

February 15th, 2015

International Monetary Fund
Communications Department
700 19th Street NW
Washington, DC 20431
USA

By email to: IMFConsultation@imf.org

CONSULTATION: Draft Resource Revenue Management Pillar (Pillar IV)

Dear Sir/Madam:

The International Federation of Accountants® (IFAC®) values the opportunity to comment on the IMF's consultation, *Draft Resource Revenue Management Pillar*, which is Pillar IV of the Fiscal Transparency Code (2014).

Through its current membership of over 175 professional accountancy organizations in 130 countries and jurisdictions, IFAC represents approximately 2.5 million accountants in public practice, industry and commerce, government, and education.

For many years, IFAC has consistently promoted the need for enhanced transparency and accountability in the public sector, noting, in particular, the risk that a lack of transparency and accountability presents to the efficiency of capital markets, global financial stability, and long-term sustainability of public finances. Furthermore, poor transparency represents a failure by governments to be open to citizens making any effective accountability difficult. Specifically, despite some countries being rich in natural resources, it has had little impact on their economic development. Often a lack of transparency around how those resources have been exploited and how resource revenue has been utilized has meant that there has been little benefit accruing to citizens.

For those reasons, IFAC strongly supports the Fund's Fiscal Transparency Code, and we welcome the proposals in Pillar IV to strengthen obligations on governments to improve transparency for the natural resources they control and the rights and obligations that stem from their exploitation.

General Comments

The accountancy profession also has an important role to play in the preparation and reporting of financial information on natural resources. Without sound accounting systems and processes, founded on an acceptable accruals-based financial reporting framework and standards, the preparation of financial and other reports and key documents will potentially be based on ad hoc systems and processes. They will lack the essential discipline that exists and is available from the adoption and implementation of high-quality international standards, such as International Public Sector Accounting Standards™ (IPSAS™), and from important institutional measures that promote transparency and accountability. This position has been reinforced in IFAC's [Policy Position Paper 4, Public Sector Financial Management Transparency and Accountability: The Use of International Public Sector Accounting Standards](#) and in [submissions to the G20](#).



IFAC is concerned that there is not sufficient attention drawn to the importance of auditing and assurance and the role of Supreme Audit Institutions to assess the relevance and reliability of information reported by governments on the exploitation of a jurisdiction's natural resources. While it is identified in Pillar I (principle 1.4.2), in IFAC's view, the qualitative aspect of information is worth reinforcing in Pillar IV.

IFAC notes that there have been important developments in sustainability reporting, and there may be useful insights to draw on from those various standards and guidelines to inform and underpin Pillar IV.

Specific Comments

With the objective of improving transparency and accountability for natural resource revenues, we offer the following comments for your consideration.

- IFAC appreciates that Pillar IV principles complement and operate in conjunction with the principles in Pillars I to III. However, we are concerned that principle 3.3.2 (public corporations) is insufficient in capturing the breadth of activities that public corporations may undertake with respect to natural resources. That is, a “government's interest in exhaustible natural resource assets and the exploitation” is not just a matter of them being “valued, disclosed, and managed.” It is important that citizens and other stakeholders can understand how those assets are being exploited in an efficient and effective manner—being transparent about any impairment of those assets and any environmental liabilities being incurred as a result of their exploitation.
- It is not clear from our reading of the draft whether principle 4.2.2 (reporting by resource companies) is intended to apply equally to public corporations—in our view it should. That is, regardless of whether a public sector entity is formally established as a “company” or not, all state-owned entities outside of the budget sector should be subject to principle 4.2.2. It would be helpful to clarify the interaction between the various principles so they are not applied narrowly.
- Proper disclosures of transfers to and from public corporations are also important to mitigate the risk of resource revenue leakage.
- IFAC supports principle 4.2.1 on the disclosure of natural resource rights holdings. While we agree that full disclosure as suggested under “good” and “advanced” practices would be helpful, citizens and those who represent them, along with other stakeholders are more likely to benefit from a summarized explanation of those arrangements in plain language. It is most likely that the terms and conditions for resource arrangement will be a set of complex legal documents that will require specialist knowledge to interpret. A “citizens friendly” version clearly explaining the arrangements and how they operate is likely to be much more helpful in promoting greater accountability. We appreciate that other parties, such as civil society organizations, may still find the disclosure of detailed documents useful, so we are not proposing that the summarized version be a substitute for full disclosure of relevant materials.
- IFAC believes that principle 4.2.3 (integrity of resource revenue data) is a critical aspect of achieving transparency.¹ However, as stated, we do not believe the principle goes far enough in only requiring governments to regularly report resource revenue collections. There is a preceding step that should

¹ See for example Prichard, W., Cobham, A & Goodall, A.'s “The ICTD Government Dataset” (2014), which highlights a range of deficiencies in revenue reporting by governments, particularly around natural resources (page 32).



be highlighted—the importance of robust data collection, credit control, and accounting systems and assurance by the Supreme Audit Institution.

- IFAC supports principle 4.2: “governments...should provide **comprehensive, timely and reliable** reports...on payments and collections of resource revenues,” and we would also add “relevance” as a quality, as reporting immaterial information is unlikely to be helpful to users. However, it is concerning that the qualitative aspects highlighted in the key principle are not reinforced in the subsidiary principles that follow (4.2.n)—in IFAC’s view, these are fundamental and should be clearly articulated. Information that is reported but lacks those qualities is unlikely to be particularly useful for decision making and accountability.
- It is also important that there is a complete picture of resource revenues in cases where they are collected across a number of government agencies. That is, there should be consolidation of resource revenues across government to satisfy the key principle 4.2.
- IFAC supports principle 4.3.3 (natural resource funds) that there should be clear mechanisms and rules for the establishment and operation of natural resource funds. In our view, this should be extended to ensure that there is full and transparent reporting of those funds. Without proper financial reporting of those funds, it is difficult to see how citizens and those who represent them, along with other stakeholders, will be able to assess the extent to which relevant rules have been observed. Perhaps, more importantly, it will also be difficult for any assessment to be made of whether the resources invested in those funds have been managed efficiently and effectively, and to the benefit of the jurisdiction as a whole.
- IFAC is concerned that principle 4.4 and the principles that follow (4.4.1 and 4.4.2) are too narrow. The leading text “fiscal risk analysis and management” does not seem to relate to the text that follows: “governments should disclose, analyze, and manage **social, environmental and operational risks associated with natural resource exploitation.**” In our view, the principle should be broadened to address social, environmental, and operational risk, which may, at some point, have a fiscal impact. Moreover, our reading of this principle is that “fiscal risk” is equated with a potential cash outflow. It appears to run counter to the other principles, which take a broad view of resources and the overall management of the natural environment in a sustainable manner. If significant environmental degradation results from exploiting natural resources there is a “cost” that diminishes the benefit of natural resource revenues. That overall effect needs to be clearly identified and reported in order to satisfy the spirit of principle 4.4. IFAC notes that in the supporting tables, there are no practices identified for what constitutes “basic,” “good,” or “advanced” practices for this principle. We would suggest that those expectations be developed to provide guidance for jurisdictions seeking to implement the principle.



Please do not hesitate to get in touch if you have any questions or require further clarification of the comments provided.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Fayezul Choudhury', is written over a light gray rectangular background.

Fayezul Choudhury
Chief Executive Officer