

Revenue Management and Distribution

Knowledge Core

Once EI revenues have been generated and collected, a government must decide on their management and allocation. This is the fourth link in the EI Value Chain. A failure to manage properly the wealth arising from oil, gas and mining operations can lead to poor growth outcomes and a misallocation of resources, including the promotion of social and economic inequalities, the funding of corrupt practices and the generation of intra-state, or even inter-state, conflicts. Options include spending or saving with decisions required on appropriate channels or mechanisms for each. Sharing of resource revenues among levels of government and regions is increasingly common and requires careful balancing of pros and cons.

CEPMLP Centre for Energy, Petroleum and Mineral Law and Policy

Two Key Questions The fundamental questions that need to be answered in this area are:

- (1) the main issues that typically arise in managing and allocating revenue generated from EI activities; and
- (2) the instruments such as special resource funds or fiscal rules that are available to governments to tackle them.

Why Do They Matter? The stakes are high: new EI income will relax pressures on government budgets, but it also creates challenges. Not the least of these is the probability that many citizens in the countries concerned will remain poor in spite of the large revenues from extractive resources. As several commentators on revenue management have noted, “the future is not without its dark side”¹.

Transparency and accountability These are crucial to achieving success in revenue management and distribution. A lack of transparency in fiscal practices is likely to lead to substantial costs and a loss of credibility (see **Chapters 2** and **7**). Fiscal transparency includes a clear assignment of roles and responsibilities to

¹ R Arezki, A Dupuy, and A Gelb, ‘Spend or Send’, Finance & Development, December 2012, pp.28-31.

different government bodies, the establishment of an open budget process, publicly available information and assurances of data integrity².

Revenue sharing Investors will seek clarity about their relationships with different levels of government and how payments are meant to flow. Stability, predictability and transparency of resource revenue flows are a key part of their social licence to operate. It is therefore important to ensure that resource revenue sharing schemes within a country are workable – that is, efficient, fair and transparent. Many countries enshrine their sharing formula and implementing rules in legislation.

CEPMLP

Centre for Energy, Petroleum and Mineral Law and Policy

² For a comprehensive discussion of these issues see the IMF *Guide on Resource Revenue Transparency* (2007): <http://www.imf.org/external/np/pp/2007/eng/051507g.pdf> (last visited 1 April 2016).