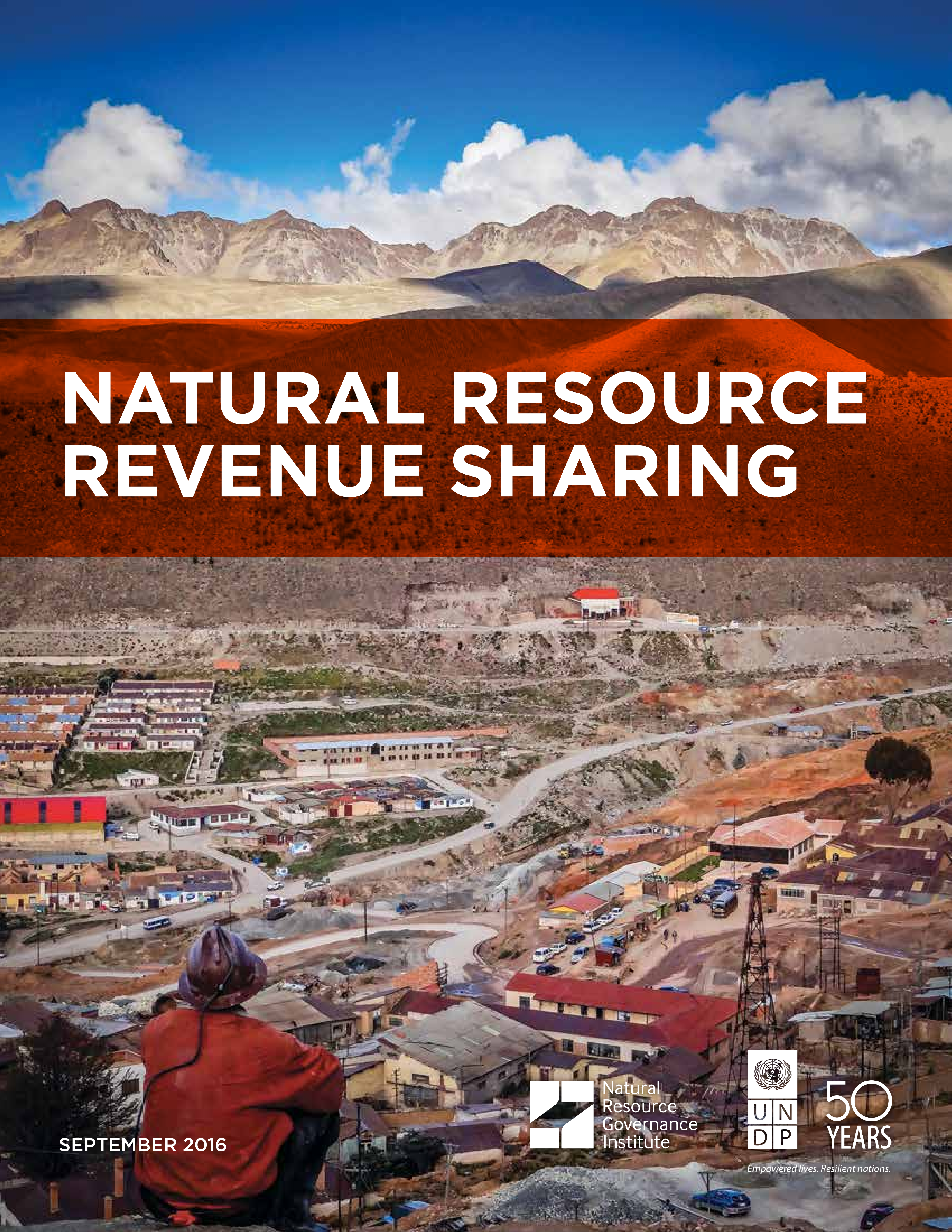
NATURAL RESOURCE REVENUE SHARING



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LIST OF ACRONYMS AND ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
DRC	Democratic Republic of the Congo
EITI	Extractive Industries Transparency Initiative
GDP	Gross Domestic Product
HIPC	Heavily-Indebted Poor Countries
IDH	Impuesto Directo a los Hidrocarburos; Direct Tax on Hydrocarbons (Bolivia)
KRG	Kurdistan Regional Government (Iraq)
LDF	Local Development Fund (Mongolia)
LGC	Local Government Code (Philippines)
MDA	Mineral Development Act (Malaysia)
PSA	Production Sharing Agreements
NRGI	Natural Resource Governance Institute
RDF	Regional Development Fund (Kyrgyzstan)
SOE	State-Owned Enterprise
UAE	United Arab Emirates
UN	United Nations
UNDP	United Nations Development Programme
VAT	Value Added Tax

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FOREWORD

Increasingly, countries are creating special regimes for allocating non-renewable natural resource revenues to subnational governments. Government motivations for establishing these systems vary from country to country. In some, revenue sharing systems have been used as a way to address local claims over resource ownership or demands for more benefits from resource extraction. In others, they are viewed as compensation for environmental degradation and other negative effects of extraction. In still others, the distribution of resource revenues has been employed to help defuse violent resource-related conflicts.

The proliferation of these subnational systems in recent years—and their considerable impacts on the quality of public spending by resource-rich subnational governments—calls for an in-depth examination of their design and implementation. This is especially the case given that many of the dozens of country cases presented in this report feature situations where natural resource revenue sharing led to wasteful public spending, exacerbation of regional inequalities, or even escalation of violence.

Yet, to date, there has only been sporadic research on this topic, often focused on a specific country or region. This Natural Resource Governance Institute (NRGI) and United Nations Development Programme (UNDP) policy paper represents a comprehensive global survey of natural resource revenue sharing regimes. One of our aims is to summarize these global experiences and make them accessible to policymakers, academics and public finance, resource governance and conflict experts.

Further, this paper provides policymakers with key recommendations to guide the establishment of technically and economically sound natural resource revenue sharing systems (or to reform existing ones), while recognizing that revenue sharing systems are the result of political processes. It is our hope that the case studies, lessons and principles contained in this report will help steer policymakers and negotiators through complex decision making processes, and contribute to the establishment of revenue sharing regimes that help achieve sustainable development and national accord.

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EXECUTIVE SUMMARY

In nearly every country, subnational governments receive public funds through a combination of direct tax collection and transfers from the national government. In most, non-renewable natural resource revenues are apportioned no differently than other revenues. However, in more than 30 countries—most of them resource-rich—distribution of non-renewable natural resource revenues is governed by a set of rules that are distinct from those governing distribution of general revenues.

In a majority of these countries, revenues from the oil, gas and mineral sectors are collected by the national government and transferred back to their area of origin or adjacent areas. Angola, Bolivia, Brazil, Cameroon, Canada (some regions), Chad, China, Colombia, the Democratic Republic of the Congo (DRC), Ecuador, Ethiopia, Ghana, Guinea, India, Indonesia, Iraq, Italy, Kyrgyzstan, Madagascar, Malaysia, Mexico, Mongolia, Niger, Nigeria, Papua New Guinea, Peru, the Philippines, South Sudan, Uganda, the United States (some regions) and Venezuela each have enacted a 'derivation-based' intergovernmental transfer system for all or part of their mineral, oil or gas revenues.

Some resource-rich subnational governments are extremely dependent on these transfers. In Nigeria and Peru, for instance, more than 80 percent of the budgets of some subnational governments depend on resource revenue transfers from the central government.

A few countries also transfer some of their natural resource revenues to subnational governments using an 'indicator-based' formula. In these countries, the national government distributes natural resource revenues to subnational authorities based on a set of objective indicators—such as population, revenue generation, poverty level or geographic characteristics (e.g. remoteness)—irrespective of where the natural resources are extracted. Ecuador, Mongolia, Mexico and Uganda are examples of countries which use indicator-based resource revenue sharing formulas.

In another set of countries—including Argentina, Australia, Canada, China, India, the United Arab Emirates and the United States—subnational governments collect substantial revenues directly from oil, gas or mining companies. Direct tax collection from the natural resource sector can constitute a significant proportion of local budgets. For example, from 2012 to 2014 more than