3. Management of Resources

Resource-rich developing countries (RRDCs) have traditionally faced macroeconomic and fiscal management challenges because of the volatility and concentration of their income flows, and the limited linkages from the extractive sectors to the rest of the economy. These problems, if unaddressed, tend to undermine macroeconomic stability and weaken institutions for government accountability. The peculiar nature of resource rent inflows—dubbed the "resource curse"—constitutes a main determinant of the most typical governance failures in RRDCs. Respective development challenges have been well identified in the literature (IMF 2012; World Bank 2012) and could be briefly summarized as follows.

Risks to macroeconomic and fiscal sustainability. Dependence on natural resources with historically volatile prices exposes countries to a risk of revenue disruptions and, hence, adversely affects welfare in the absence of precautionary savings. At the same time, the exhaustibility of non-renewable resources poses difficult choices over the consumption-savings ratio needed to ensure long-term sustainability and intergenerational equity. Moreover, the expansionary fiscal policies during boom periods tend to stimulate domestic demand beyond the existing absorptive capacity in the economy, which often leads to inflationary pressures and real exchange rate appreciation. This, in turn, could adversely affect the non-resource tradable sectors by making domestic production more expensive and non-competitive, a phenomenon known as the "Dutch Disease." The economic theory has long advocated that to address this challenge, resource-rich countries have to set up special fiscal institutions for saving a portion of their resource revenues over the price cycle, thus buffering their fiscal policies from commodity price fluctuations. Several countries, such as **Chile**, have a positive experience with using such saving mechanisms. Still, many RRDCs continue to follow pro-cyclical fiscal policies that impose costly adjustments in times of revenue busts, as observed during the 2008–09 global financial and economic crises. In this context, the World Bank is expected to support countries in developing robust fiscal policies and institutions that would help turn resource wealth into a steady stream of public revenues, and are capable of supporting longer-term macroeconomic sustainability. The Bank, together with the International Monetary Fund (IMF), can play a role in supporting orderly macroeconomic and fiscal adjustment, including at times of fiscal surpluses accumulated during boom cycles.

Weaknesses in the national systems for public financial management (PFM). Historically, many RRDCs could not transform their resource revenues into an adequate flow of public goods and services due to capacity constraints and distortive incentive regimes. This failure has often been at the heart of the "resource curse." Thus, the PFM agenda was expected to be a central part of the Bank's strategies in the RRDCs. National resource rent management systems have three core PFM blocks and generally one would expect the Bank to support all of them, including: (a) raising resource revenues—advising on an extractives tax regime, capacity building in tax administration, and supporting governments in the course of their negotiations with major private investors; (b) upgrading national PFM institutions and systems—strengthening the legal and regulatory framework for PFM, building capabilities for adequate implementation of national PFM regulations, especially in the areas of budget formulation and planning, accounting, monitoring, reporting, and evaluation; and (c) improving policy advice in defining the public expenditure envelope and providing sector-level support to help improve the expenditure allocation.

Inadequate governance and accountability arrangements. The RRDCs also face two additional governance/political economy risks. First, there is a risk of distributional conflict over the resource rent control and distribution. Second, these countries could be affected by disproportionate and unsustainable expansion of their public sectors, funded by the often temporarily high level of government revenues. The latter instance may lead to an excessive role of the government in the economy (large, ineffective, and interventionist government administration operating in an environment of low institutional capacity). In addition, many RRDCs have been struggling to establish proper accountability systems. In this context, the Bank has a particular expertise in supporting countries to address issues of checks and balances, to improve public administration capacity, and to promote the broader agenda for anticorruption and deregulation. In the context of RRDCs, the Bank is also well-positioned to lead in advancing global initiatives, such as the Extractive Industries Transparency Initiative (EITI).

World Bank Group Strategies

The prominence and design of the resource management (RM) pillar in country partnership strategies (CPSs) varied significantly across the four Country Program Evaluation (CPE) countries. These differences are driven by three interrelated variable factors: (i) the level of economic and institutional development; (ii) dependence on external financing; and (iii) reform priorities. The Bank's strategies have differed greatly in both their scope (variety of Bank instruments, number of self-standing projects) and depth (intensity and quality of the policy dialogue). In **Mongolia** and **Zambia,** the Bank has had broad programs to support resource management (RM), with significant amounts of lending and advisory services, driven primarily by high financing needs. This was the case especially early in the review period, and by the established tradition of the high-level policy dialogue with the Bank. The Bank's program in **Kazakhstan** included intensive policy advisory work. There were also opportunities to communicate this advice effectively to senior policymakers. However, until very recently, Kazakhstan has been very selective in borrowing from the Bank. In contrast to Mongolia and Zambia, Kazakhstan did not borrow for capacity building in PFM, which contributed to a gap between the depth of the Bank's policy advice and the pace of actual change in PFM practices. In **Bolivia,** the RM component has mostly dropped out of Bank programs since 2006. Although the new administration of President Evo Morales adopted conservative fiscal policies, it did not express interest in promoting institutional reforms to secure their longer-term sustainability. Issues such as anticorruption were not high on the Bolivian government's priority list. Further, the authorities made it clear that they were not interested in the Bank's assistance in this area.

Outcomes and World Bank Group Contribution

SUPPORT FOR MACROECONOMIC AND FISCAL SUSTAINABILITY

The area of macroeconomic and fiscal sustainability was initially among the top priorities identified within World Bank Group assistance strategies in all four countries, although the intensity of subsequent engagement and progress have varied widely—driven by differences in the respective degree of commitment to fiscal discipline. In **Kazakhstan,** the government's reform effort resulted in the most visible progress in setting up and then strengthening the rules governing the use of oil earnings. Establishing conservative fiscal rules to govern the annual oil revenue transfer from the country's National Fund (National Fund for the Republic of Kazakhstan-NFRK) to the budget represents a major achievement. Kazakhstan is the only country in the sample that has an established track record of counter-cyclical policy.[1] The Bank contributed to these outcomes through policy dialogue, direct budget support, and a massive amount of analytical work. Two Bank products were especially important. First, the large and ambitious Development Policy Loan (DPL) (2009, $1 billion) used the window of opportunity during the 2009 crisis to accelerate reforms promoting fiscal sustainability. Apart from specific achievements, such as reduction in budget subsidies to the real sector (while protecting social spending), and rationalization of the use of the National Fund's savings, the DPL helped to cement the government commitment to responsible public resource management, which has continued after the crisis. Second, a Bank report entitled *Oil Rules. Kazakhstan's Policy Options in a Downturn* (2013) contained an assessment of Kazakhstan's current oil rules against possible alternatives (as informed by best international practices) using the results of modeling of various crisis scenarios. It concluded that Kazakhstan's fiscal rules perform well under different types of external shocks, they are simple and practical, and do not need to be replaced by more sophisticated arrangements.

In contrast, in **Mongolia,** fiscal management arrangements failed the test of the commodity boom of 2003–07. The government followed a pro-cyclical policy in 2006–08 when commodity prices hit record levels, which then had unfortunate consequences when the prices collapsed. During the crisis, the government attempted a fiscal adjustment, supported by the Bank's Development Policy Credits (DPCs) and technical assistance (TA). However, it proved to be unsustainable. After the crisis was over, the government's reform effort lost momentum, the newly adopted fiscal reform laws were never fully implemented, and actual budgeting rapidly shifted back to pro-cyclical patterns. For the same reason, the Bank's support to design the Sovereign Wealth Fund (SWF) did not bring any tangible results even though it was technically solid. So far, no consensus exists within the political class of Mongolia around the need for a more responsible fiscal policy. Short-term political priorities have overwhelmed the efforts of Ministry of Finance officials and other reform champions to support prudent fiscal management. According to the recent IMF assessment, budgeting is still pro-cyclical and Mongolia's fiscal framework remains unsustainable (IMF 2012). By contrast, the experience of **Chile** (see box 3.1) emphasized the critical role of the consensus among the political elites with respect to the importance of saving resource rents.

Compared to Kazakhstan and Mongolia, the macroeconomic and fiscal performance of **Zambia** has been less affected by the latest commodity price cycle. For most of the review period, the budget benefitted only marginally from copper price gains because of the prevailing contractual arrangements with mining companies. Zambia did not enjoy much relaxation of its budget constraints, but instead (in the early part of the last decade) became a beneficiary of debt relief (the Highly-Indebted Poor Countries [HIPC] and the Multilateral Debt Relief Initiative [MDRI]), which introduced a framework for subsequent fiscal adjustment, as well as giving an additional impulse to PFM reforms. Following the HIPC completion, Zambia steadily improved its overall fiscal balance and reduced its domestic borrowing requirements between 2005 and 2012. However, the specific fiscal adjustments targets, supported by the Bank, were only partially achieved. Moreover, after the completion of the series of budget support operations (Poverty Reduction Support Credits [PRSCs], 2008–10), the trend toward a decline in budget arrears has reversed, raising concerns about the sustainability of the earlier adjustment. The expansion of Zambia's fiscal envelope, driven by the recovery in copper prices and changes to the taxation regime, has been accompanied by signs of weakening fiscal discipline, for example, significant external borrowing on commercial terms; a tripling of the share of public investments in relation to gross domestic product (GDP); and a significant increase in government salaries. Although the Bank shifted the focus of its program away from fiscal sustainability, it still proposed guidelines for the use of additional resource flows from mining, and advocated the creation of a sovereign wealth fund. This reflected the government's intention at the time to put in place a windfall profit tax and unilaterally abrogate the agreements with the mining companies. The government subsequently reversed its strategy, and revenues from mining expanded only modestly, thus diminishing political support for the establishment of a SWF. Recent growth in mining revenues and the government's plans for budget expansion suggest the need for the Bank to resume its advocacy for a rules-based framework for managing resource flows in Zambia.

Box 3.1. Consensus Matters: The Evolution of Chile's Fiscal Rule

Throughout its history, Chile witnessed significant episodes of macroeconomic instability and high levels of inflation due to its vulnerability to external shocks. These past developments gradually created a consensus for conservative macroeconomic and fiscal policies among the main elements of the political spectrum, and have positioned Chile as a role model for macroeconomic management and sound fiscal discipline.

In the mid-1980s, Chile created the Copper Stabilization Fund to limit public spending at levels determined by what was considered to be the long-term price of copper. The Copper Fund served the country well during the 1997–98 Asian Financial Crisis, when the authorities withdrew $200 million from the fund to finance some counter-cyclical expenditures. In 2001–02, President Ricardo Lagos put forward a self-imposed fiscal rule (not initially enshrined in law), to demonstrate that a left-center socialist government could be fiscally responsible. The fiscal rule was based on a structural balance rule with the objective of designing a fiscal policy with a medium-term perspective that would also isolate government revenues from copper price fluctuations, from fluctuations in activity due to the business cycle, or any other fluctuation in aggregate demand that would lower the level of activity below potential output. The rule set public expenditures in accordance with the long-term revenue projections based on the expected world prices of copper.

The fiscal rule later incorporated an adjustment to account not only for the price of copper, but also for tax revenues as influenced by fluctuations in overall GDP with respect to a trend GDP (to incorporate non-copper taxes). The fiscal rule was formalized in 2006 through a Fiscal Responsibility Law, creating two independent sovereign wealth funds: the Pension Fund (to cover increased liabilities expected for old-age benefits) and the Stabilization Fund (to accumulate resources when copper prices were above the trend and allow for a counter-cyclical fiscal policy when prices fell below the trend).

Chiles's fiscal rule performed an important function during the 2000s. The sharp increase in world copper prices generated an enormous fiscal surplus that accumulated in the sovereign funds (the surplus was 7.5 percent of GDP in both 2007 and 2008). In 2008, the world price of copper hit an all-time high and, at the same time, the popularity of then-President Michele Bachelet hit a low of around 40 percent. The main reason was that she did not spend the income pouring into the country from commodity exports as many Chilean citizens wanted. One year later the global recession arrived and copper prices crashed. However, funds saved during the good times provided the cushion needed to maintain a steady fiscal policy that tempered the downturn. Bachelet's popularity rose to nearly 80 percent. The savings generated during that period allowed the government to implement a strong counter-cyclical fiscal policy at a later point during the global crises of 2009. A large part of the resources drawn from the Stabilization Fund allowed financing of bonuses (direct unconditional transfers) for the bottom 40 percent of the population. It also helped to contain any pressures for an overshooting of the exchange rate during the crisis.

Since the global crises, the formula and the system have become more refined in terms of how domestic taxes can influence the rule, as reflected in increased transparency of the governance of the funds (for example, by using both domestic and external advisors), and the eventual establishment of an Advisory Fiscal Council. The primary function of the council is to advise, assess, and evaluate the fiscal stance in both the short- and long term and oversee the execution of the fiscal rule. The legal status of the council is still under discussion.

An interesting finding in relation to the fiscal rule and its utility in other contexts came out in interviews conducted by the Independent Evaluation Group (IEG). In terms of transferring the Chilean experience with its fiscal rule elsewhere, many interviewees believed that for the rule to be credible it is necessary for a country to have had a prior positive track record of good fiscal behavior (several years of sound budget accounts) prior to its legal imposition. A much less successful experience with the fiscal rule in Mongolia (adopted by the Parliament, but never really followed) supports this point.

Sources: World Bank Group; IEG.

The Bank's macroeconomic dialogue with the Government of **Bolivia** has been limited. The Government of Bolivia managed the latest commodity cycle very successfully by following a conservative and largely counter-cyclical macroeconomic policy, with minimal input from the Bank. Since 2006, the government has followed policies of fiscal restraint and unhurried extraction of mineral wealth. The country achieved solid fiscal and current account surpluses, growing international reserves, and reduced public debt. Growth in budget spending was considerable, but generally well controlled in light of major increases in budget revenues. As a result, as noted by the recent IMF Article IV report, Bolivia's macroeconomic situation has become robust and it is well positioned to withstand short-term economic shocks. From this perspective, Bolivia could be compared to Kazakhstan. The main difference is that Bolivia's policies were designed by the government, with limited advice from international development institutions, including the Bank. Further, its policies were not anchored in formal institutions (such as fiscal rules and a Stabilization Fund) that could help to ensure longer-term sustainability. Recent fiscal restraint seems to depend on the discretion of the top leadership (President and Minister of Finance). Moreover, there has been a concern regarding growing fiscal pressures as the government's traditional allies, including labor and indigenous groups, have been pushing for larger participation in gas proceeds, increases in pensions, fuel subsidies, and so on. In this context, a relevant lesson from the **Botswana** experience is that, absent formal restraints, the discipline in fiscal policy-making tends to soften over time at both the project (costing of projects) and the macro (commitment to fiscal rules) levels (World Bank 2010). Botswana has also experienced the erosion of the Ministry of Finance's authority in coordinating the budget process. Over the longer term, diamond rents have led to an over-expansion of the government. This is particularly apparent in terms of its distortive effect on the labor market. The government's wage bill is high by international standards and, combined with subsidies and transfers, accounts for about 50 percent of total expenditures, thereby limiting room for fiscal policy flexibility and pushing up labor costs for the private sector.

REFORMING PUBLIC FINANCE MANAGEMENT

Strong macroeconomic and fiscal discipline does not necessarily guarantee efficient use of budget resources at the level of public service delivery. This underlines the need to develop good national systems of expenditure allocation and use. For example, **Botswana**'s failure to modernize its PFM system in line with changing country needs has been the primary cause of declining productivity of public investments over the past 20 years, resulting in a disparity between budget spending and development outcomes. While public spending in Botswana is high for a middle-income country (MIC), the country ranks below other MICs in social indicators. Nearly a quarter of Botswana's public spending goes to education—significantly more than in comparator countries, yet with similar, or even worse results.

During the review period, the Bank made a significant and consistent effort to help all four CPE countries to improve their PFM practices. The Bank's strategies consistently emphasized the strengthening of the legal and institutional framework for PFM, improving budget accounting and reporting, introducing a medium-term expenditure framework (MTEF), advancing procurement reforms, rationalizing expenditure allocation, and modernizing debt management and internal control and audit. The Bank's core analytical work (Public Expenditure Review [PER], Public Expenditure Management and Financial Accountability Review [PEMFAR], and Public Expenditure and Financial Accountability [PEFA]) was of high quality. However, the actual follow-up on Bank policy recommendations in the PFM area was rather selective, and the reforms initiated with the Bank's assistance often remained incomplete.

There is clearly a positive trend toward strengthening national PFM systems, but more remains to be done. The PFM systems in **Mongolia** and **Zambia** remain weak despite many years of engagement, as is domestic ownership for further reforms. Moreover, in all cases, and especially in **Kazakhstan** and **Mongolia**, progress on the legislative and regulatory side has been stronger than actual policy adjustments. Some of the recent capability improvements remain underused, and those improvements have not yet brought many tangible benefits.

Individual achievements in **Zambia** have not resulted in an effective modernization of the entire PFM system. The government moved selectively, and mainly in the areas that do not challenge strong vested interests. Whenever a change posed a risk to the status quo, the implementation slowed down (Integrated Financial Management and Information System [IFMIS]) or stopped completely (decentralization). The absence of commitment to comprehensive PFM reform means that even if there is progress under one PFM component, inefficiency and rent-seeking gravitate to other parts of the government program. It is therefore likely that in the event of a sizeable increase in government revenues in Zambia, their productive use will be hampered by the current institutional arrangements and incentives.

In the area of PFM legislation, the Bank has made a major contribution to a complete overhaul of the legal and regulatory framework for budgeting and expenditure management in **Mongolia**. However, implementation of these laws has lagged in many areas, such as controlling the pace of budget expansion and increasing the transparency of spending.

In the area of revenue management, including tax and customs administration, the Bank's program in **Kazakhstan** has been an important success story. In 2007–09, the government implemented most of the changes recommended by the Bank on both tax policy and administration. This was accompanied by a significant improvement in revenue performance, boosted by higher oil revenues. Kazakhstan's progress on tax administration was even more impressive.[2] There was an important synergy in this area, where high-quality analytical work was complemented by successful investment projects in tax and custom administration. However, except for **Mongolia**, none of the four CPE countries engaged with the Bank on the core policy choices about commodity taxation (oil, gas, copper). Instead, they sought advisory support elsewhere, including from the private sector.

The Bank remained largely disengaged in the dialogue on tax policy and administration in **Zambia**, where public revenues underperformed during the price boom relative to most other mining exporter countries. The Bank team decided not to advocate adjusting the existing mining agreements that had become increasingly inadequate as copper prices reached record highs after 2004. In retrospect, the Bank could have done more to promote a consensus between the government and industry regarding a coordinated shift towards higher taxation levels and better public services, regulation, and infrastructure for investors. Moreover, the Bank could have started earlier in strengthening the capacity of the Ministry of Finance to analyze mining company accounts and identify the inappropriate use of transfer pricing and depreciation allowances.

In the area of budget formulation and planning, the Bank emphasized relatively advanced concepts such as results-based budgeting (RBB) and a medium-term expenditure framework. Their implementation proved difficult, even in the relatively high-capacity public sector environment of **Kazakhstan**. Despite various improvements in the legal framework for RBB in Kazakhstan, the government budget planning practices remain excessively complex, with too many simultaneous plans required at each level. In **Mongolia** and **Zambia** there was also only partial progress with MTEF implementation (as could be seen by the drastic expansion of fiscal envelopes in both countries recently), notwithstanding much effort by the Bank and its donor partners.

In the area of budget execution, accounting and reporting progress has been slow and often disappointing in both **Mongolia** and **Zambia**. However, more than a decade of efforts has started to show results. The modern government financial management information systems (GFMIS) have been at the center of their programs. In **Mongolia**, the rollout of the GFMIS to all local governments represented the single most important achievement of PFM reforms to date. In **Zambia**, the GFMIS, supported by the Bank's public sector management projects, also became an institutional platform for strengthening government capacity in budget control and execution, and in public access to information.

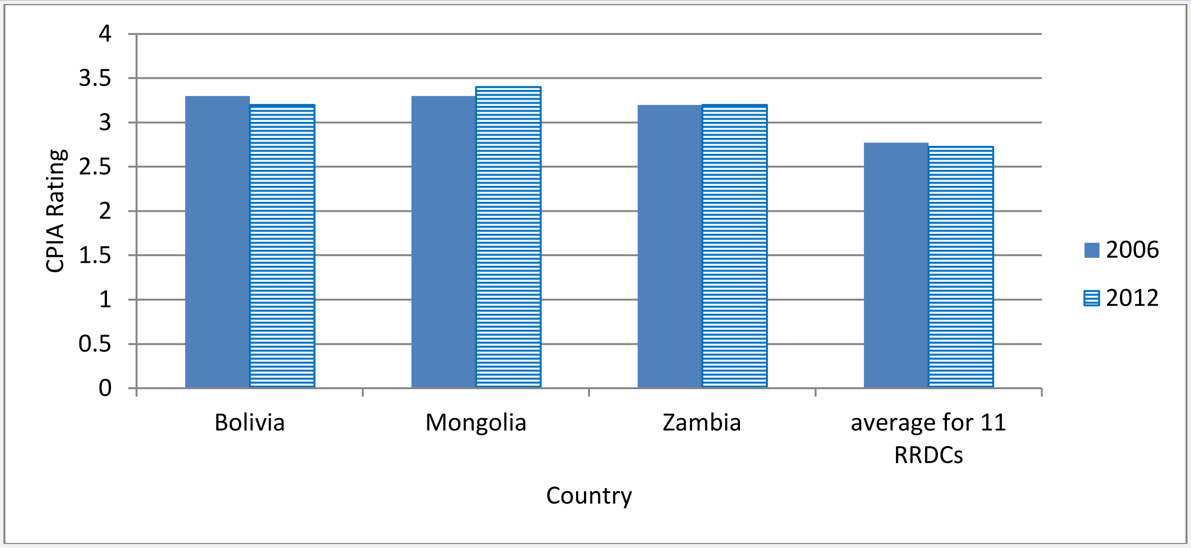
In **Kazakhstan**, following Bank advice, the government upgraded its capacity for public debt management, including the development of the Government Debt Management Strategy. At the same time, progress on strengthening the oversight of state-owned enterprise (SOE) debt in Kazakhstan has been lagging. In **Bolivia,** the Bank also provided advice on the public debt management system when the government made the transition to a blend International Development Association (IDA)/International Bank for Reconstruction and Development (IBRD) status.

While each individual PFM project in this group was only modestly successful at best, the strategy of long-term engagement has been gradually bearing fruit. IEG project-level reviews questioned the appropriateness of the Bank's approach to PFM-related lending in both **Mongolia** and **Zambia**, arguing that the systems that were supported were too complex and ambitious, and that an alternative strategy of consolidating the "basic" systems first could have been more appropriate in a low-capacity environment (Wescott 2008). When viewed over a decade, however, one can see how the accumulation of small, gradual changes has brought about substantial achievements by greatly expanding the capabilities of respective government agencies. The strategy of long-term sustained engagement has paid off in the end, albeit somewhat later than expected.

STRENGTHENING GOVERNANCE AND ACCOUNTABILITY ARRANGEMENTS

The governance and accountability agenda has been high on the list of Bank program priorities in all four countries. The most popular themes included: (i) support for broad anticorruption initiatives; (ii) strengthening external audit and parliamentary oversight; and (iii) supporting the EITI. Actual progress has been rather limited and slow, compared to the fiscal sustainability and PFM subsectors. Despite regular issuance of high-level statements, none of the four countries has pursued an ambitious program of governance reforms. Indeed, actual commitment to confront vested interests has been weak.

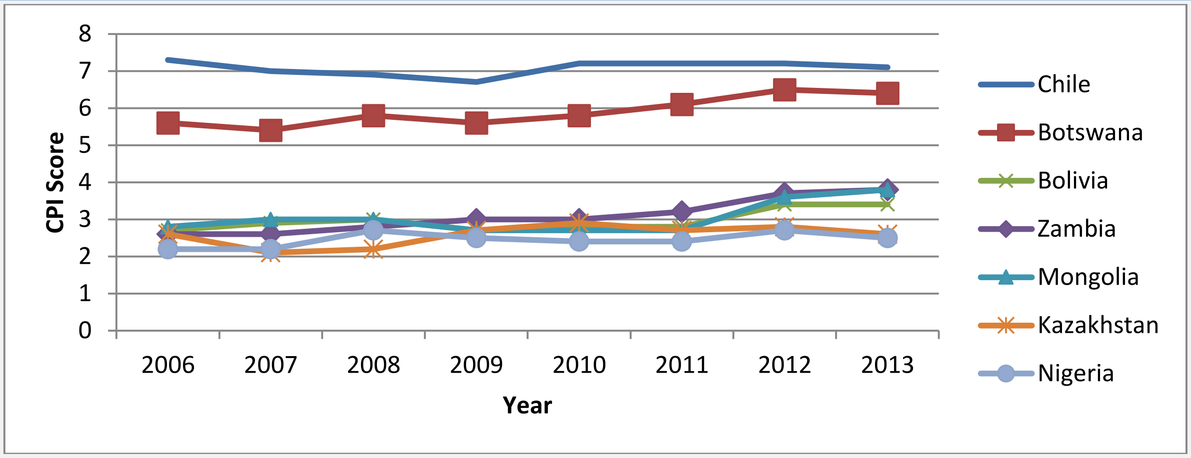
Figure 3.1. CPIA Rating for the Quality of Public Sector Management and Institutions, Cluster Average, 2006 and 2012



Source CPIA/World Development Indicators, World Bank.
Note: 1 = low rating; 6 = high rating. CPIA= Country Policy and Institutional Assessment; IDA = International Development Association; RRDC= resource-rich developing country. The average is estimated for a sample of 11 low-income RRDCs (IDA recipients) that includes: Angola, Bolivia, Cameroon, Chad, the Democratic Republic of Congo, Mongolia, Nigeria, Papua New Guinea, Sudan, Timor-Leste, and Zambia.

A general measure of institutional quality, the Country Policy and Institutional Assessment (CPIA) rating for the quality of public sector management and institutions, did not show any real improvement between 2006 and 2012 in **Bolivia, Mongolia,** and **Zambia** (figure 3.1).[3] While their ratings are higher than the average for the peer group of 11 resource-rich IDA recipients, in absolute terms, the ratings remain quite low, that is, below 3.5 on the 6–point scale. These three countries, however, have done better on the Transparency International's Corruption Perception Index (CPI). Their CPI ratings improved over the last decade, especially after 2011 (figure 3.2), albeit from a low level. The "corruption perception gap," relative to countries with stronger institutions, such as **Botswana** and **Chile**, remains significant. According to Transparency International, much of these recent improvements should be attributed to the strengthened legal framework and capabilities to investigate and prosecute corruption cases. Much less progress was recorded with respect to strengthening government accountability institutions. In **Kazakhstan**, in contrast to the other three countries, corruption perceptions did not improve at all between 2006 and 2013, and remain poor—at a position of 140 out of 177 countries rated.

Figure 3.2. Corruption Perception Index Scores for Selected Resource-Rich Countries, 2006–13



Source: Transparency International.

EITI (see box 3.2) has been used by the Bank Group as an important instrument for improving governance and institutions in the extractives sector in three countries—Kazakhstan, Mongolia, and Zambia (see table 3.1). Kazakhstan became fully EITI compliant in 2013, Mongolia in 2010, and Zambia in 2012. The EITI process has been quite successful, especially in Kazakhstan and Mongolia, where it has helped to set up new national standards for accountability and disclosure of resource-related revenues, and served as an instrument of empowerment for local civil society groups. In Bolivia the government showed no interest in EITI, despite several overtures from the Bank.

Table 3.1. Selected EITI Report Indicators, 2005–11

Country	Period Covered	2005	2006	2007	2008	2009	2010	2011
Kazakhstan	Sectors covered	Oil	Oil, gas, mining	Oil, gas, mining	Oil, gas, mining	Oil, gas, mining	Oil, gas, mining	Oil, gas, mining
	Number of reporting companies	38	103	108	109	123	164	170
Mongolia	Sectors covered	NA	Mining	Mining	Mining	Mining	Mining	Mining
	Number of reporting companies	NA	35	38	36	76	264	200
Zambia	Sectors covered	NA	NA	NA	Mining	Mining	Mining	Mining
	Number of reporting companies	NA	NA	NA	16	28	20	26

Source: Extractive Industries Transparency Initiative (EITI).

Note: Bolivia is not yet a member of EITI; NA = not available.

Box 3.2. World Bank Group Engagement with the EITI

In the late 1990s and early 2000s, there was an increased interest and debate around the "resource curse." There was recognition that the huge potential benefits of oil, gas, and mining were not being realized in many developing countries, and were instead linked with increased poverty, conflict, and corruption.

The Extractive Industries Transparency Initiative (EITI) was launched in 2002 at the World Summit on Sustainable Development in Johannesburg. It is a multi-stakeholder initiative to encourage governments, companies, international organizations, civil society organizations (CSOs), and others to work together voluntarily to develop a framework to promote the transparency of payments and revenues. The initiative was grounded in a shared belief that the EITI could help address the paradox that two-thirds of the world's poorest people live in countries that are rich in natural resources, that is, they are impacted by the resource curse.

The World Bank endorsed the EITI and established the Multi-Donor Trust Fund (MDTF) for EITI in 2004 as a global partnership to harness donor resources to develop and broaden the EITI process. The objective of the MDTF–EITI was to increase the transparency of payments made by industry and revenues received by host governments from oil, gas, and mining production. The underlying rationale was that it would help reduce poverty in resource-dependent countries by addressing the resource curse. To date, the MDTF has disbursed around $60 million in technical and financial assistance to EITI programs in 37 countries.

Source: World Bank Group and EITI.

In **Kazakhstan,** the Bank's technical assistance for EITI was seen as a critical input for building local capacity and enhancing the credibility needed to sustain a multi-stakeholder process. It has begun to broaden citizen participation in governance issues at both the national and local levels. The EITI process may have encouraged the Ministry of Finance to improve the disclosure and accessibility of budget information. Indeed, Kazakhstan's Open Budget Index has improved from 35 (below average) in 2008 to 48 in 2012, which is higher than the average for the 100 countries surveyed. By many accounts, even prior to Kazakhstan's achievement of EITI compliance, the EITI process enabled more concrete and practical debates between CSOs, government, and industry around various important hot topics. Similarly in **Mongolia**, the EITI program contributed to revenue management by improving the mining industry's compliance with applicable taxes. It demonstrated the feasibility of the multi-stakeholder approach to promoting a public policy agenda and facilitated opportunities for CSOs to get involved in other priority areas, such as budget monitoring and environmental management. In **Zambia**, Bank support to EITI helped to broaden public access to information on mining revenue flows and strengthened the demand side of reforms by building a local nongovernmental organization (NGO) coalition, but the benefits of this have been less than expected. Although the EITI process in Zambia produced considerable evidence of mining companies being systematically under-taxed, the government was slow to act on these findings.

Outside of the EITI, the Bank's efforts to promote accountability and stronger governance were rather fragmented, often explained by insufficient interest from the clients. In **Kazakhstan,** the Bank provided TA in specific technical areas (Accounting Committee, transition to International Public Sector Accounting Standards [IPSAS], and so on). However, there is no evidence of a comprehensive anticorruption program, which was one of the CPS targets. Similarly, in **Bolivia**, supporting governance and public institutions was a key component of Bank Group strategies throughout the evaluation period, but with sharply declining intensity of engagement because of a lack of interest from the authorities. Since 2008, the Bank drastically downsized its involvement in the governance area in Bolivia. In **Mongolia**, the Bank's primary vehicle to pursue accountability objectives was investment lending to strengthen PFM, as discussed in the previous section. Bank projects also supported reforms in public sector accounting, auditing, and budget monitoring—but all remain far from complete. For instance, whereas the timing of external budget audits has improved, the findings are not regularly made public. Moreover, the recent quasi-fiscal programs administered by the newly established Development Bank of Mongolia (DBM) have raised concerns about extra-budgetary spending. The DBM disbursed large amounts of project financing with limited parliamentary oversight, and without being subject to regular government procurement procedures. In **Zambia,** the Bank's strategy was similar to Mongolia, with a significant emphasis on improved functionality and coverage of GFMIS and associated benefits. In addition, the Bank's interventions may have helped empower new constituencies to push for further reforms in budget transparency and accountability, such as the Office of the Auditor General and the NGO community. However, inadequate ownership of reforms is constraining full use of newly upgraded capabilities. For instance, the improved quality of the annual budget audit did not bring tangible accountability benefits, as there was little interest among the political elite to act on the findings of the Auditor General's reports.

Stimulating local demand for stronger government accountability was a particular area of weakness in the Bank's programs under review. This was especially the case in Kazakhstan (outside of the EITI process) and Bolivia, where the Bank has tried to position itself as a trusted advisor to the government, while limiting its engagement with nongovernmental groups. The Zambia program achieved the most traction in this area, but even there the Bank was slow to start supporting demand-side interventions. In Mongolia, the Bank has gradually expanded its efforts to reach out to parliament and civil society organizations to broaden the understanding of risks associated with mineral resource revenues and to support public demand for good governance.

Conclusions

The World Bank is well-positioned to assist RRDCs in implementing policies and institutions that promote macroeconomic and fiscal sustainability, as well as in helping these countries establish a track-record of counter-cyclical policies. Further, it would be important to undertake an analysis to develop realistic contingency plans for dealing with price downturns. Fiscal rules proved to be useful in this regard. However, even in the absence of such rules, the Bank could systematically monitor and analyze performance and provide governments and the public with this information, as well as with information on the performance of key comparator countries.

Policy consensus across the political spectrum, including full recognition of the need to save part of resource rents over the commodity cycle, is a critical ingredient for success in the sustainable management of commodity revenues. When such consensus is lacking (for example, in **Mongolia** and **Zambia**), the countries will remain exposed to the risks of the resource curse, despite efforts by the Bank Group and development partners. Wide dissemination of the Bank's analytical work findings and engagement of local players in their preparation can be powerful tools for strengthening local ownership of reforms. Bank Group support for the EITI process in three of the countries was an effective demand side instrument, and a visible platform for CSOs to discuss and demand transparency and accountability from government and industry officials.

Bank instruments for delivery of PFM support were largely adequate. There has been an important synergy in promoting key program objectives through the simultaneous and complimentary use of budget support and investment lending backed by up by high-quality analytical work. In **Mongolia** and **Zambia** (and to a lesser extent in **Bolivia**), the Bank delivered the core part of its capacity building support through a programmatic approach. Although individual TA projects within these programs have been seen as only modestly successful (largely due to their overambitious design) over the whole period of 10+ years, these programs managed to deliver significant improvements in core RM capabilities. This underlines a clear benefit associated with continuity and consistency of engagement with clients on PFM reform issues. The policy areas that may require further attention include: taxation of resource rents; stimulating local demand for PFM reforms; and country-specific sequencing of interventions in the core PFM systems so as to reflect more accurately the prevailing capacity constraints.

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[1] Over the period of 2002–08, Kazakhstan ran budget surpluses averaging 2.5 percent of GDP. During the 2008–09 crises, the government used oil savings to finance a program of fiscal and monetary stimuli estimated at $17 billion. This helped to smooth the overall effect of the global crisis on the Kazakh economy and supported rapid recovery in 2010–11. The program of budget support was duly downsized as soon as the worst of the crisis was over. As of early 2014, the government has accumulated savings of over $40 billion in its oil fund.

[2] Kazakhstan moved from the 66th position in 2007 to 18th in 2014 on the global ranking for Ease of Paying Taxes (a component of the Doing Business rankings).

[3] CPIA ratings for non-IDA countries, such as Kazakhstan, are not public information.