Natural Resource Revenue Sharing

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Resource revenue sharing

Non-renewable resource revenues (NRRs) (e.g., royalties, signature bonuses, state equity returns, corporate income tax from the resource sector)

- Derivation-based NRR sharing systems
  - Direct taxation by subnational authorities
- Indicator-based NRR sharing systems
  - Intergovernmental transfers
Global experiences

• **Raising standards of living in resource-rich regions** – Australia, Brazil, Canada, UAE, United States

• **Greater peace and security** – Indonesia (Aceh and West Papua), Kazakhstan, Mongolia, Nigeria, Papua New Guinea, Southern Iraq
Global experiences

- **Wasteful spending** – Canada, Colombia, Peru

- **Inefficient allocation of scarce resources / greater regional inequality** – Brazil, United States

- **Exacerbate conflict** – Iraq (Kurdish region), Peru
Biggest challenges

• Finance not following function – mismatch between revenue and expenditure assignments
• Non-payment to subnational authorities due to lack of legal clarity, transparency and oversight
• Lack of consensus building → no peace
• All politics... no economics
10 recommendations

1. Insist on clear objectives
2. Align the revenue sharing system with its objectives
3. Keep expenditure responsibilities in mind
4. Choose appropriate revenue streams and fiscal tools
5. Smooth fiscal expenditures and make spending predictable
6. Make the formula simple and enforceable
7. Build a degree of flexibility into the system
8. Achieve national consensus on the formula
9. Codify the formula in law
10. Make revenue sharing transparent and formalize independent oversight
1. Clarify objectives

- Recognizing local claims on natural resources
- Compensating for the negative impacts from extraction
- Promoting economic development in resource-rich regions
- Mitigating or preventing violent conflict
2. Align the formula with the objectives
Mongolia (oil and mining)

- Petroleum royalties: 30%
- Local government surpluses: 25%
- VAT: 5%
- Mineral royalties: 30%
- Mineral license fees: 50%

General Local Development Local Fund

Formula (population, remoteness, size, development, tax generation)

Non-producing aimags
- Soums

Producing aimags
- Soums
Other examples

• Philippines minimum one percent royalty to indigenous peoples

• Ecuador
  • Only to Amazonian region
  • 40% equally shared; 60% by population

• Bolivia
  • 11 percent royalty to four provinces
  • 1 percent shared between Beni and Pando
  • IDH – 4 percent to each producing department and 2 percent to non-producing
3. Keep expenditure responsibilities in mind
Expenditure responsibilities

Defense
Foreign affairs
Banking
Unemployment insurance
Air and rail

Environment
Roads and highways
Utilities
Health
Social welfare

Primary and secondary education
Police
Agriculture
Outcomes of “fiscal mismatch”
4. Choose appropriate fiscal tools and revenue streams
Revenue streams

- Revenue streams
  - Royalties
  - Signature bonuses
  - Profit taxes
  - Property taxes
  - Goods and service taxes
  - Border taxes
  - Dividends from government equity
  - Production entitlements
  - Fines and penalties
Which resource taxes are generally decentralized in unitary states?

- Corporate income tax
- Royalties
- Withholding tax
- VAT
- Property tax
- Surface fees
# Subnational tax authority - Mining

<table>
<thead>
<tr>
<th>Country</th>
<th>Government structure</th>
<th>Corporate income tax</th>
<th>Royalties</th>
<th>Property taxes / land taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Federal</td>
<td>X</td>
<td>X*</td>
<td>X</td>
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<tr>
<td>Brazil</td>
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<tr>
<td>Canada</td>
<td>Federal</td>
<td>X</td>
<td>X*</td>
<td>X</td>
</tr>
<tr>
<td>China</td>
<td>Unitary</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Ghana</td>
<td>Unitary</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>India</td>
<td>Federal</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Regionalized unitary</td>
<td>X</td>
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<td>X</td>
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<td>Malaysia</td>
<td>Federal</td>
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<tr>
<td>Philippines</td>
<td>Regionalized unitary</td>
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<td>X</td>
<td>X**</td>
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<td>United Arab Emirates</td>
<td>Federal</td>
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</table>
Derivation-based intergovernmental transfers

<table>
<thead>
<tr>
<th>Country</th>
<th>Resource</th>
<th>Revenue stream</th>
<th>Central gov't</th>
<th>Producing regional / provincial / state governments</th>
<th>Municipal / district governments</th>
<th>Private (e.g. landowners; traditional institutions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>On-shore oil</td>
<td>Royalties</td>
<td>15%</td>
<td>20%</td>
<td>25%</td>
<td>10%</td>
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<tr>
<td></td>
<td>On-shore oil</td>
<td>Special participation (some fields)</td>
<td>42%</td>
<td>34%</td>
<td>9.5%</td>
<td>5%</td>
</tr>
<tr>
<td>Ghana</td>
<td>Minerals</td>
<td>Royalties</td>
<td>91%</td>
<td>-</td>
<td>-</td>
<td>4.95%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Oil</td>
<td>All</td>
<td>84.5%</td>
<td>3.1%</td>
<td>-</td>
<td>6.2%</td>
</tr>
<tr>
<td></td>
<td>Gas</td>
<td>All</td>
<td>69.5%</td>
<td>6.1%</td>
<td>-</td>
<td>12.2%</td>
</tr>
<tr>
<td></td>
<td>Minerals</td>
<td>Royalties</td>
<td>20%</td>
<td>16%</td>
<td>-</td>
<td>32%</td>
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<tr>
<td>Philippines</td>
<td>Minerals</td>
<td>All</td>
<td>60%</td>
<td>8%</td>
<td>-</td>
<td>18% municipality; 14% barangay</td>
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<tr>
<td>Uganda</td>
<td>Petroleum</td>
<td>Royalties</td>
<td>93%</td>
<td>-</td>
<td>-</td>
<td>6%</td>
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</tbody>
</table>
Revenue streams

- Onshore only (most countries)
- Offshore also (Australia, Brazil, Canada, Italy, Malaysia)
10. Make revenue sharing transparent and verify
Transparency and oversight
Monitoring volume of production
Thank You!

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