CHAPTER 8 – www.eisourcebook.org

8.10 Practical Tools

The complexity of revenue management is formidable but the body of research into it is growing rapidly as are the country case studies, and understanding of what good practice means. A particularly difficult area for many governments is how to allocate revenue between the central and sub-national levels within their country borders. In this area, it is possible to distill the available knowledge around a set of policy considerations and guiding principles. This has been done by an NRGI team in connection with a country analysis[1], and merits attention. The research team identify eight policy considerations that government officials should address:

1. What are the objectives of any resource revenue sharing regime in your country?

   Without a clear sense of what the objectives are, the policy makers are going to find it very difficult to negotiate on details, such as a revenue sharing formula. Among typical objectives of revenue sharing schemes are the following: to compensate local communities for the negative impacts of extraction; to mitigate or prevent violent conflict; to respond to local claims for benefits based on ideas of local ownership, and to promote regional income equality between the resource and non-resource rich regions.

2. How would vertical distribution be determined?

   A decision needs to be taken on the share of revenues assigned to each level of subnational government, authority or institution (the split). In Ghana 91 percent of the royalties are allocated to central government with 4.95 percent to municipal governments in producing areas and 4.05 percent to private landowners such as traditional institutions. The transferred revenues ought to match expenditures over the medium term.

3. Which revenue streams would be shared?

   Some governments choose to share all revenue streams between levels of government but others choose only a selected few. Typical streams are royalties, signature bonuses,

[1] A Bauer, P Shortell and L Delesgues, Sharing the Wealth: A Roadmap for Distributing Myanmar's Natural Resource Revenues (2016), Natural Resources Governance Institute.

border taxes and production entitlements. Are onshore activities to be considered only or both on- and offshore?

4. What revenue sharing formula would be used?

   The main kinds of formula are a derivation based one (a higher proportion accrues to the producing area) and an indicator-based one (where revenues are allocated according to needs (poverty for example) or revenue generating capacity (population for example)).

5. Who is to receive a share of the revenues?

   It may seem that region or state level authorities are the obvious recipients but in practice, transfers can be made to traditional authorities, municipalities, landowners and even directly to residents.

6. How can incentives be improved for efficient spending?

   The way in which revenues are transferred - earmarked for specific expenditures such as education for example - will help to determine whether or not they contribute to improving development outcomes.

7. What transparency and oversight mechanisms to verify accurate resource revenue transfers may be appropriate?

   Without these, local governments cannot verify whether they are receiving their resource revenue entitlements under the law, and conflict may ensue.

8. How can a negotiating process for a revenue sharing formula be best conducted?

   Consensus among the key stakeholders needs to be sought if there is to be a long-term stability for the outcome. Key elements in this are to share knowledge, identify the stakeholders and depoliticize the debate. Ultimately the outcome – the formula and the implementing rules - should be enshrined in a law.

Transparency Little success in the management of resource revenues can be achieved without sound data on government revenues. Guidance on this can be found in the IMF document, *Template to Collect Data on Government Revenues from Natural Resources 2014*: (https://eiti.org/files/EITI%20Draft%20Guidance%20Note%20Template.pdf). The template is based on the IMF's Government Finance Statistics Manual 2014 (GFSM 2014); this is the internationally accepted standard for compiling financial statistics[2].

The aim of the guidance in the Template is to facilitate the task of assigning the various revenues streams in the EITI reports for each country to the corresponding category or sub-category in the template. Among the substantive points made are: the definition of 'reported revenues' needs to be clearly and publicly stated, with an independent agency, such as an auditor-general, assigned to assess whether revenues are being correctly and fully reported. International standards should be applied, particularly those that have been developed specifically for reporting on natural resources. The benefits can be expected to include an informed understanding and scrutiny of revenue flows by parliaments, citizens and third parties. This should help to ensure that revenues are used efficiently in accordance with national objectives, that revenues are all incorporated within the national budget, and the risk of misuse is reduced.

[2] There is also a Fourth Pillar to the IMF's Fiscal Transparency Code, devoted to resource revenue management, that sets out transparency practices in certain areas: https://www.imf.org/external/np/exr/facts/fiscal.htm

Box 8.2: Social Accountability

Fully successful and sustainable EI sector management depends upon the participation of all key stakeholders – parliament, government, industry, civil society, and IFIs. While objectives and focus may differ among stakeholder groups, constructive and successful models of collaboration are emerging. Social accountability represents a potentially important and emerging governance good practice which can hold state institutions accountable by providing additional checks and balances and thereby help reduce the risk of state failure. Two basic principles of social accountability are:

1. transparency: defined as the mandatory public disclosure of information, in particular, to civil society at large; and
2. participation: defined as the ability and opportunity for civil society to engage with government and industry on issues of concern.

The characteristics of effective social accountability include:

1. a diverse range of civil society organizations who take on the role of forming coalitions that focus on specific issues across the whole EI value chain and that are supported with capacity-building activities that improve knowledge about what information to seek out and how to use it effectively.
2. a focus on social equity and achieving positive development outcomes on the ground by holding governments accountable for their development priorities and holding companies accountable for their management and mitigation of risks.
3. tools such as: media and letter writing campaigns (to draw attention to public issues), hearings, formal audits, enquiries by parliamentary sub-committees, independent budget analyses, participatory budgeting and public expenditure tracking systems (PETs), citizen report cards, community score cards (to develop and present information and analysis regarding issues of concern), policy statements, citizen charters, and legislative reforms including grievance procedures and Ombudsman's offices (to bring about improvements).

The achievement of effective social accountability can include:

1. an initial approach that is confrontational and requires organizing media campaigns and seeking policy change through non-violent protests. Once issue awareness is achieved, engagement of companies and governments can follow;
2. an evolutionary approach that progresses towards the recognition of common ground and collaboration with governments and companies to achieve policy and regulatory improvements, and improved practices on the ground; and
3. important international stakeholder partnerships and networks such as the EITI (which publishes and reconciles tax payments by EI sector companies with the tax receipts published by governments) and the Publish What You Pay (PWYP) campaign. These partnerships can provide a vehicle for international non-governmental organizations (NGOs) to transfer knowledge and build the capacity of local civil society participants.