spent should be in line with the country's absorptive capacity. We therefore commit to use surplus revenues to repay foreign debt or save in foreign assets when resource revenues exceed what can be effectively absorbed by the domestic economy. |
| **What should the government do to ensure spending is independent of short-term changes in revenues?**<br><br>• Should the government revise the fiscal framework to govern short-term expenditure smoothing? What are the appropriate numerical targets? How should compliance be monitored?<br><br>• If the government has a sovereign wealth fund, what should be done to ensure that the fund is managed in a transparent, accountable and efficient manner? What should be done to ensure that the investment strategy achieves the fund's objectives? | *Example stance:* The party believes that government spending should be decoupled from short-term fluctuations in natural resource revenues. We therefore commit to establishing a committee to review the current fiscal framework and make recommendations on expenditure smoothing. |