

Dear Madam/Sir,

I am writing regarding your workstream to review the public-sector accounting for nonrenewable resources. This is a valuable topic and I strongly welcome your efforts to improve the accounting treatment of this category.

Having worked at the IMF in Washington DC for over 30 years, I have extensive experience with government accounting, including in countries where the extraction of nonrenewable resources plays an important role. I have become convinced that recording the receipts from nonrenewable resource extraction as “revenue” in the government budgetary accounts is a very serious mistake that misleads the public and the politicians alike. I have also encountered significant political resistance to changing this accounting treatment from “revenue” in the operating balance to “proceeds from assets sales” in the cash flow statement.

I believe that part of the problem and lack of transparency comes from the absence of public sector balance sheets (however imperfect these may be in the initial stages of development). If a public-sector balance sheet were presented as a matter of routine, then the public would see immediately that resource extraction is a transformation of assets on the balance sheet, and not a revenue or a “profit” for the budget—net worth on the balance sheet does not change in asset transformation.

Thus, I also encourage you to call for a full and transparent presentation of a gross cash flow statement and a public-sector balance sheet (a fourth statement on variation in net worth would really be icing on the cake) when you review the treatment of receipts for natural resource extraction. A consistent set of financial accounts demonstrates what goes on when natural resources are being extracted—this would be an invaluable service to the world.

Thank you and best regards,

Bob Traa
Economist
Washington DC