

# Consultation on IMF Natural Resources Work

## Comments World Resources Forum

Natural resources are a main concern of the World Resources Forum. The importance of a sustainable use of natural resources is twofold. First, as mentioned in the IMF's article, natural resources are an important source of revenue income for the governments of resource-rich countries. In order to perform long-term fiscal planning policy makers need to deal with questions about when and how to use those resources. Second, natural resources are scarce, either physically, economic, ecological and/or social. An unsustainable exploitation of natural resources will erode the base of future economic development and therefore be at cost of future generations.

The World Resources Forum, of which its Secretariat is based in Switzerland, is actively raising awareness and sharing knowledge about the role of natural resources in the world economy. In its last meeting, held in Davos, September 2011, it was concluded that in particular for developing countries an efficient use of resources is essential in order to overcome problems such as poverty, lack of infrastructure or lack of education. "Higher prices of resources provide an opportunity for commodity-exporting developing countries to address those critical challenges" was one of the key findings of the chairman's statement of the conference.<sup>1</sup>

The IMF paper looks for a model or concept for assessing the sustainability of current accounts and exchange rates. An important concept in this regard is generational accounting<sup>2</sup>. This concept quantifies the net assets or liabilities which are transferred from one generation to another and tries to answer the question of how high the debt burden for the next generations is. Therefore, it includes an important aspect of good governance. In contrast to annual budget calculation generational accounting is a dynamic approach which accounts for future developments. Thus, developments such as diminution of natural resources, population growth or demographic change can be included in the scaling-up decisions. The use of generational accounting would facilitate the decision how much of the resource wealth to consume and how much to save. The results of generational accounting can also be used as a benchmark to compare the sustainability of fiscal policy of different countries.

A good fiscal policy system essentially has to include a controlling mechanism. Once the decision about expenditures and revenues is made an implementation of controlling tools is required. This means that the achievement of investment goals needs to be measured.

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<sup>1</sup> A summary of all topics and key findings of the forum can be found in the World Resources Forum 2011 meeting report at [http://www.worldresourcesforum.org/files/WRF\\_report\\_2011def\\_web.pdf](http://www.worldresourcesforum.org/files/WRF_report_2011def_web.pdf)

<sup>2</sup> The concept is explained at <http://www.taxpolicycenter.org/briefing-book/background/taxes-budget/generational-accounting.cfm>

This will be a major challenge for developing countries. Governmental institutions not always function as well as in developed countries. Issues like bribery or informal sector might further aggravate the problem of measurement. These challenges have to be considered when implementing fiscal policy frameworks.

An independently managed sovereign wealth fund is a promising approach for dealing with scarce natural resources. An appropriate tax on resources would trigger a more careful use of resources. The tax revenues could be invested in the domestic and foreign capital market and yield a return for future generations. The Norwegian Oil Fund or the Dutch gas fund are good examples of how such a fund could be built up.

The WRF Secretariat is highly interested in the topic and will be pleased to provide a platform for the IMF to discuss these and other issues further in our upcoming meetings or workshops, with our global network of resource management scientists, experts, governments, businesses and NGO's. The next World Resources Forums will be held in Beijing, China, October 21-23, 2012, respectively Davos, September/October 2013.

Name of sender: Bas de Leeuw, Fritz Beglinger

Organization: World Resources Forum

Lerchenfeldstrasse 5 9014 St. Gallen, Switzerland

+41587657474

[bas.deleeuw@worldresourcesforum.org](mailto:bas.deleeuw@worldresourcesforum.org)

The World Resources Forum (WRF) is a science-based platform to share knowledge about the economic, political, social and environmental implications of global resource use. WRF promotes innovation for resource productivity by building bridges among researchers, policymakers, business, NGOs and the public. Flagship activity is the annual WRF Conference. Last meeting: Davos, September 2011. Next meeting: Beijing, October 2012.

<http://www.worldresourcesforum.org>

[info@worldresourcesforum.org](mailto:info@worldresourcesforum.org)

Secretariat WRF: Lerchenfeldstr. 5, Empa Building, 9014 St. Gallen, Switzerland