
CONFERENCE ON OIL AND GAS IN FEDERAL SYSTEMS

1. Background

The term “resource curse” has become a popular expression to symbolize one side of the potential impact of resource wealth on a country. Naturally, the impact need not be negative, but there is no denying that managing significant resource wealth is a major challenge, even for advanced economies. The relevance of this issue is reflected in the large literature on various aspects of non-renewable resource management, including fiscal and environmental regimes, transparency and accountability.

Approximately 40 percent of proved reserves and 50 percent crude oil production comes from federal states (and similar percentages apply to natural gas).¹ Moreover the issue is relevant in a number of other countries which are debating decentralized or federal models (such as Peru, Ecuador, Columbia, and Bolivia, and in formally unitary systems that have adopted asymmetric models of governance (such as the UK and Indonesia).

The political significance of the oil and gas sector in any given country depends on the structure of the economy. Thus oil and gas is central to the economies of Nigeria and Iraq, and very relevant to those of Russia, Venezuela and Sudan. The recent sharp increase in oil prices (and to a lesser extent gas prices), followed by their sudden decrease amplified by the financial crisis, have added to the importance of this sector, in some cases accentuating tensions between national and sub-national governments over the control and management of petroleum resources and the sharing of benefits derived from their exploitation.

In addition to being uncertain, volatile, and temporary, petroleum resources are typically spatially concentrated. Especially in unitary and federal countries with limited economic diversification, the spatial concentration of oil and gas deposits raises issues of economic growth and regional balance, and in some cases may affect national integrity and political stability.

As governments in resource-rich countries decentralize and pass windfalls, and related budgeting authority to sub-national governments, the struggle against the resource curse moves downstream, often magnified by the lack of experience or capacity to manage large and volatile influxes of revenue at local and sub-national levels. Without careful management, increased extractive revenues can actually worsen the circumstances in states and provinces by undermining other economic sectors, reducing government's accountability to citizens, and increasing corruption and conflict.

¹ BP Statistical Review, 2009.

Despite the relevance of oil and gas resources in federations, there has been surprisingly little structured focus on the particular political, economic, and social challenges that their exploitations entails in these systems. In order to further the debate, the Oil, Gas and Mining Policy division and the Forum of Federations intend to organize a conference on the economic and governance implications of oil and gas exploitation in federal systems.

The conference will draw on material from the Forum of Federations' on-going research on this topic, as well as existing and on-going work by the World Bank and other organizations on issues related to the management of petroleum resources in federal and decentralized systems.

2. Objective of the Conference, Audience, Rationale, and Expected Results

2.1 The *objective* of the proposed conference is:

- i) To provide a platform for open dialogue and debate among a wide variety of prominent development actors on major development and public finance issues related to the exploitation of petroleum resources in federal systems.

2.2 The target *audience* includes:

- i) Policy makers in federal and decentralized producing countries, governments that are considering the adoption of decentralized or federal models of governance;
- ii) Civil society organizations and institutions that have active research programs in the areas covered by the conference.
- iii) Bank staff covering governance, public finance, and petroleum sector reforms in federal and decentralized countries.
- iv) Multi-lateral and bi-lateral institutions that provide financing and technical assistance in areas related to the management and governance of the petroleum sector in federal and decentralized systems.

2.3 From the standpoint of the Bank, the *rationale* for the conference is:

- i) To inform policy discussion on successful models for the management of petroleum resources in federal and decentralized contexts, and on the factors that may have affected their definition.

2.4 *Expected Results* would include:

- (i) Improved policy makers' awareness of the relative efficiency and suitability of alternative policy options for the management of petroleum resources in federal and decentralized contexts.
- (ii) Strengthen in-house knowledge and expertise in support of the Bank's institutional approach to the Extractive Industries Value Chain (EITI ++).
- (iii) Develop cooperation with other research teams/institutions that have active programs in the area covered by the conference.