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FEATURED Q&A

How Can Funds From Natural Resource Wealth Be Best Managed?

Q As high commodity prices are helping to fill government coffers with record revenue from natural resources wealth, many Latin American countries are debating not only the best way to capture this revenue, but also who can best manage it. Are local communities or central governments best equipped to manage such funds? What is the most fair and efficient way to manage revenue from natural resources wealth?

A **Guest Comment: Kathryn Hewlett-Jobes:** "While much has been learned over the past decade about how to best manage resource revenues, too often the lessons of experience are what not to do, rather than approaches that could be considered best practice. There are too many examples of resource revenues encouraging the formation of elites, unsustainable levels of consumption, and sometimes violent conflict among rent-seeking groups. Revenues can quickly become toxic, encouraging corruption and undermining institutions. Fair and efficient management must be built on a clear understanding of how easy it is to succumb to corrupted decision-making, and on the establishment of transparent mechanisms to keep this in check. The Extractive Industry Transparency Initiative is an important attempt to organize both governments and companies to disclose payments and thereby reduce temptations for distorted policymaking and misdirection of funds. In deciding how to direct

revenues from resource development, it is vital to consider where it is more likely that decisions can avoid the many corrupting temptations, and where it is most likely to result in creating something sustainable. In most countries, central governments are the best equipped to undertake major infrastructure and education projects, while community-level initiatives are essential to broadening the economic benefits and translating resource development into poverty reduction. Other approaches focus on getting funds more directly to the public through microfinance, housing

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Mexican Congress Convenes Outside Normal Chambers

Mexican lawmakers convened outside their regular chambers on Tuesday amid an occupation of the chambers by opponents of an oil sector reform bill. See story on page 2.

Photo: Mexican Senate.

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NEWS BRIEFS

Brazil and Russia to Jointly Develop Fighter Jet

Under a joint agreement signed Tuesday, Brazil and Russia plan to jointly develop fifth-generation jet fighters and rockets that can launch several kinds of satellites into space, the Associated Press reported. The deal also involves advanced cybernetics training and the transfer of technology. Earlier this year, France said it would transfer technology to Brazil to build an attack submarine, helicopters, and a fighter plane.

Thousands of Colombians Evacuate After Volcano Erupts

Thousands of Colombians had to evacuate their homes Tuesday when the remote Nevado del Huila volcano erupted, the Associated Press reported. About 3,500 people had to leave their villages, which are about 150 miles southwest of Bogota, due to concerns a melting snowcap would flood the Rio Paez, which descends from the mountain, according to the local Red Cross. In 1985, some 25,000 people were killed in Colombia's worst natural disaster when another volcano, the Nevado de Ruiz, erupted and caused mudslides.

Argentina to Allow Tax-Free Diesel Imports to Help Harvest

The Argentine government said Tuesday it would allow tax-free diesel imports of 1.8 million cubic meters, Reuters reported. The measure comes as farmers in Argentina, one of the world's top grain exporters, harvest soybeans, corn, and sunflowers, and prepare to sow wheat. Under the measure, energy companies will be able to submit proposals to import a first tranche of up to 500,000 cubic meters, according to Reuters.

Economic News

Venezuelan National Assembly Approves Tax on Windfall Oil Profits

With world oil prices rising to a record high on Tuesday, Venezuela's National Assembly approved a new tax on foreign oil companies' windfall oil profits, a measure the government expects to bring in an extra \$9 billion in revenues per year. The Assembly, controlled by supporters of Venezuelan President Hugo Chavez, okayed a tax of 50 percent on profits when oil prices exceed \$70 per barrel, rising to 60 percent at \$100 per barrel, the Associated Press reported. The measure was approved as oil prices rose to a record-high \$114 per barrel in trading on Tuesday. Oil Minister Rafael Ramirez said the government expects to pull in \$770

The measure was approved as oil prices rose to a record-high \$114 per barrel in trading on Tuesday.

million per month, or \$9 billion per year, from the new tax, according to Reuters. Analysts, however, say that figure is exaggerated, especially if prices fall back below \$100 per barrel, and say it could add further disincentive to foreign oil companies to invest in Venezuela, where Chavez has been steadily increasing control over the country's oil sector in recent years. Chavez, who has invested Venezuela's oil wealth into social projects as part of his "Bolivarian revolution," says proceeds from the windfall tax will be used to fund community development projects designed by neighborhood-based assemblies. The extra spending comes ahead of elections later this year and amid growing discontent with the government's response to crime and food shortages.

Hot Peruvian Economy Grew Nearly 12 Percent in February

Led by a construction boom, Peru's economy expanded a higher-than-expected 11.92 percent in February compared to the same month a year earlier, the biggest

monthly jump in growth since 1995, the government's National Statistics Institute said Tuesday, according to Reuters. Construction soared 22.49 percent year-on-year in February, while the mining sector, the main engine of growth in Peru, expanded 14.65 percent. Peru has enjoyed a strong economic expansion in recent years on the back of mining exports, posting growth of 7-9 percent the past three years. Earlier this month, improvements in the Andean nation's fiscal outlook and debt picture prompted **Fitch Ratings** to award Peru a coveted investment-grade rating, a move which is expected to increase the country's access to credit and strengthen the economy further. Some analysts caution, however, that the economy could be overheating, pointing to a recent pick-up in inflation. Consumer prices in metropolitan Lima rose 2.18 percent in the first three months of 2008, eas-

ily on pace to exceed the Central Bank's annual inflation target of 2 percent, plus or minus one percentage point, according to Reuters. Inflation was nearly 4 percent in 2007.

Political News

Mexican Lawmakers Hold Sessions Outside of Regular Chambers

Mexican lawmakers convened outside their regular chambers on Tuesday as leftist members of Congress continued to occupy the chambers to protest an oil sector reform bill proposed by President Felipe Calderon, Reuters reported. As lawmakers crammed into smaller rooms elsewhere in the Congress building, Senator Santiago Creel, of Calderon's conservative PAN party, said legislators would not negotiate with the protesters. "If they want to stay there, there will be sessions in the other room," Creel said of the protesters. It was only the fifth time ever and the first time in a century that lawmakers have

been forced to relocate their sessions, according to Reuters. Speaker of the House Ruth Zavaleta, a member of the opposition PRD party, some of whose members are participating in the blockade of the normal chambers, called the forced relocation "an indignity, because we are lawmakers and we were elected and deserve to work in the chamber," Bloomberg News reported. Zavaleta said lawmakers would move ahead with debating the oil reform bill, which Calderon submitted to Congress last week. Calderon said the reform is aimed at giving state-owned oil monopoly Pemex more flexibility in hiring foreign and private companies to explore, produce, refine, and transport oil. He said action on oil reform was urgent because of declining production at Mexican oil fields and a lack of resources to invest in exploration and production at new fields. Opponents of the bill, including leftist Andres Manuel Lopez Obrador, who narrowly lost the 2006 presidential race to Calderon, say the bill seeks to privatize Pemex, which Calderon denies. The protesters occupying the congressional chambers are demanding the PAN agree to a months-long debate of the legislation, and reject the PAN's offer of a 50-day debate.

Top House Republican Asks Pelosi to Detail Demands on Colombia FTA

The top Republican in the US House of Representatives on Tuesday urged House Speaker Nancy Pelosi to spell out "exactly" what action she wants Congress to take before lawmakers vote on a free trade agreement with Colombia, questioning whether she was being purposefully vague in her demands in order to block a vote, Reuters reported. In a letter to Pelosi, a California Democrat, House Republican Leader John Boehner of Ohio said her demands for action to help Americans cope with current economic woes as a condition for allowing a vote on the trade deal were "both broad and vague, causing some to question whether you are simply using these demands as a



Boehner

Photo: Office of Rep. Boehner.

Subscriber Notice

Inter-American Dialogue Discussion on

Slowdown and Financial Turmoil in the US: Risks for Latin America's Economies

with

L. Enrique García

President of the Andean Development Corporation

Brian O'Neill

US Deputy Assistant Secretary of the Treasury
for the Western Hemisphere

Nora Lustig

Visiting Professor at George Washington University's
Elliot School of International Affairs

Tuesday, April 22, 2008
8:30 - 10:00 am
Inter-American Dialogue
1211 Connecticut Avenue, NW Suite 510
Washington, DC

RSVP to meetings@thedialogue.org

Please include your name and affiliation.

pretext for blocking the trade agreement altogether." He asked that by next Tuesday Pelosi "detail exactly what issues you want to see action on in order to bring the [Colombia trade pact] to the House floor for a fair, straight up-or-down vote." Last week, the Democratic-controlled House voted to indefinitely delay action on the pact after President George W. Bush submitted the trade bill in an attempt to force a vote. The Democrats' action angered the White House, which called the move "unprecedented." On Monday, Bush said the trade agreement with Colombia is "dead" unless Pelosi schedules a vote on it,

and said it was not in the US' interests to "stiff" Colombia. Pelosi said Monday it was still possible Congress could pass the agreement this year if the White House and Democrats agree on new legislation to bolster the US economy. Democrats, including presidential candidates Hillary Clinton and Barack Obama, say Congress should not vote on the trade deal until Colombia does more to stop killings of trade unionists. The White House argues Colombia has already done much to reduce violence and says rejecting the agreement would hurt one of the United States' strongest allies in Latin America.

Featured Q&A*Continued from page 1*

schemes, or direct stipends. Whatever combination is chosen by each country, it is clear that turning the resource curse into a blessing is a complex task that calls for the involvement of both central governments and communities, as well as industry and citizens."

A Guest Comment: Vito Tanzi: "Two aspects need to be addressed. First, current commodity prices have been influenced by the exceptional business cycle of recent years. Second, the natural (mineral) resources of most countries are finite. If the current cycle should change, the commodity prices could fall fast and the trade surpluses could vanish quicker than spring snow. Even if prices stay high, exporting countries are trading (mostly) exhaustible assets against foreign exchange. When earnings are consumed rather than invested, the countries become poorer in some fundamental way. Assets that remain unproductive as long as they are unexploited must be converted into assets that generate future incomes. Only that income can be consumed. Local communities are not likely to have the political incentives to preserve the capital received if a system could be developed to distribute to them the record revenue from exploited natural resource wealth. However, central governments may also be tempted, or pushed, to spend any extra earnings immediately. This happened in the past. The best alternative would be some variant of the one followed by Norway, Kuwait, and recently by an increasing number of countries, including Chile, to invest the earnings from exhaustible resources professionally and internationally and to consume only the income from these investments. Whether that income should be consumed centrally or by local communities should depend on the specific conditions of the countries."

A Guest Comment: Robert Montgomery: "In terms of managing the financial resources generated by natural resource projects, there is not 'a' method

for Latin American countries. The key is to strive to meet several fundamental concepts and being cognizant of the difference in resource management versus use. Fundamental is transparency and accountability in their use and also implementing specific measures to provide benefits to local communities where the project generating the revenue is located. It is important to balance the need for immediate resource use to address the numerous pending local and national needs with effective and efficient resource utilization. Making financial resources available is not sufficient to deliver benefits or resolve problems without specific support in planning, project identification, and project/investment management to increase institutional capacity in the entities responsible for utilization of these resources. Flexibility and innovation is needed, such as creating independent funds that have strong capacity and specific directed mandates in terms of resource use. Alternatively, mechanisms that securitize future royalty payments (*i.e.*, once the project is operational) can be created to make resources available in the short and medium term to immediately fund projects that provide opportunities and benefits. Finally, it is important to understand that these resources are 'time-limited' (gone when the petroleum or mining resource is depleted) and 'time-variable' (subject to fluctuations in royalty payments), thus requiring strong short- and long-term financial and economic planning by those entities utilizing (dependent) on these resources."

Kathryn Hewlett-Jobes is a consultant specializing in private-sector development and is a former Senior Advisor to the Inter-American Development Bank's Multilateral Investment Fund.

Vito Tanzi is a former Director of the Fiscal Affairs Department at the International Monetary Fund.

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