

From Conflict to Collaboration

Lessons learned from RWI interventions in oil, gas and mineral-producing areas

By Matteo Pellegrini and Varsha Venugopal

May 2013

RWI works with governments, civil society, journalists and companies to generate greater revenues and positive returns from oil, gas and mining.

This paper distills lessons learned from pilot projects that RWI implemented in Ghana, Indonesia, Nigeria and Peru between 2008 and 2012. It complements country case studies and policy papers—including a synthesis of this paper, all available at revenuewatch.org/subnational.

Summary

Among the 58 countries in the Resource Governance Index, 30 have systems in place that distribute resource revenues to subnational governments. Along with this additional income, revenue-sharing systems also transfer commodity price volatility to these governments, which lack the instruments, institutions and human resources to neutralize it. However, if effectively collected, managed and spent, these revenues can help combat poverty and greatly increase access to key social services.

RWI in tandem with country partners developed government capacity to manage these revenues, while creating and sustaining demand for reform through civil society oversight. To varying degrees, RWI projects succeeded in catalyzing improved revenue tracking, informed planning and sound economic management. Projects also built multi-stakeholder forums as lasting mechanisms for consensus building, citizen participation and government accountability.

This paper shows that successful projects begin with thorough initial assessments and careful planning. It is important to build a shared agenda with local partners and government counterparts, which can require considerable time and resources. Improvements of subnational governance also call for the active engagement of national governments and companies. National governments can alter the regulatory framework and remove bottlenecks to subnational government action, while company cooperation is essential when seeking technical information needed for planning and revenue estimation. By building national partner capacity and institutionalizing multi-stakeholder forums, selected projects successfully sustained capacity gains and reforms despite government changes and turnover of officials.

RWI is now engaged in projects in Bolivia, Colombia, the Democratic Republic of Congo, Ecuador, Iraq, the Philippines and Vietnam that benefit from pilot lessons and models. At the global level, RWI shared success models from our projects with more than 130 decision makers and experts to motivate them to scale up work in this crucial area for poverty reduction and development. In the future, RWI also plans to deliver a course on local economic development in resource-rich areas to draw the attention of more donors and practitioners to this crucial area and build their capacity to intervene.

Oil, gas and mining revenues for local development

In a large number of resource-rich countries, national governments are increasingly transferring natural resource income to state, regional and local governments, along with greater responsibility

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Briefing

to provide basic public services. As a result, the portion of public funds managed by subnational governments has dramatically increased.¹ In Peru, oil- and mineral-producing regions receive 50 percent of the income tax paid by companies in the extractive sector. Regional governments and public universities are assigned 20 percent of that amount; local governments are assigned the remaining 80 percent (see Figure 1). Of the 58 resource-rich countries listed in RWI's 2013 Resource Governance Index, 30 have similar revenue sharing mechanisms in place.²

ABOUT THE AUTHORS

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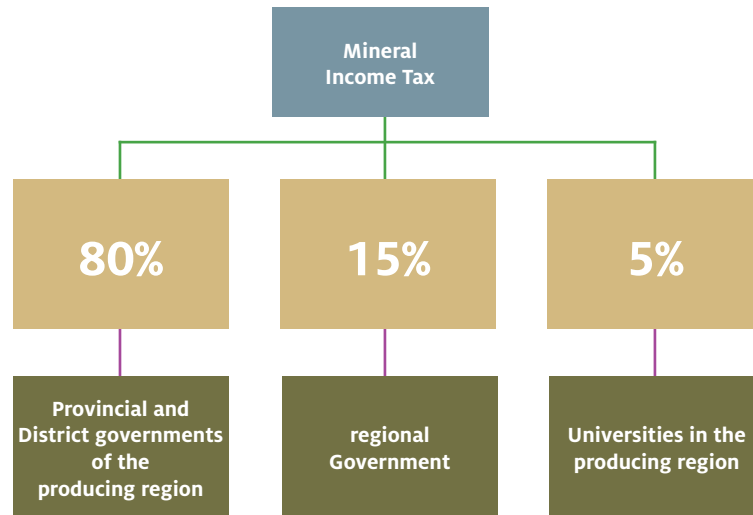


Figure 1
Mineral Income Tax Redistribution in Peru

Despite the increase in revenues, subnational authorities often lack the capacity to spend this money fully and effectively. The provincial municipality of San Marcos in the Ancash region of central Peru managed an annual budget of approximately \$150,000 through 2005. In 2006 and 2007, when the Antamina mine started paying royalties and taxes, the San Marcos Municipality received approximately \$7 million from resource revenues. The administration lacked the human resources and institutional capacity to manage such a large amount of money. Despite the desperate need for social services, most of the funds went unspent.³

Allocating more revenue and responsibility to the state and local level has not enhanced the delivery of social services or helped to combat poverty. In fact, challenges to governance have grown in resource-producing regions, making them hotbeds of unrest.⁴ There are several reasons for this, including a lack of policies to incentivize effective revenue collection and spending, a lack of transparency in the finances of subnational governments, and a lack of skilled and knowledgeable government staff that understand the challenges and opportunities arising from extractive industries. These problems are compounded by an absence of media and civil society capable of scrutinizing corporate and state behavior. All these challenges are reviewed in detail next.

1 The term "subnational" identifies all government tiers below the national level such as state, regional, provincial, district and municipal governments.

2 www.revenuewatch.org/rgi.

3 Grupo Propuesta Ciudadana, Vigilancia de las Industrias Extractivas, Reporte Nacional No. 5, Balance 2004-2006 (Lima, June 2007).

4 A number of papers detail the challenges experienced by subnational governments in resource-rich countries such as Peru (Arellano-Yanguas 2008), Russia (Desai et al. 2005; Freinkman and Plekhanov 2009) and Indonesia (Bahl and Tumennasan 2004). Several research papers also document the existence of subnational resource curse. These include: Claudia Viale, Local level resource curse: The "Cholo Disease" in Peru. (New York: Revenue Watch Institute, 2011); Francesco Caselli and Guy Michaels, Do Oil Windfalls Improve Living Standards? Evidence from Brazil (NBER Working Paper No. 15550, December 2009); Ahmad Komarulzaman & Armida Alisjahbana, Testing the Natural Resource Curse Hypothesis in Indonesia: Evidence at the Regional Level (Working Papers in Economics and Development Studies (WoPEDS) 200602, Department of Economics, Padjadjaran University, August 2006).

The challenge

Lack of clarity in the calculations for revenue transfers by national governments and uncertainty surrounding corporate obligations undermine the ability of subnational governments and communities to collect the revenues to which they are entitled. For instance, companies did not pay any contributions for mineral rights licenses and ground rent, according to the 2005 Ghana Extractive Industries Transparency Initiative (EITI) report. The report also documented underpayment of mineral royalty transfers from regional governments to district assemblies.

Distribution systems may also be structured to transfer commodity price volatility to subnational governments, which lack sufficient staffing and tools (such as investment funds) to smooth revenue swings. As result, large year-on-year budget fluctuations undermine planning. Figure 2 shows vast swings in mineral revenues being redistributed to the Arequipa region of Peru, which in turn led to fluctuating expenditure patterns.⁵

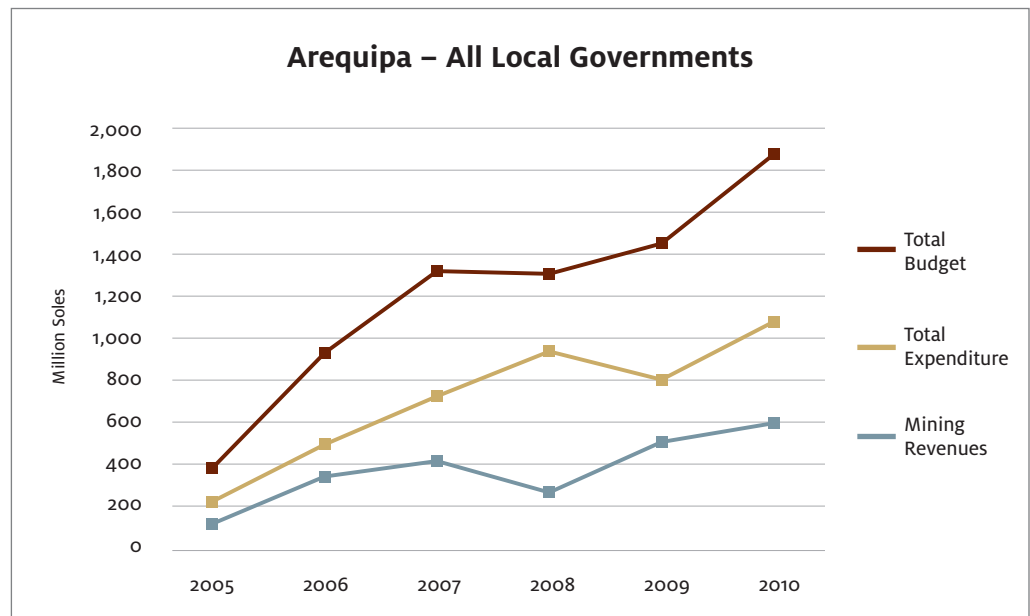


Figure 2
Mineral Revenue, Budget and Expenditure
Fluctuations for the Arequipa region, Peru

Poorly designed policies at the national level can create disincentives for prudent management and bottlenecks at the subnational level. In Mongolia, before the approval of the 2012 Integrated Budget Law, any increase in subnational revenues would be offset by reductions in tax transfers from the central government. This revenue distribution system gave subnational governments no incentive to increase revenues or enhance fiscal transparency. Instead, as reported by early Mongolia EITI reports, subnational governments developed extra-budgetary sources of revenue such as in-kind donations, especially from large mining companies, to fictitiously underestimate tax revenues.⁶

Revenues from oil, gas and minerals can undermine other parts of the economy by draining human resources from other sectors. They can foster corruption, reduce accountability and increase conflict over resources. In Nigeria's oil-producing states, corruption in the oil sector, lack of access to job opportunities and negative impacts from oil spills have all played a part in the rise of militia groups that vie for control of the region's natural resources.

5 RWI's own elaboration of data from the Portal of Economic Transparency of the Ministry of Economy and Finance of Peru (<http://www.mef.gob.pe/>). RWI's briefing on the "Impact of the Current International Crisis on Regional and Municipal Canon in Peru" provides an illustration of the scale and impact of volatile revenues: <http://www.revenuewatch.org/news/impact-current-international-crisis-regional-and-municipal-canon>.

6 For more information, see reports available at <http://www.eiti.org/Mongolia>.

Briefing

A growing number of national governments are devoting more authority to subnational administrations in other areas, including the power to pass laws regulating extractive sectors, the right to grant exploration and production licenses, and the authority to negotiate with both companies and national governments. Districts in Vietnam and Indonesia have varying degrees of authority to grant mining concessions independently of the national government. States and district governments in the United States, Canada and Indonesia have established funds to stabilize resource revenues and finance development projects. Subnational authorities in Peru and Ghana are exploring initiatives to increase the share of goods and services that extractive industries acquire from the area where they produce. These innovations may help subnational governments benefit from extraction, but they have not always translated into tangible benefits. In Indonesia, subnational licensing systems led to overlapping claims after licenses for the same area were issued to different entities.

The response

From 2008 to 2012, RWI provided support to governments and civil society in subnational areas in Ghana, Indonesia, Nigeria and Peru. RWI's pilot projects aimed to improve subnational resource governance in target countries, and to develop successful models that could be applied in new countries.

RWI chose countries that had revenue distribution systems in place, that were experiencing significant challenges in managing these revenues, and that were interested in receiving assistance. In each country, RWI partnered with non-governmental organizations and local government associations to deliver support and build capacity for sustaining improvements beyond the end of the project.

Box 1: Pilot Project Highlights

Peru: RWI worked with regional authorities in the oil-producing region of Piura and the mineral-rich region of Arequipa to improve revenue forecasting, planning and budgeting. RWI also supported provincial councils to improve the management of social funds created from extractive contributions. Regional governments now independently use a tool jointly developed with RWI and local partners to forecast revenues.

Ghana: RWI focused on the Asutifi district, helping civil society and government officials track and spend their share of gold royalties, develop a medium-term plan, and take advantage of opportunities from Newmont's corporate social responsibility plan. The project generated dialogue and awareness on revenues transferred to the district from higher levels of government. It also led to the participatory development of a district development plan.

Nigeria: RWI helped build the Bayelsa Expenditure and Income Transparency Initiative (BEITI), a platform bringing together government, civil society and the private sector to track revenue and expenditure at the state and local government levels in Bayelsa state. RWI also supported civil society to engage in the initiative, promote budget transparency and foster effective spending. As a result, civil society coalitions now produce annual reports on state and local government budgets and spending in several Niger Delta states.

Indonesia: RWI worked with civil society, government officials and companies in the oil-rich districts of Blora and Bojonegoro to develop stakeholder forums to ensure transparency in revenue collection and management, as well as a participatory midterm plan to convert oil revenues into high-impact investments. Forums are now financed by local government budgets and are crucial avenues for civil society to provide inputs to development plans and budgets.

In broad terms, RWI's work seeks to generate greater revenues and positive returns from oil, gas and mining for the resource producing areas, to reduce corruption, to enhance responsive governance, and to increase investment in the local economy. Over time, this serves to improve the living standards of residents in the areas we target.

RWI works with policy makers as well as oversight bodies such as media and civil society organizations to bring about sustained policy improvements. Our work with government officials gives them the capacity to develop effective legal frameworks. This may include systems to improve transparency, foster dialogue with other stakeholders, and raise accountability to citizens. Our support for civil society, local parliaments and media translates into more vigorous oversight of subnational government. Administration officials are thus held to account for their use of extractives revenues, creating incentives for effective management.

When the capacity and performance of subnational stakeholders is constrained by national legal frameworks, RWI works with national players to institute reforms that facilitate the work of subnational governments.

RWI developed a rigorous monitoring and evaluation framework to track impact and lessons from interventions.⁷

Overview of interventions

This section summarizes the thematic areas that our work has covered to date, including some of the responses we provided in pilot countries.

Revenue sharing. Countries where resource revenues are shared with lower tiers of government face the challenge of negotiating revenue-sharing frameworks that are widely accepted and that address specific policy goals. RWI and its partners in Peru provided civil society and subnational governments with information and venues to debate policy options for sharing revenues. We then helped them formulate a reform proposal to produce a more transparent, rule-based revenue transfer system. This has in turn informed Congressional debates on reforming revenue sharing laws.

Revenue monitoring. RWI helped our partners understand revenue flows between companies, central governments, subnational governments and other institutions such as traditional councils. This was central to our early work in Ghana, where we aimed to improve understanding of the mineral royalty transfer systems among various players in the district, and to equip them with the knowledge to track revenue flows and denounce irregularities.

Revenue forecasting. Revenue transfer systems often turn commodity price volatility into subnational budget volatility, which can be disruptive for long-term investments. In Peru, RWI and its partners built a forecasting tool that enabled regional officials and civil society in Piura and Arequipa to forecast revenues over the medium term. The tool led to multi-year budget estimates that helped regional authorities plan new investment projects, prevent waste from half-completed projects, and avoid developing assets they would not have the budget to maintain in subsequent years.

Revenue forecasts can also serve as an effective monitoring tool. Comparing estimated and actual data helps governments identify leakages in revenue collection or distribution.⁸

⁷ Final evaluation reports for all pilot countries can be obtained from RWI upon request.

⁸ Additional information is available in the RWI Peru case study at <http://www.revenuewatch.org/publications/spending-wisely-helping-peruvians-manage-resource-wealth>.

Briefing

RWI's work with the Indonesian government, civil society and private sector led to ground-breaking local transparency laws covering oil and gas revenues.

“Now we can propose budget modifications to finance projects coming from the participatory budget process. Forecasting allows us to know exactly what kind of projects we can present to the citizens in participatory budget processes, projects we know can be financed by canon resources.”

—Samuel Godos, Piura’s planning office

Smoothing revenues. When local budgets are derived largely from volatile revenues, mechanisms such as stabilization funds can offset budget volatility and receive surplus revenues during boom times. But few subnational governments have legal authority to establish stabilization or savings funds. Furthermore, funds need to be managed prudently to generate positive returns. Such prudent management of public sector funds is unlikely without adequate transparency. RWI shared international practices with national and subnational governments in Indonesia on setting up funds, and provided training and assistance to officials and Civil Society Organizations (CSOs) to ensure clear and transparent fund management.

Local involvement in the supply of goods, services and workers to companies. To increase employment and business opportunities for citizens in producing areas, RWI developed a framework to design, implement and monitor strategies to increase local content gains. This framework also focuses on diversifying the local economy to avoid the creation of an “enclave economy.” In addition, RWI conducted research to identify local content practices in Peru and successful models from across the globe. This served as the basis for our assistance to subnational stakeholders in Bolivia, Colombia, Ecuador, Ghana, and Peru.

Ensuring company social expenditures benefit citizens. In response to demands from civil society in Peru for more transparent use of social funds created by mining companies, RWI undertook research on social fund management. We made recommendations for enhancing the transparency and management of these resources. Our partners then worked with the Sechura town social fund to mainstream best practices. RWI built on this work by researching civil society initiatives to monitor social expenditures in Latin America. This work is currently guiding the efforts of our partners to disclose company social expenditures and align them with community priorities, government planning and obligations under law and contract in Indonesia, Peru, Ecuador, Colombia, Bolivia and the Democratic Republic of Congo (DRC).

Transparency in revenue collection and use. Increasing the transparency of financial flows is central to RWI’s work. Transparency enables government monitoring and allows citizens to hold government officials accountable. RWI’s work with the Indonesian government, civil society and private sector led to groundbreaking local transparency laws covering oil and gas revenues. In Nigeria, the RWI-funded Bayelsa Expenditure and Income Transparency Initiative (BEITI) developed a multi-stakeholder platform to track state revenues, transfers and expenditures.⁹ In addition to reducing revenue leakages, the project also sought to ensure that funds were being spent effectively and had an impact at the local level.

Monitoring Expenditure. RWI extended financial support and advice to country partners interested in ensuring more effective spending. In Peru, this entailed forming expert groups and citizen committees to monitor the compliance of actual spending with development plans and targets. In Indonesia, RWI and partner initiatives ensured that citizens played an active role in district government planning and local transparency laws.¹⁰ In Nigeria, RWI provided support to civil society groups to investigate spending and highlight problems with abandoned or duplicated projects, which have plagued the Niger Delta states for years.

⁹ Additional information is available in the RWI Nigeria case study at <http://www.revenuewatch.org/publications/nigeria-uphill-struggle>.

¹⁰ Additional information is available in the RWI Indonesia case study at <http://www.revenuewatch.org/publications/indonesia-fueling-future>.

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RWI's Pilot Project Partners

- Open Society Foundations Local Government and Public Service Reform Initiative (LGI), global partner.
- Centre for Regional Information and Studies (PATTIRO), Indonesia
- Grupo Propuesta Ciudadana (GPC), Peru
- Red de Municipalidades Urbana y Rurales del Peru (REMURPE), Peru
- Integrated Social Development Centre (ISODEC), Ghana
- Niger Delta Citizens and Budget Platform (NDCBP), Nigeria
- Bayelsa State Government, Nigeria
- Bayelsa Non Government Organization Forum (BANGOF)

Developing partnerships for change

In order to leave behind the requisite regional capacity, RWI forges partnerships with local CSOs or subnational government associations. Early in our projects, we focus capacity development and expert advice on our partners to build their readiness to extend support to subnational counterparts. Intellectual support is combined with provision of financial support to partners. Both are needed to develop adequate management systems and to secure qualified staff.

The formation of multi-stakeholder platforms to catalyze and monitor policy reforms is central to the RWI model. Such forums help build trust between diverse and often hostile stakeholders, and to sustain change after the project ends. In Ghana, we organized a forum between Newmont and local communities to discuss environmental concerns and access to compensation. In Peru, we supported multi-stakeholder committees involved in the design and oversight of consensus-based plans and participatory budgets. Our work in Indonesia led to the creation of multi-stakeholder steering committees that promote oil sector transparency in Blora and Bojonegoro. In Nigeria, the BEITI steering committee was created to guide and oversee the disclosure of revenue and expenditure information.

The diversity of the multi-stakeholder forums in the four countries illustrates the ownership of the initiatives by local actors:

- In Indonesia, RWI and its partners instituted groups that included representatives from local government, companies, parliament, civil society and community-based organizations. In both Blora and Bojonegoro, these multi-stakeholder groups were formally acknowledged and the government allocated funds from local budgets to support their operation.
- In Ghana, RWI and ISODEC supported a quarterly consultative forum comprised of traditional chiefs, district assembly members, Newmont Ghana and Asutifi civil society. This forum was never institutionalized.
- In Nigeria, the BEITI Stakeholder Working Group (BSWG) comprised of Bayelsa government representatives, civil society, including RWI's partners, the Bayelsa Non-Governmental Organizations Forum (BANGOF) and the Niger Delta Citizens and Budget Platform (NDCBP), oil companies and Ijaw ethnic associations. A support secretariat was established in the state's Office of Due Process and E-Government.
- In Peru, GPC supported the Piura Regional Coordination Council, chaired by the head of the regional government and comprised of eight mayors of the province municipalities and five civil society representatives elected for two years. The Council has a technical secretariat at the Regional Planning, Budget and Territorial Management Office.

Box 2: A multi-pronged approach to change

Fostering change requires a combination of different types of intervention. First and foremost, governments and oversight bodies must have the capacity to perform their jobs effectively. RWI and partners therefore provide **capacity building** (through training and mentorship) to enhance knowledge, skills and access to resources and experts. Training is generally combined with follow-up support aimed at applying lessons learned. RWI and partners ran two revenue forecasting workshops in Peru and mentored regional government officials in applying tools and making forecasts.

Besides country-level efforts, RWI organized a number of regional and global workshops that brought our partners and counterparts together to share approaches, explain models developed at the country level that could work in other contexts, and allow our partners to share experiences and discuss challenges.

Highly complex and technical areas such as extractive industries sometimes require **expert advice**. In all pilot projects, RWI and partners dispatched their in-house experts as requested by government or civil society counterparts. We advised the Peruvian legislature to assess the socio-economic impacts of the prevailing revenue sharing formula. We also advised Indonesian districts on drafting revenue management laws. We developed templates for Nigerian regional governments to collect and disseminate revenue and expenditure information. When relevant, we brought in partners or consultants that could complement our skill set and lend ancillary support.

RWI also produces original **research and analysis** that informs capacity building, expert advice and partners' advocacy. The research documents the impact of natural resource extraction, the positive effects of transparency, and the comparative impact of tools and mechanisms designed to address challenges encountered with resource revenues. Annex I provides a list of all public and internal research that RWI and its partners have produced on subnational resource governance.

Documenting and Sharing Lessons

RWI recognizes that addressing subnational governance challenges requires the combined efforts of a wide number of development practitioners and donors. In addition to building strong partnerships at the country level, we systematically document and share impacts and lessons with other organizations to encourage them to join our efforts. Table 1 lists case studies and videos that document key approaches and lessons from pilot projects.

#	Title	Author	Description	Date	Languages
Case Studies					
1	Fueling the Future: Indonesia Plans for its New Oil Wealth	Bramantyo Prijosusilo	Indonesia Subnational Project Case study	February 2012	English, French, Bahasa
2	An Uphill Struggle: Oil Wealth and the Push for Transparency in the Niger Delta	Jeremy Weate	Nigeria Subnational Project Case Study	February 2012	English, French
3	Ghana's Golden Opportunity: A District Struggles With Striking It Rich	Owusu Boampong	Ghana Subnational Project Case Study	June 2012	English, French
4	Spending Wisely: Helping Peruvians Manage Resource Wealth	Werner Jungbluth	Peru Subnational Project Case Study	October 2012	English, French, Spanish
Videos					
1	Peru: Better Forecasting	The Epidavros Project	Shot in Peru's Piura region, the video shows the process and impact of resource revenue forecasting.	October 2012	English, Spanish, French, Arabic, Bahasa
2	Indonesia: Fueling the Future	The Epidavros Project	Shot in Indonesia, the video shows the process and impact of obtaining increased transparency in resource revenues.	October 2012	English, Spanish, French, Arabic, Bahasa

Table 1
RWI's Case Studies and Videos
on Subnational Governance

Briefing

Achievements

Work by Revenue Watch and its partners has generated important policy changes in project areas. Moreover, models developed were disseminated to a larger Community of Practice (COP).

“Thanks to the initiative, we have become more aware of our rights and the power we have to participate in and question the budgetary process. We now understand how budgets are tracked.”

Willie Mac-Eteli, chair of BANGOF's community watch group, Nigeria

Raised awareness around resource revenue transfers and management. In Ghana, RWI and partner's endeavors succeeded in building awareness, enhancing trust among stakeholders and ensuring meaningful participation from citizens and community-based organizations in preparing the district's development plan. Previously, the planning process had been dominated by a handful of officials. The project also helped align Newmont's voluntary corporate social responsibility activities with the priorities of the District Assembly and administration. In Nigeria, the RWI-funded BEITI developed a multi-stakeholder platform to track state revenues, transfers and expenditures. BEITI is a potential model for moving from national to subnational implementation of the EITI. We have also built local civil society groups to analyze budgets and spending, and to disseminate their analyses to ordinary citizens to encourage greater accountability.¹¹

Improved revenue tracking and facilitated investment in sustainable development. Better forecasting of revenues leads to more realistic spending plans, contributing to an increase of spending in project areas. In Peru, the Arequipa and Piura regional governments continue to use RWI's forecasting tool to accurately predict their entitlements and formulate multi-year budgets. Projections for the financial year 2011 deviated from actual revenue transfers by less than 5 percent. More informed planning and better economic management contributed to improvements in absolute spending and allocations to priority sectors in regions that have benefited from RWI and partner assistance. Arequipa's regional government spending effectiveness – the percentage of the allocated budget that has been spent, has gone up from 89.2 percent in 2009 to 93.7 percent in 2011. In Piura the increase has been from 79.9 percent in 2009 to 84.5 percent in 2011. Allocations to priority sectors have also increased in both regions. In Piura, the budget allocation to education has increased from 37.7 percent of the total budget in 2009 to 42.5 percent in 2011, a total increase of around \$31 million (from \$150.4 to \$181.9 million). The increase in health sector allocation was from 13.3 percent to 17 percent of the total budget in the same period, an addition of \$19 million (from \$53.4 to \$72.6 million).¹²

In Indonesia, RWI and partners provided training and technical advice to the Blora and Bojonegoro districts to implement sustainable development plans and regulations that mandate transparency of revenues, health and safety issues, environmental risks and impacts, and corporate social responsibility projects. Blora's multi-stakeholder “transparency team” is now funded by the local government. Thanks to the planning process, governments and civil society in both districts agreed on sizable increases in health and education spending. Bojonegoro increased spending on education by 101 percent from 2010 to 2012. Spending on health increased by 22 percent. Blora's education expenditure increased by 68 percent. Supplementary resources were used to fund the first 12 years of free basic education, adding three years to the national mandate of nine. Spending on health rose 77 percent.¹³

11 See Carry Go: 2008 Citizens' Report on State and Local Government Budgets in the Niger Delta; Beyond Amnesty: 2009 Citizens' Report on State and Local Government Budgets in the Niger Delta; Spend and Borrow: 2010 Citizens' Report on State and Local Government Budgets in the Niger Delta (Niger Delta Citizens and Budget Platform, www.citizensbudget.org).

12 Data is from Peru's Transparency Portal and refer to the Peru's Initial Budget (also known as PIM). See http://www.peru.gob.pe/transparencia/pep_transparencia.asp.

13 RWI's elaboration of Bojonegoro and Blora district budget and expenditure data. For Bojonegoro, spending on education was Rp 348,906,018,402 in 2009 and Rp 572,514,150,407 in 2012. Share of spending on education went up from 34.94 percent of total expenditure in 2009 to 49.47 percent in 2012. Spending on health was Rp 113,699,737,232 in 2009 and Rp 163,460,236,042 in 2012. It slightly decreased from 11 percent of total expenditure in 2009 to 9 percent in 2012. For Blora, spending on education was Rp 338,500,272,250 in 2009 and Rp 569,618,560,184 in 2012. Spending on health was Rp 68,859,894,420 in 2009 and Rp 122,097,523,608 in 2012.

Extra funds were also used to finance health insurance for the poor (the Jamkesda program) and the recruitment of more health workers and specialized doctors.

Developed tools and models that are being replicated by others in several countries.

RWI uses the tools developed during the pilot projects to advance extractives governance in resource rich areas. We have deployed our toolkit at the provincial level in Iraq, the Philippines and Vietnam. In Indonesia and Peru, our partners have successfully provided support to governments from new areas that were not targeted in the pilot phase.

Our toolkit and approaches have generated a groundswell of interest from other organizations. Local governments in Bolivia have launched reforms of their revenue estimation and planning systems under RWI's partner guidance. The World Bank office in Cameroon has brought subnational revenue management into the mainstream of its national program after exposure to the RWI toolkit.

Developed a conceptual framework for subnational interventions. RWI has refined the initial project theory of change developed in 2008 based on lessons from interventions, research and interaction with COP members. Our initial approach had a strong focus on transparency and resource revenue management. The refined approach sought a more encompassing definition of subnational governance that included the maximization of all revenue and non-revenue benefits accruing at the subnational level as a result of resource extraction.

RWI's definition of subnational governance now includes:

- legal frameworks (i.e., statutory rules for revenue sharing, local content, mitigation of environment and social impacts, licensing, and negotiating and monitoring other operational provisions that determine the direct and indirect benefits subnational areas will receive from natural resources and that minimize the negative externalities);
- revenue collection (i.e., rules and systems for revenue tracking and forecasting that ensure subnational governments receive their resource revenue entitlements, and that can anticipate revenue swings linked with commodity price volatility for better budgets and planning); and
- revenue management (i.e., rules and mechanisms for saving and spending government resource revenues and company social expenditures to generate sustainable returns).

Each of these must be transparent, accountable and effective. This framework is aligned with an updated theory of change and serves as a comprehensive outline for subnational interventions that RWI and other organizations can utilize.

Created a Community of Practice to provide input into the conceptual framework and to incorporate and share lessons from implementation. Through the course of the pilot projects, RWI interacted with over 130 key decision-makers and experts in the field of subnational governance and natural resource production. In 2012, RWI convened the COP for a global workshop and two regional seminars. The meetings were aimed at promoting tools and motivating other organizations to scale up work in this crucial area for poverty reduction and development. Branching into several existing networks¹⁴, RWI has also been able to reach a wider group of potential users.

¹⁴ Networks include GOXI, ELLA Learning Alliance, UNDP E-discussion on Advancing Sustainable Development, PWYP and FAGLAF.

Briefing

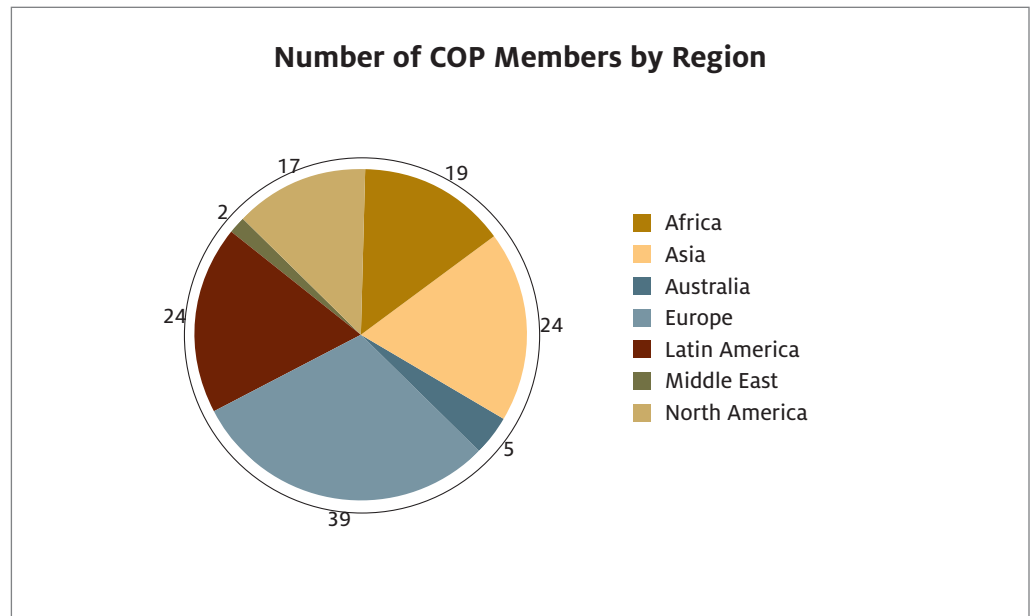


Figure 3
Number of COP
Members by Region

Lessons learned

RWI and its partners systematically collected information on project impact and lessons learned to improve our approaches. RWI convened the partners to discuss common challenges and share models tested in each country. Every project was assessed by independent evaluators through a mix of quantitative and qualitative indicators. RWI drafted project case studies, factsheets, web stories, think pieces and videos to complement lessons identified by the evaluators. This section presents key lessons learned from our pilot projects.

Undertake a thorough initial assessment and preparation to increase the probability of success

A key aspect to our approach—one that has become increasingly central over successive iterations—is extensive and rigorous evaluation at project inception to identify suitable countries, subnational areas, partners and interventions to maximize impact. Key indicators for successful engagement include:

- Regional, state and local government budgets are primarily dependent on extractive revenue (or a high share of the subnational GDP derives from extractive industries).
- High-level subnational government officials are interested in pursuing reform: e.g., they have initiated changes to improve accountability, quality of planning and budgeting, or have approached external partners for support.
- The subnational government is receptive to input and participation from citizens.
- Donors are willing to provide support to subnational governments on strengthening public financial management systems and capacity when public financial management systems are weak.
- Partners have a relationship with state or local governments and therefore can engage in swift discussions about their needs, support and the project's scope.
- Governments have recently been elected. This will maximize time to discuss and implement projects with the same authorities.

Subnational governance is highly dependent on the power distribution established within a national framework. Understanding the discretionary space in which subnational governments operate is a key element of planning interventions. For example, subnational governments may not legally be allowed to save revenues from resources shared by the national government. In

that case, implementers need to consider whether intervention should focus on other smoothing mechanisms, such as methods for planning and effectively spending revenues, or on advocacy measures to change existing laws to allow subnational governments to save. RWI focused on building revenue forecasts in Peru because subnational governments were not allowed to save revenues. If changes at the national level are needed for subnational governments to perform their roles effectively but there are no openings for national reform, implementers may consider withholding engagement until there is an appetite for reform.

Assessing government officials' potential to absorb technical knowledge allows for greater focus of interventions. Extractives governance is a highly technical field that requires advanced understanding and skills, often lacking at the lower levels of governments. In some cases it may be impossible to build them. RWI's work in Peru demonstrated that officials and CSOs at the regional level could build revenue forecasts, but this was challenging for lower tiers of government. By recognizing this early, RWI and partners could focus on training efforts at the regional level, resulting in tangible impacts.

Another key lesson is that intervention must be framed in a program of adequate length and scope. Achieving structural improvements in subnational governance requires at minimum a three-year program, and ideally a five-year program. One- or two-year commitments will fail to produce policy outcomes or sustainable changes in government performance.

Build a shared agenda

Once rigorous evaluations have been conducted, it is essential that all partners agree on a clearly articulated theory of change adapted to the context of the country. This is necessary to build trust and iron out differences in approach and expected results. This requires like-minded partners, their early involvement, and open discussions to define shared objectives and strategies.

In liaising with government counterparts, one important priority is to maintain open communication with both political leaders and technical officials. The pilots' most notable successes stemmed from constantly renewing political buy-in while building the capacity of technical officials to implement agreed interventions. Where communication with political leaders was not as fluid or hindered by changes in political leadership, interventions tended to slow down. It is easier to maintain regular communication if there are permanent staff or dedicated partners with allocated staff time in project countries or areas. In Peru, our engagement involved intensive hands-on technical assistance and follow-up rather than just a series of workshops. Regional officials in Arequipa and Piura valued the continual presence and support of GPC and were able to apply newly gained knowledge to their work under the guidance of GPC's mentors. GPC maintained a close relationship with regional officials, including presidential advisors and the presidents themselves. This high-level political engagement helped to keep project activities high on the list of government priorities.

In this respect, it is important to note that building trust and increasing engagement among stakeholders requires a huge investment of time and energy. Implementers must be ready to devote more than a third of their time, especially in the initial phase, to building trust through meetings, ongoing communication and physical presence in project areas.

Develop multistakeholder groups that build consensus and sustain change

Multi-stakeholder dialogue creates networks and relationships that outlive external engagement. When formalized in national law, anchored to international standards like EITI, or included in subnational government budgets and responsibilities, multi-stakeholder mechanisms can be sustained independently of external support. For instance, the transparency

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team created in Blora, Indonesia, under RWI's facilitation is now fully funded by the subnational government. District laws require the group to play a key role in government planning.

Building successful multi-stakeholder groups may require an external mediator seen as balanced, independent and credible by all parties. This is essential in conflict-prone subnational areas where relations between communities, civil society, companies and governments are characterized by low levels of trust. In Indonesia, RWI began by organizing bilateral meetings with companies, government and community representatives to discuss challenges and hear suggestions on possible solutions. This process served to build trust before convening all parties to multi-stakeholder meetings on issues stakeholders had themselves identified as priorities and where RWI and partners saw room to gradually reach consensus.

Understand and build incentives for reform

It is essential to understand existing incentives and capacities to design an effective project. In terms of incentives, demand for reform is essential for change. If certain actors stand to lose from change, implementers need to consider whether incentives can be changed.

In this respect, active citizens are important to create demand for and sustain reform. In Indonesia, RWI partners engaged in campaigns to inform citizens about the risks and opportunities posed by oil extraction. The engagement created demand for oil revenue transparency and for participatory, sustainable development planning. Even when people knew very little about the government's budget or the source of the revenues, most welcomed the idea of receiving more information about this new money and having more say in how to spend it. This in turn increased the pressure on the district governments of Blora and Bojonegoro to launch and institutionalize multi-stakeholder mechanisms and participatory planning processes.

If incentives cannot be modified through citizen pressure, alternatives may include dropping a stakeholder group or discarding the planned intervention from the overall project. In Ghana, RWI's project developed templates for local chiefs to report receipts and expenditures of mining royalties. The chiefs regard royalties as money for their personal upkeep and the maintenance of their palaces. As such, the funds are traditionally not subject to public disclosure. The project's focus on technical solutions was unsuccessful in light of traditional non-accountability and chiefs' fears about how disclosure might impact their privileges.

It is also important to recognize that governments are complex institutions with individuals that have conservative and reformist agendas and allegiances that vary over time. In Nigeria, the support from Bayelsa state governor and the head of Due Process and e-Government department was critical in overcoming early challenges to the program and enabled progress in BEITI initial set up, despite the opposition of other high-level officials. However when the interest of key political figures decreased, it gave those opposed to the program the upper hand, slowing the project and preventing further disclosure of actual transfers and use of oil and gas revenues. Recognizing the conflicting interests and monitoring how they evolve is essential to calibrate interventions and maximize project impact.

Collaborate with key national officials

National governments can be important sources of information. For instance, predicting subnational resource entitlements requires information on macroeconomic assumptions, production plans, prices, quantities extracted, and legal rights and obligations at the project level. But if national governments do not provide these data, then subnational governments may not be able to make accurate projections. Disclosure of these data by the Peruvian national government agencies allowed subnational governments to build accurate forecasts. Conversely, unwillingness

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to disclose similar data in Indonesia thwarted our efforts to build revenue forecasts for Blora and Bojonegoro.

Also, as mentioned above, national governments can alter the overarching regulatory framework and thus constrain or enable subnational governments to manage issues that arise from extractives. In Peru, the coordination of regional governments developed a proposal to review the criteria to share resource revenues because by focusing revenues in resource-producing districts, they led to disparities of distribution, high volatility and massive increases revenue transfers, which in turn made it difficult for weak governments to spend these revenues fully and effectively.

Obtain company buy-in

Company buy-in is important for the success of certain subnational interventions. Like government officials, company representatives are important sources of information for estimating revenues and addressing social, environmental and economic challenges. Companies may also make payments directly to local governments or provide services. Involving companies in the planning process helps align corporate social responsibility investments with public plans. In Nigeria, BEITI membership included companies from the onset, making it possible to create a commitment to disclose company payments to the state government.

When companies manage direct social expenditures, company collaboration is necessary to align social expenditures with local development plans. This was the case of our engagement in Asutifi, where Newmont engaged our partner, the district assembly and district office in a dialogue on how to reconcile its social spending with the five-year medium-term plans of the District Assembly.

Build policy options for reform

RWI's general approach has been to share the pros and cons of various policy options and best practices from similar contexts as well as to allow counterparts to form their opinions about which options work best within their context. This approach empowers counterparts to make their own decisions, which is especially important when addressing issues that may be controversial or where counterparts may come with predetermined ideas. For instance, when approached to advise the Peruvian Congress on whether the country should have a revenue distribution system and how it should work, RWI did not take a position on the desirability of fiscal decentralization and revenue transfers but focused instead on the consistency and soundness of systems available to realize particular policy goals (e.g. analyzing the impact of different allocation formulas based on criteria such as population size, poverty levels and production of resources within the area) and universal good management principles like transparency and predictability of transfers.

This said, RWI and partners gradually realized the importance of being proactive in suggesting areas of support to governments. An exclusive focus on governments' existing plans for reform or requests for capacity building may not address the specific challenges that come with extractive resources. These challenges are highly complex and may be difficult to grasp for subnational governments. This was notably the case with RWI and its partners' attempts to develop a revenue forecasting methodology in Peru. Initial discussions met with a lukewarm response from government counterparts. However, government counterparts turned into the most avid users of the tool after realizing its accuracy and power for planning and revenue tracking purposes.

“In the beginning of this project, we were nothing but a small local NGO, but now everybody in this district regards us as a reputable organization. We understand the details of revenue flow from oil, and many of our members have contributed articles on the subject in district and national newspapers.”

—Yunus, LPAW, Indonesia

Sustain capacity through government changes and beyond the project

Building the technical capacity of local partners is a way to sustain gains beyond the end of a given project. RWI’s training and hands-on coaching helped our partners develop reputations as credible and valuable contributors to governance and reform efforts in their respective countries. The ability to access and analyze information, support and constructively critique government, and advocate for change allowed our partners to continue their work after the project ended. They carried on in the face of political instability and without direct funding or support from RWI. In Peru, a number of key technical staff and political allies left after regional elections, creating significant challenges for sustained impacts. Having capable partners allowed for seamless re-engagement with new administrations and for reviving momentum to continue project interventions.

It is also important to identify factors limiting partners’ institutional growth and support basic institutional strengthening. Based on needs assessment, RWI provides financial support and coaching on human resource management and fundraising. Armed with better systems and additional capacity to manage and fundraise, partners are better positioned to mobilize additional funds to continue their efforts. In Nigeria, partners continue to this date to produce budget citizens’ reports with funding from new donors that RWI helped to leverage.

Statutory law is essential to sustain changes and institutionalize models generated by the projects. Where lawmaking is slow and bureaucratic, it is important to consider embedding processes in light-touch forms of statutes like Memorandum of Understanding (MOU) from the start. Providing a solid institutional and legal basis to interventions is essential to ensure future efforts will be sustained and project achievements will outlive changes in government authorities or staff.

Future priorities

RWI’s focus is now on institutionalizing lessons learned, applying tools to replicate projects in new areas and scaling up existing interventions. Ongoing projects include work in new regions in Peru and fresh engagement in Bolivia, Colombia, DRC, Ecuador, Iraq, Philippines and Vietnam. In Iraq, RWI is assisting subnational governments with resource revenue mapping and managing windfall revenues. RWI is working with CSOs in Bolivia, Colombia and Ecuador on analyzing policies and practices in company social expenditures and local content. In Philippines and Vietnam, RWI’s focus is on transparency in resource revenue sharing and management, and on applying lessons from the pilot project in Indonesia.

As we implement new projects, RWI continues to mainstream extractives governance in wider subnational governmental reforms. This entails responding to learning and institutional needs, partnering with institutions on areas that are not core to RWI capabilities (such as environmental impact assessments), and working with institutions that can harness and mobilize the capacities RWI builds.

We continue to coach local partners so they are able to continue work at the subnational level after project end and in the absence of RWI funding. In Nigeria, our partners have been able to secure funding from other donors to monitor budgets and expenditures in the Niger delta. Multi-stakeholder engagement also remains central to our approach. Following the publication of RWI’s *Enforcing the Rules*,¹⁵ a global survey of mineral-rich countries’ monitoring and enforcement of the laws and contracts that govern exploration and extraction, RWI is piloting a program that provides training and grants to civil society in Africa and Latin America to monitor compliance and improve enforcement of laws and contracts. We plan to deepen our efforts in this area.

15 <http://www.revenuewatch.org/publications/enforcing-rules>.

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RWI's forthcoming Resource Governance Index assesses selected disclosure practices, including on revenue transfer systems. Information from the Index will help RWI and partners to diagnose governance issues. Future reports will serve as a basis to monitor progress in addressing these issues. RWI is also preparing to work with partners to analyze project-level data that will be disclosed by U.S. and E.U. stock exchanges following the approval of Section 1504 of Dodd-Frank Act and the revised European Accounting and Transparency Directives. RWI will continue to document its work, developing case studies and applied research arising from project needs. New products will be disseminated to RWI's partners and the wider COP through online forums and newsletters.

Recognizing the limits of our reach, RWI's focus from the onset has been to motivate and share tools with donors and practitioners who have the interest and potential to work with local governments and communities in this field. RWI plans to increase the reach of our subnational program by scaling up country level trainings to the regional and global levels. At the regional level, RWI is supporting "knowledge hubs" in Africa, Asia Pacific, Latin America, Middle East And North Africa and Eurasia regions to offer relevant training and technical advice for governments, civil society organizations, members of parliament and journalists in issues linked to oil, gas and mining.¹⁶ Among the hubs' main services are annual, residential, two-week core courses. RWI will design and deliver intermediate-level subnational training courses in at least two hubs on a pilot basis. These elective sessions will allow students to network and share information and best practices with peers. At the global level, RWI is working toward the development of a comprehensive annual course on Local Economic Development in Resource Rich Areas. This course will draw the attention of donors and practitioners to this crucial area and build their capacity to intervene.

Annex I – RWI and partners' research on subnational governance

#	Title	Author	Description and public availability	Date	Language
1	Extractive Industries Revenue Distribution at the Subnational Level: The experience in seven resource rich countries	Matteo Morgandi	Paper analyzing resource revenue sharing in seven countries Public	June 2008	English
2	Local governance in oil, gas and mining-affected areas: What are the challenges and how can they be addressed by local planning and budgeting?	Vanessa Herringshaw	Introductory paper providing a framework to understand challenges and opportunities in an extractive area Internal	2009	English
3	The Flow and Calculation of Revenue Sharing Fund (DBH) Report on The Study of Cepu Block Oil Exploitation	Pattiro	Book analyzing resource revenue flow and attempting to forecast resource revenue entitlements at district level Public	April 2009	Bahasa, English
4	Social Funds in Peru: Context, Analysis and Proposals	Sirkka Korpela	Analysis of Social Funds in Peru Internal – available on request	May 2009	English

¹⁶ <http://www.revenuewatch.org/issues/regional-hubs>.

#	Title	Author	Description and public availability	Date	Language
5	Local content in extractive industries - international case studies	Anthony E. Paul, Mark Pierre	Analysis of local content policies and practices in different countries Internal – available on request	September 2010	English
6	Discussing Local Content - Lessons drawn and recommendations based on experiences in Peru and worldwide	Armando Mendoza Nava	Draft Paper on Distilling lessons to draw policy recommendations for subnational local content Internal – available on request	January 2011	English, Spanish
7	Sub-National Dimensions of the Paradox of Plenty	Akram Esanov	Analysis of existence of subnational resource curse in Peru and Russia Internal	February 2011	English
8	The Subnational Resource Curse: Causes, Consequences and Prescriptions	Laura Paler	Paper Analyzing Subnational Resource Curse Public	March 2011	English
9	Empowering Citizens to Combat the Resource Curse: An Experiment in Taxation and Transparency	Laura Paler	Impact evaluation in a district in Indonesia: Impact of tax payment vs. windfall on citizen engagement, impact of fiscal transparency on political action Public	March 2011	English
10	Harnessing Oil, Gas and Minerals for Local Development	Varsha Venugopal	Subnational Fact Sheet Public	July 2011	English, French, Spanish, Bahasa
11	Cómo proyectar los ingresos provenientes del canon minero. Manual de sistematización de la experiencia de asesoría técnica a los gobiernos regionales de Piura y Arequipa en la proyección de ingresos futuros provenientes del canon en un contexto de volatilidad	Grupo Propuesta Ciudadana	Manual for forecasting the rent generated by the extractive sector Internal – available on request	August 2011	Spanish
12	La Distribución de la Renta de las Industrias Extractivas a los Gobiernos Subnacionales en América Latina	Claudia Viale, Edgardo Cruzado	Paper analyzing resource revenue sharing in several Latin American countries Internal- available on request	August 2012	English, Spanish
13	Local level resource curse: The “Cholo Disease” in Peru	Claudia Viale	Paper analyzing whether subnational resource curse exists in selected areas in Peru Internal- available on request	October 2012	Spanish, English

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#	Title	Author	Description and public availability	Date	Language
14	Corporate Direct Social Expenditures: a Monitoring Guide for Civil Society Organizations	Rocio Moreno Lopez	Policy paper analyzing case studies on monitoring company direct social expenditures and providing recommendations for CSOs Public	January 2013	English, Spanish, French
15	Subnational oil, gas and mineral revenue management	Andrew Bauer	Policy paper analyzing the challenges subnational governments face in managing volatile windfall revenues and recommending solutions Public	May 2013	English Spanish French
16	Enhancing the subnational benefits of local content initiatives	Ana Maria Esteves, Bruce Coyne, Ana Moreno	Policy paper providing guidance on design and implementation of local content policies in the oil, gas and mining sector so that they contribute to economic sustainability within the host national and subnational resource-producing regions. Public	May 2013	English
17	Assessing mineral licensing in a decentralized context	John Strongman	Policy paper providing a framework to analyze mineral licensing in decentralized contexts. Public	May 2013	English



The Revenue Watch Institute promotes the effective, transparent and accountable management of oil, gas and mineral resources for the public good. Through capacity building, technical assistance, research, funding and advocacy, we help countries to realize the development benefits of their natural resource wealth.

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