

Synthesis

From Conflict to Collaboration

Lessons learned from RWI interventions in oil, gas and mineral-producing areas

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Oil, gas and mining revenues for local development

From 2008 to 2012, RWI provided support to governments and civil society in subnational areas in Ghana, Indonesia, Nigeria and Peru. The goal was to help these administrations address specific challenges in using new oil and mineral revenues to improve the lives of local residents.

RWI's pilot projects aimed both to improve subnational resource governance, and to develop successful models that could be applied in new contexts.

RWI's pilot projects involved a combination of different interventions:

- Providing **capacity building** through training, mentorship, access to resources and experts, ongoing coaching and follow-up support;
- Dispatching **experts for targeted advice** to counterparts on highly complex and technical fiscal and economic issues, such as forecasting revenues, managing resource windfalls and volatility through funds, increasing local content, medium-term planning and monitoring of revenues and expenditure.
- Organizing regional and global workshops to share experiences and build a larger **Community of Practice (COP)**;
- Producing original **research and analysis** that document the impact of natural resource extraction, the positive effects of transparency, and the comparative impact of tools and mechanisms designed to address challenges encountered with resource revenues; and
- Forming **multi-stakeholder platforms** to catalyze and monitor policy reforms, build trust among diverse stakeholders, and sustain change after the project end.

Why was this project important?

Of the 58 resource-rich countries in RWI's 2013 *Resource Governance Index*, a measure of transparency and accountability in the oil, gas and mining sector, 30 have revenue-sharing mechanisms whereby national governments transfer natural resource income to state, regional and local governments. With these revenues comes greater responsibility to provide basic public services. This shift has **transformative potential**: with adequate capacity and support, subnational authorities can use resource revenues to combat poverty and greatly increase access to key social services.

However, subnational authorities lack the capacity to spend their new revenues fully and effectively. The municipality of San Marcos in central Peru provides a case in point. Through 2005, San Marcos managed an annual budget of approximately \$150,000. Over the following two years,

Revenue Watch Institute (RWI) works with governments, civil society, journalists and companies to generate greater revenues and positive returns from oil, gas and mining.

This briefing distills lessons learned from pilot projects that RWI implemented in Ghana, Indonesia, Nigeria and Peru between 2008 and 2012. It is a synthesis of a longer paper. The paper along with country case studies and policy papers, are available at renewatch.org/subnational.

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Briefing

ABOUT THE AUTHORS

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RWI's Pilot Project Partners

RWI forged **partnerships** with local actors to deliver support and build capacity for sustaining improvements beyond the end of the project. Our partners include:

- Open Society Foundations Local Government and Public Service Reform Initiative (LGI), global partner.
- Centre for Regional Information and Studies (PATTIRO), Indonesia
- Grupo Propuesta Ciudadana (GPC), Peru
- Red de Municipalidades Urbana y Rurales del Peru (REMURPE), Peru
- Integrated Social Development Centre (ISODEC), Ghana
- Niger Delta Citizens and Budget Platform (NDCBP), Nigeria
- Bayelsa State Government, Nigeria

when the Antamina mine started paying royalties and taxes, the municipality received about \$7 million in resource revenues. The administration lacked the human resources and institutional capacity to manage such a large amount of money. Despite the desperate need for social services in the area, most of the funds went unspent.

There are a host of other reasons why **subnational authorities experience challenges in managing these resource revenues**. Among them are a lack of policies to incentivize effective revenue collection and spending, a lack of transparency in the finances of subnational governments, and a lack of skilled and knowledgeable staff. These problems are compounded by an absence of media and civil society capable of scrutinizing corporate and state behavior.

In addition, distribution systems may transfer commodity price volatility to subnational governments, which lack the instruments (such as savings funds), institutions and human resources to neutralize it. Poorly designed policies at the national level can create bottlenecks and disincentives for prudent management. Resource revenues can undermine other parts of the economy by draining human resources from other sectors. They can foster corruption, reduce accountability, and increase conflict over resources.

RWI's pilot projects faced these challenges head-on, achieving tangible results and producing valuable lessons for future interventions.

Key project interventions

- When so requested by partners, the project helped formulate reform proposals for more transparent, rules-based **revenue transfer systems** that would meet national development objectives. This was the case of Peru, where our proposal informed Congressional debates on reforming revenue sharing laws.
- RWI helped our partners understand and **track revenue flows** between companies, central governments, subnational governments and other institutions such as traditional councils. In Ghana, we equipped stakeholders in the Asutifi district with the knowledge to track revenue flows from mineral royalties and denounce irregularities.
- In Peru, RWI and its partners built a forecasting tool that enabled regional officials and civil society in Piura and Arequipa to **forecast revenues over the medium term** and build more accurate multi-year budget estimates that anticipate revenue swings arising from commodity price volatility.
- When local budgets are derived largely from volatile revenues, mechanisms such as **funds** can offset budget volatility and receive surplus revenues during boom times. In Indonesia, RWI shared international practices on setting up funds, and provided training and assistance to officials and civil society to ensure clear and transparent fund management.
- To increase employment and business opportunities for citizens in producing areas, RWI developed a framework to design, implement and monitor strategies to increase **local content** gains, while diversifying the productive base to avoid the creation of an enclave economy.
- RWI undertook research on social fund management that then informed the work of our partner with the Sechura town in Piura, Peru to improve the management of the town's social fund. RWI built on this work by researching civil society initiatives to **monitor social expenditures** in Latin America.
- **Transparency of revenue flows and expenditure** enables government monitoring and allows citizens to hold government officials accountable. RWI's work in Indonesia led to groundbreaking local laws that mandate transparency of revenues, health and safety issues, environmental risks and impacts, and corporate social responsibility projects. In Nigeria, the RWI-funded Bayelsa Expenditure and Income Transparency Initiative (BEITI) developed a multi-stakeholder platform to track state revenues, transfers and expenditures.

Key project achievements

“Now we can propose budget modifications to finance projects coming from the participatory budget process. Forecasting allows us to know exactly what kind of projects we can present to the citizens in participatory budget processes, projects we know can be financed by canon resources.”

—Samuel Godos, planning office,
regional government, Piura , Peru

Improved revenue tracking and facilitated investment in sustainable development.

In Peru, the Arequipa and Piura regional governments used RWI’s forecasting tool to accurately predict their entitlements and formulate multi-year budgets. More informed planning and better economic management contributed to improvements in absolute spending and allocations to priority sectors in regions that have benefited from RWI and partner assistance. In Piura, initial budget allocations to education increased from 37.7 percent of the total budget in 2009 to 42.5 percent in 2011. Health sector allocations rose from 13.3 percent to 17 percent of the total budget during the same period. Overall regional government spending effectiveness (the percentage of the allocated budget that is actually spent) increased from 89.2 percent in 2009 to 93.7 percent in 2011 in Arequipa and from 79.9 percent in 2009 to 84.5 percent in 2011 in Piura.

In Indonesia, RWI and partner work led to the participatory definition of sustainable development plans and groundbreaking transparency laws. Thanks to the planning process, governments and civil society in both districts agreed on sizable increases in health and education spending. From 2009 to 2012, Bojonegoro’s spending on education and health increased by 101 percent and 22 percent respectively. Blera’s education expenditure increased by 68 percent. Spending on health rose 77 percent. Supplementary resources were used to fund the first 12 years of free basic education, adding three years to the national mandate of nine.

Developed lasting mechanisms for participation and accountability.

Our work in Indonesia led to the creation of multi-stakeholder steering committees that promote oil sector transparency in Blera and Bojonegoro. In both districts, these multi-stakeholder groups were formally acknowledged and the government allocated funds from local budgets to support their continued operation. In Nigeria, the RWI-funded Bayelsa Expenditure and Income Transparency Initiative (BEITI) developed a multi-stakeholder platform to track state revenues, transfers and expenditures. In Ghana, we organized a forum between Newmont and local communities to discuss environmental concerns and access to compensation. In Peru, we supported multi-stakeholder committees involved in the design and oversight of consensus-based plans and participatory budgets.

Convened a community of practice to share lessons and findings from this field of work.

Through the course of the pilot projects, RWI engaged over 130 key decision-makers and experts in the field of subnational governance and natural resource production. In 2012, RWI convened them for a global workshop and two regional seminars. The meetings were aimed at promoting tools and motivating other organizations and networks to scale up work in this crucial area for poverty reduction and development.

Developed tools and models that are being replicated in multiple countries.

RWI is currently using the tools developed during the pilot projects to advance extractives governance in resource rich areas. We have deployed our toolkit at the provincial level in Iraq, the Philippines and Vietnam. In Indonesia and Peru, our partners have successfully supported governments in new geographic areas not targeted in the pilot phase.

Our toolkit and approaches have generated a groundswell of interest from other organizations. For instance, local governments in Bolivia have launched reforms of their revenue estimation and planning systems under RWI’s partner guidance. The World Bank office in Cameroon has brought subnational revenue management into the mainstream of its national program after exposure to the RWI toolkit.

Briefing

Lessons learned

RWI and partners systematically distilled lessons learned to build success models, improve our approaches and motivate other organizations to act. This section presents eight key lessons learnt from pilot projects.

- **Start with extensive and rigorous evaluation** to identify suitable countries, subnational areas, partners and interventions. Project setup process alone can take up to one year. Framing interventions in three- to five-year programs increases the likelihood of structural improvements.
- **Agree on a shared agenda for change.** Open communications channels with both political leaders and technical officials in subnational government are key to constantly renewing political buy-in. Building trust and increasing engagement among stakeholders requires a huge investment of time and energy.
- **Use multi-stakeholder mechanisms sustain reforms** beyond the project. Multi-stakeholder dialogue creates networks and relationships that outlive external engagement—especially when formalized in national law. A trusted and independent mediator is needed to create effective multi-stakeholder forums.
- **Encourage active citizen engagement to create and sustain demand for reform.**
- **Ensure buy-in and active collaboration from key national officials.** Officials can provide crucial information for analysis and reform national laws that restrict the ability of subnational governments to operate effectively.
- **Open and sustain dialogue with companies.** It can generate disclosure of data and better alignment of company spending with local plans and priorities.
- Challenges arising from resource revenues are complex and may be difficult to grasp for subnational governments. **Proactively identify and suggest areas of technical assistance to governments**, while allowing government officials to form their own opinions about which options work best in their context.
- **Build the institutional and technical capacity of implementing partners** to help sustain gains beyond the end of a project. National partners can more swiftly respond and address capacity losses that arise from subnational government staff turnover. Statutory law is also essential to sustain changes and institutionalize models.

Future priorities

RWI is now institutionalizing lessons learned, scaling up existing interventions, and replicating projects in new areas. We are working in new regions in Peru, and have fresh engagements in Bolivia, Colombia, DRC, Ecuador, Iraq, Philippines and Vietnam.

At the regional level, RWI is supporting “knowledge hubs” in Africa, Asia Pacific, Eurasia, Latin America, and the Middle East and Northern Africa regions to offer training and technical advice to subnational governments, civil society organizations, members of parliament and journalists.

At the global level, RWI is working toward the development of a comprehensive annual course on Local Economic Development in Resource Rich Areas. This course will draw the attention of more donors and practitioners to this crucial area and build their capacity to intervene.



The Revenue Watch Institute promotes the effective, transparent and accountable management of oil, gas and mineral resources for the public good. Through capacity building, technical assistance, research, funding and advocacy, we help countries to realize the development benefits of their natural resource wealth.

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