

Resource Economies: Keys to cover structure and performance

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Basic resource characteristic

- production value is greater than cost
=> “rents”

Rent flows have two impacts:

“Dutch disease” – domestic factors bid up and domestic agriculture and industry become uncompetitive

Political and economic institutions diverted to “rent seeking” rather than value added

“Rent seeking”

■ Impact on governance incentives

- *Surplus* => no necessity for efficient performance
- *Sovereign governance* => rent-sharing,
not maximization of value added
- *Political “rent-seeking”*
– participation, procurement, employment, pricing
- *Personal “rent-seeking”* – “corruption”

■ Leads to

- economic inefficiency
- stultified institutional development
- smothered political and economic growth

Institutional temptation

-- run the whole country out of the Ministry or an Integrated National Oil Company

Why?

Makes funds flows internal and easy

Localizes expertise in political agency

Makes implementation of political agenda easy

Why not?

No capability for measurement/stewardship of economic performance

No capital market discipline for efficient investment and procurement

No commodity market discipline for efficient operations and pricing

No institutional barriers to political or personal rent-seeking

No dispersal of technical capability, value-added, political power

Funding and investment which are “easy” and internal, should require institutions that separate, measure, and steward performance

Business and governance structure goals

- Efficiency
 - Supported by business, market, and governance structures
- Disperse value-added and technical capability
 - to foster political empowerment for entrepreneurial activity, and consumer constituencies
- Distribute rents transparently
 - to the owners, public or private (permitting “revenue management”)
- Separate government finance
 - from enterprise investment and funding – i.e., separate political and economic activities

Economic development is institutional development

Enterprise implementation

- Business/venture establishment formation
 - Licensing, state participation, regulation, resource access and taxation, convertability, dispute resolution
- Facilities funding and procurement
 - Funding – equity participation, state role
 - Procurement – competitive transparent
- Operations and operating inputs
 - Human resources
 - Other inputs
- Output markets
 - Pricing and subsidies, terms of access by buyers
- Taxation
 - efficiency

Energy business structures and markets

- Energy chains should be “unbundled”
 - into separate, corporatized enterprises and competitive markets,
- Require arms-length transactions
 - across all competitive markets, (e.g., production -> refining, refining -> petrochemicals)
- Isolate upstream enterprises
 - that are properly subject to resource taxation
- Electricity generation can be competitized
 - with IPP/single buyer or wholesale market structures
- Isolate technical monopolies for regulation
 - (esp. electricity and gas transmission and distribution) with cost-recovery service prices (green enterprises and blue markets)

Corporatization

- Independent Boards of Directors representing owners and stakeholders with audit and management oversight
- Transparent, audited financial accounts and management information systems
- Value-focused capital budgeting and competitive stand-alone bank/capital market funding
- Transparent, competitive procurement, Human Resources management
- “Privatization” should be last after corporatization and market reform

Governance

- Resource taxation should focus on rent taxation (not royalties), all other enterprise taxation should be general corporate taxation
- Open entry to any competitive market
 - resource rent tax auctions upstream
 - transparent franchise auctions downstream where technical monopolies require
- Corporatized enterprise investment must be subject to funding market discipline
- Sovereign finances should be distinct from industry
- Markets must recover costs – any subsidies must come from explicit government funding not prices

Comprehensive Institutional Focus

■ Efficient and competitive

- Enterprises
- Markets
- Governance

will go a long way to “sterilize” rents