Fiscal Decentralization and the Resource Paradox

Anand Rajaram, Sector Manager, AFTPR
Oil & Gas in Federal Systems, Wednesday, March 3, 4:45-5:15 pm
Old Oil in a New Barrel

• Oil, Gas and Mining Matter - fiscally significant
  – 50 Countries or 1.5 Billion People with 25%+ Government Revenues

• Potential to translate Oil into Development Outcomes
  Resource “Paradox”
  Resource dependent
  Critical role of quality of institutions & governance

• Multi-level governance adds to complexity
  – International/national/sub-national interests
Decentralized Benefit Sharing and Natural Resources

• Highly contested policy issue in a large number of countries
  – Claims to mining and oil revenues highly contested in a diverse group of states...
    □ Nigeria, Russia, Indonesia, Iraq, Bolivia, Sudan, DRC, Malaysia, PNG, Peru, etc.
  – Both domestic and international actors involved
  – Recent price increases and new discoveries in range of countries
    □ Ghana, Brazil, Uganda, ...

• Challenges in assisting our clients
  – From a development perspective, we seek to help governments translate natural resource wealth into sustainable development
  – Weak Institutions, capacity and poor governance at various levels of government are a high hurdle
  – Powerful groups with vested interests
  – Information/power asymmetries which disadvantage poor countries/regions
  – Pressures for decentralization/sub-national benefit sharing
Natural Resource Revenues Sharing

• Arguments for Greater Degree of Centralization
  – Stability: Natural Revenues Subject to high Degree of Volatility
  – Disparities: Known and potential endowments highly unequal
  – National Treasure: Belongs to all the people!
  – Local Capacity: National governments better placed to manage
  – Coherence in Natural-Resource Policy: Avoid distortion across regions
  – Revenue Transparency: Easier if revenues accrue to one “account”

• Arguments for Decentralization/Derivation Based
  – Cost-Reimbursement: Including Environmental Costs
  – Heritage Argument: Non-renewable resource
  – Political/Conflict Resolution Arguments:
    ‣ Often very important where legitimacy between central and sub-national governments have been contested

• It all depends on the nature of the state
Welcome to Southern Sudan
Managing Fiscal Decentralization with Oil Revenue

• Glue or Solvent for National Cohesion?
  – Averting grievances, Promoting Sustainable Local Development

• Intergovernmental Arrangements Consistent with Fiscal/Macro-Economic Stability
  – “Overgrazing” undermines stabilization/heritage arrangements

• Revenue Assignments/Collection Consistent with Coherent Revenue Policy
  – Effective in attracting investment to best placed locations

• Revenue Flows Translate Into Development Outcomes
  – Finance Follows Function
  – Accountabilities Promote Service Delivery

• Consistent with Good Public Financial Management (PFM) at all Levels

• Ensure Natural-Resource Rents Don’t Subvert Country’s Institutional Development/Integrity
  – Corruption Further Corrodes Representative/Legitimate Institutions
Some thoughts from experience in Africa

• A sample of countries with varying initial conditions
  – Nigeria
  – DRC
  – Sudan
  – Uganda

• The nature of the state and the intergovernmental fiscal architecture matters

• Common challenge of quality in public expenditure for physical and human infrastructure development
Conclusions

• Careful attention to Design and *Implementation* of Benefit Sharing Arrangements
• Value of technical dialogue
• Critical need to understand political-economy and the nature of the state
• Engaging civil society, including sub-national governments
Q & A