

Working Paper 2014–4

Extractive Industries, Revenue Allocation and Local Politics

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prepared for the UNRISD project on the
Politics of Domestic Resource Mobilization

March 2014



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This paper is part of a series of outputs from the research project on The Politics of Domestic Resource Mobilization for Social Development.

The project seeks to contribute to global debates on the political and institutional contexts that enable poor countries to mobilize domestic resources for social development. It examines the processes and mechanisms that connect the politics of resource mobilization and demands for social provision; changes in state-citizen and donor-recipient relations associated with resource mobilization and allocation; and governance reforms that can lead to improved and sustainable revenue yields and services. For further information on the project visit www.unrisd.org/pdrm.

This project is funded by SIDA and UNRISD core funds.

Series Editors: Katja Hujo and Harald Braumann

Working Papers on The Politics of Domestic Resource Mobilization for Social Development

Extractive Industries, Revenue Allocation and Local Politics.

Javier Arellano, Andrés Mejía Acosta. March 2014.

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Mick Moore, November 2013. UNRISD-ICTD Working Paper No. 15 UNRISD, International Centre for Tax and Development.

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List of Acronyms

CEPE	Corporación Estatal Petrolera Ecuatoriana
CONAIE	Confederation of Indigenous Nationalities of Ecuador
EI	Extractive Industries
FAM	Federation of Municipal Associations
IDH	
MAS	Movimiento al Socialismo
MEF	Ministry of Economy and Finance
OCADs	Organos Colegiados de Administración y Decisión (Inter-institutional Bodies for Management and Decision)
PFM	Public Financial Management
SD	Supreme Decree
SNIP	National System of Public Investment

Acknowledgments

This paper has been co-funded by the Swiss Agency for Development and Cooperation (SDC) and as part of the IDS project, “The Governance of Service Delivery”. The field work undertaken by Javier Arellano-Yanguas in Bolivia, Colombia and Peru has been supported by the Ford Foundation through the grant n° 1115-0635, as part of the research project: “Extractive industry, decentralization and development: an Andean comparative study”, and by a Marie Curie Career Integration Grant from the European Research Executive Agency (PCIG10-GA-2011-303631). Fieldwork undertaken by Andres Mejia-Acosta was supported by the DFID-IDS funded *Centre For the Future State*.

Summary

The success of a developmental strategy based on the extraction of non-renewable resources is largely dependent on the share of revenues captured by the state from the extractive sector and the modalities that governments adopt to use and distribute those revenues. In the last two decades, local populations and subnational governments have demanded a greater decentralisation of extractive industry (EI) related revenues but the modalities and mechanisms adopted varied widely across cases. This paper looks at the existing criteria and reform modalities adopted to allocate and use EI revenues, and examines the political bargains that enabled such distribution. The paper focuses on four specific questions: a) How do central governments share (or distribute) the revenues from extractive industries with different levels of subnational government (vertical distribution)?; b) How do governments distribute EI revenues across extractive and non-extractive jurisdictions at subnational level (horizontal distribution)?; c) Which are the mechanisms and rules adopted by governments to allocate these resources?; and d) What is the bargaining potential of subnational territories to demand a more proportionate share of revenues?

We identify two critical dimensions that have an impact on redistributive outcomes: the degree of bargaining power of subnational actors and the alignment between national and subnational political actors. We contend that local actors with strong bargaining power tend to obtain clearer and greater revenue sharing gains, but the political alignment between national and local elites will tend to produce, other things equal, a better redistribution of revenues across producing and non-producing regions. We posit that improved development outcomes may emerge in a context where revenue sharing agreements result from elite bargains that combine earmarked and flexible decision making mechanisms and benefit the whole of the population, however more research is needed. Finally, the paper identifies some knowledge gaps regarding the effectiveness of different decentralisation modalities to improve development outcomes at the local level.

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