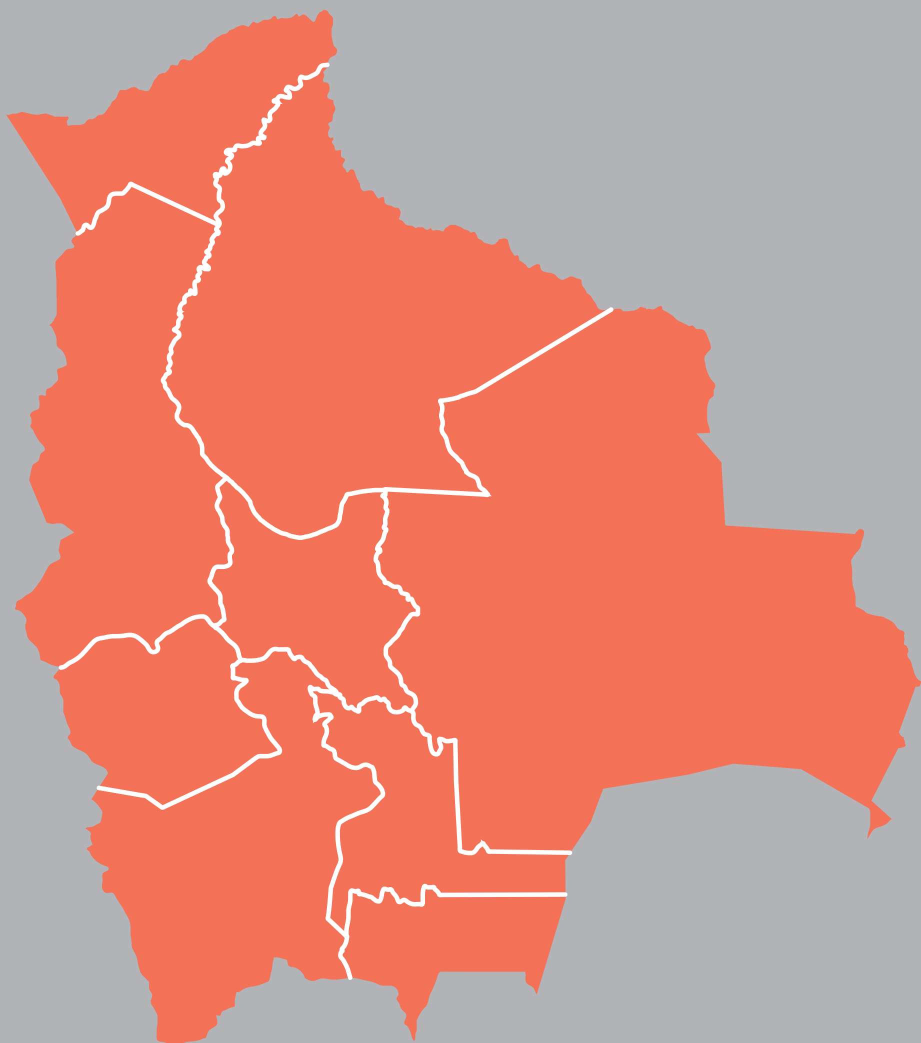
REVENUE SHARING CASE STUDY

Oil and Gas Revenue Sharing in Bolivia



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Contents

This case study is part of a series of country case studies describing how resource revenue are shared by national governments with subnational authorities.

Table of relevant Bolivian laws

NO. LEGISLATION	NAME/DESCRIPTION	YEAR OF PUBLICATION
Law No. 1551	Popular Participation Act	1994
Law No. 1654	Law on Administrative Decentralization	1995
Law No. 1689	Law on Hydrocarbons	1996
Law No. 2235	"Dialogue" Law	2000
Law No. 3058	Law on Hydrocarbons	2005
Supreme Decree No. 28421	On the distribution of IDH revenue and its earmarking provisions	2005
Supreme Decree No. 28222	On royalty payments and participation of treasury in the production of hydrocarbons	2005
Law No. 3038	On the redistribution of a share of Tarija's royalty revenue to the Gran Chaco province	2005
Presidential Decree No. 28701	Heroes del Chaco Presidential Decree (nationalization of the hydrocarbon industry)	2006
Law No. 3322	On the creation of a compensation fund	2006
Supreme Decree No. 28669	Royalty clearance and participation of treasury in the production of hydrocarbons	2006
Law No. 3384	On the creation of a regional development fund in the Gran Chaco province (department of Tarija)	2006
Law No. 3385	On the creation of a social program for Housing with access to basic services in the Gran Chaco province (department of Tarija)	2006
Law No. 3791	Law on Renta Dignidad	2007
Supreme Decree No. 29565	On the use of IDH revenue by municipal governments	2008
	Constitution	2009
Law No. 31	Law on Decentralization and Autonomy	2010
Decree No. 859	On promoting civic and patriotic education	2011

Summary

This study provides an overview of natural resource-related intergovernmental transfers in Bolivia—that is, the revenue that the Bolivian national government earns from extraction and then redistributes to subnational authorities.[1] While the primary focus is on transfers of revenue from oil and gas, the study also provides some information on transfers from mining and forestry, as well as the revenue from the general tax regime, which is known in Bolivia as "fiscal co-participation."[2] This study outlines fiscal decentralization and the evolution of revenue sharing, and provides an overview of how resource revenues are collected and then shared with subnational authorities, within the country's wider intergovernmental transfer system. It provides information on any statutory earmarks of revenue, the level of transparency surrounding the revenue sharing system, and the effectiveness of the system when this can be determined. This paper is primarily intended to inform policy debates on revenue sharing in Bolivia and other countries as well as researchers interested in further exploring key issues related to this topic. It forms part of a broader set of case studies on revenue sharing.

Oil and gas are major contributors of income for Bolivia's economy: in 2013 the sector constituted 8.7 percent of the country's GDP, and 55 percent of total exports.[3] After a period of liberal reforms in its hydrocarbon sector between 1985 and 2003, Bolivia commenced strong state control of the sector 2005. In that year, the government created the "direct tax on hydrocarbons" (Spanish acronym, IDH) which resulted in a substantial increase of 115 percent in the country's petroleum revenue.[4] From 2004 to 2005, after the introduction of IDH, combined revenue from IDH and royalties (the largest sources of oil and gas income) increased from approximately USD 338 million to a little over USD 726 million.[5] Eighty-six percent of this increase came from the introduction of the IDH alone. One year after the introduction of the IDH, newly elected President Evo Morales nationalized Bolivia's oil and gas sectors. This further increased the country's revenue from the sector through the participation of *Yacimientos Petroliferos Fiscales Bolivianos* (YPFB), Bolivia's state company, in oil and gas firms' profits from exploration and exploitation contracts[6]: revenue rose from USD 1.55 billion in 2006 to USD 2.7 billion in 2008.[7]

1 The term subnational authority is used here to refer to subnational governments and other subnational entities, such as universities.

2 Revenues shared through fiscal co-participation, include taxes levied as a result of applying the country's general fiscal regime on oil and gas operations . These taxes are: the value added tax (VAT, or IVA in Spanish); the business profit tax (IUE in Spanish); and the tax on transactions (IT in Spanish).

3 Gonzálo Chávez A., *Ingresos fiscales por explotación de hidrocarburos en Bolivia*, (Inter-American Development Bank, IDB-PB-199, 2013), 1.

4 MEFP, Memoria de la Economia Boliviana 2012 (Ministry of Economy and Public Finances, 2013), 264, http://www.economiayfinanzas.gob.bo/?opcion=com_contenido&ver=contenido&id=2885&id_item=646&seccion=269&categoria=1523. In 2004 revenue from royalties amounted to $337.6 million. In 2005, revenue from royalties and IDH amounted to $390.5 million and $336 million, respectively.

5 MEFP, *Memoria de la Economia Boliviana 2012*.

6 These contracts were signed in 2006 and entered into force in May 2007.

7 Raúl Velásquez G. and Maria del Carmen Inch S., *Renta hidrocarburífera: Mas allá de las regalías y del IDH*, (Serie Debate Público No. 24, Fundación Jubileo, 2012), 28.

Bolivia is formed of nine departments, which in turn contain 339 municipalities. (See figure 4.) In 2011, the oil and gas revenue share allocated to subnational authorities was significant, at around 60 percent of total government take.[8] This revenue share comprised IDH, royalties, patents and fiscal co-participation. (See figure 1.) The country's oil and gas revenue sharing arrangement is based on derivation.[9] The three most populous departments also benefit from higher shares of oil and gas revenue through a separate compensatory fund. (See table 2.) Therefore location of extractive projects and to some extent population are the main criteria for allocating oil and gas revenue across subnational governments in Bolivia. This redistribution does not take into account social or economic characteristics such as Human Development Index scores.

Departments raise very little own-source revenue. Most of their revenue consists of inter-governmental transfers largely comprising oil and gas revenue shared through royalties and IDH. Bolivian municipalities also mainly rely on transfers—largely comprising IDH and fiscal co-participation transfers—to finance their expenditures. (See table 1). From 2005 to 2012, IDH and royalties represented an average of 78 percent of total transfers made to departments.[10] During the same period, IDH revenue represented an average of 37 percent of total transfers to municipalities.[11] The rest of the revenue for municipalities largely came from fiscal co-participation.

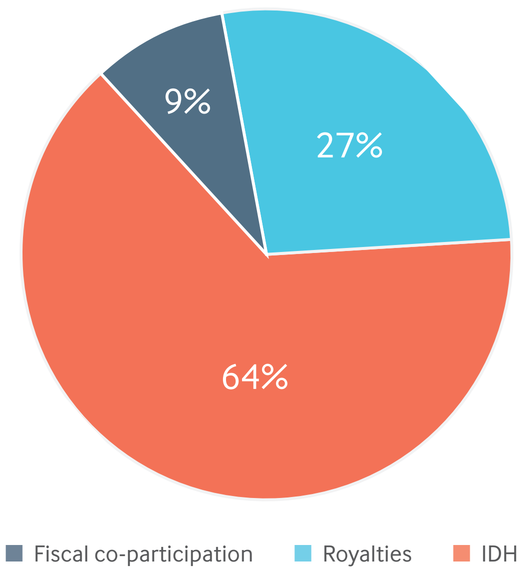


Figure 1. Percentage breakdown of oil and gas revenue shared with subnational authorities (2011)[12]

8 Velásquez G. and del Carmen Inch S., *Renta hidrocarburífera*, 28.
9 Applying a derivation mechanism to resource revenue sharing means that the amount of oil and gas revenue allocated to subnational governments depends on their production levels.
10 MEFP, *Memoria de la Economia Boliviana 2012*, 275.
11 Similar disaggregated information is unavailable for fiscal co-participation.
12 René Martínez Céspedes and María del Carmen Inch S., *A Siete Años del IDH: ¿en qué se gastan los recursos?* (Serie Debate Público 22, Fundación Jubileo, 2012); and Velásquez G. and del Carmen Inch S., *Renta hidrocarburífera*, 28. The numbers have been calculated by taking the weights of all revenue streams that are shared with subnational governments (IDH, royalties, patents, and general taxes) in the total government take from the hydrocarbon sector. For fiscal co-participation (general tax regime), only 25 percent of the total amount ($686 million) has been used, since only 25 percent is shared with subnational governments.

Table 1. Royalties and IDH from the General National Treasury (TGN) to departments and municipalities, 2012

Department	Population	Share of oil production	Share of gas production	Royalties (only for departments)	IDH(1)			Total municipalities' allocation	Total departments' allocation	Total departments' allocation (including municipalities and universities)	Departments' budget per capita
					Departments' governments	Municipalities	Universities				
	Inhabitants	%	%	USD million	USD million	USD million	USD million	USD million	USD million	USD million	USD
Chuquisaca	576,153.0	8.0	7.0	34.1	26.5	72.9	10.4	72.9	60.6	143.8	105.2
La Paz	2,706,351.0	0.0	0.0	0.0	26.5	133.9	22.2	133.9	26.5	182.7	9.8
Cochabamba	1,758,143.0	11.0	5.0	38.7	26.5	96.4	16.9	96.4	65.3	178.5	37.1
Oruro	494,178.0	0.0	0.0	0.0	26.5	72.9	10.4	72.9	26.5	109.7	53.7
Potosi	823,517.0	0.0	0.0	0.0	26.5	72.9	10.4	72.9	26.5	109.7	32.2
Tarija	482,196.0	69.0	68.0	424.6	34.9	96.0	13.6	96.0	459.5	569.2	953.0
Santa Cruz	2,655,084.0	12.0	20.0	131.7	26.5	120.5	23.5	120.5	158.3	302.3	59.6
Beni	421,196.0	0.0	0.0	38.1	26.5	72.9	10.4	72.9	64.7	147.9	153.5
Pando	110,436.0	0.0	0.0	19.1	26.5	72.9	10.4	72.9	45.6	128.8	412.8
Bolivia	**10,027,254.0**	**100.0**	**100.0**	**686.4**	**247.1**	**811.1**	**128.0**	**811.1**	**933.5**	**1,872.6**	**93.1**

[13]

A portion of revenue from IDH is earmarked to a universal old-age pension scheme, Renta Dignidad (formerly known as Bonosol[14]), and additional portions are directed to other conditional cash transfer programs, such as the Bono Juancito Pinto, for schoolchildren.[15] The distribution of revenue from the IDH has been modified several times by the current president.[16]

Regarding disclosure of information, all statutory instruments regulating revenue sharing in Bolivia are publicly available. While information on actual revenue transfers is available from the national government, it is published in aggregated form and only at yearly instead of quarterly intervals.

13 IEHD, which is (a special tax on hydrocarbons,) and patents are not included here, given the low amount received by subnational governments in comparison to other revenue sources (IDH and royalties)

14 Bonosol was created in 1996 during the presidency of Gonzalo Sánchez de Lozada.

15 The *Bono Juancito Pinto* is a cash transfer in Bolivia whose beneficiaries are children going to public schools. It was established in 2006 with the aim of reducing dropout rates. It is paid in two instalments, one at the beginning of the academic year, and one at the end of the academic year, each of $14.5 per student.

16 The distribution of IDH revenue across departments has never been changed. Only the internal distribution within each department has changed (i.e. percentages allocated to municipalities and universities inside each department, and then by requiring each department to allocate 30 percent of the revenue to the *Renta Dignidad* scheme).

Introduction

Bolivia's hydrocarbon sector has taken on increasing importance in the country's economy, particularly over the last decade. While in 2003 the industry represented 4 percent of Bolivia's GDP and 32 percent of total exports, in 2013 it represented 8.7 percent of GDP and 55 percent of total exports. The sector has contributed, on average, more than one-third of the national treasury's income between 2003 and 2013.[17]

According to the Bolivian constitution, YPFB, the country's national oil company, is the only entity authorized to undertake activities in the productive chain of hydrocarbons, including exploration and sale.[18] YPFB is formed of subsidiary companies that are mostly state-owned.[19] YPFB also administers service contracts[20] with the international companies including British Gas, Canadian Energy Enterprise, Pluspetrol, Bolivia Corporation S.A., Petrobras, Repsol YPF, Total, and Vintage Petroleum.

The central government shares with subnational authorities oil and gas revenues that originate from royalties; IDH; fiscal co-participation; the special tax on hydrocarbons (Spanish acronym: IEHD) and its derivatives[21]; as well as patents paid by firms (equivalent of oil and gas licenses in Bolivia, patents must be paid by companies which conduct exploration or exploitation activities). Before 2005, revenue sharing from the hydrocarbon sector was only composed of royalty payments, "patents", the IEHD, and revenue from fiscal co-participation. After 2005, the redistribution of the new IDH significantly increased the hydrocarbon s accruing to subnational governments.[22]

Hydrocarbon royalties are distributed only to the four producing departments of Cochabamba, Chuquisaca, Tarija, and Santa Cruz, and the two most remote (and non-producing) departments of Beni and Pando. Tarija is the main beneficiary: it has been receiving more than 60 percent of total royalty payments accruing to the country since 2006. Around 70 percent of Bolivia's production of natural gas and around 70 percent of the country's liquid hydrocarbons production are from Tarija.[23] Most of the production from this department in turn comes from two eastern provinces, O'Connor and Gran Chaco. After Tarija, the department of Santa Cruz benefits most from the distribution of royalty revenue. This department is the second-largest producer in Bolivia.[24] There is no available information on how departments share royalty revenue with their constituent municipalities.

17 Célica Hernández L. and Raúl Velásquez G., *Situación de los hidrocarburos en Bolivia*, (Serie Debate Público nº 30, Fundación Jubileo, 2014), 2.
18 Article 361, 2009 Constitution.
19 YPFB Andina for example is owned by the state (51 percent) and by Repsol Bolivia (49 percent). Breakdown of YPFB companies: YPFB Andina and YPFB Chaco undertake exploration and production operations, YPFB Transportes manages pipeline operations, YPFB Refinación undertakes refinery activities, YPFB Logística is responsible for transport and storage in the country, YPFB Aviación is responsible for selling the fuel to the aviation industry at the national level, and YPFB Redes de Gas is responsible for domestic gas networks through its subsidiaries.
20 Service contracts refer to contracts whereby YPFB contracts a private entity for a specific operation of the value chain and pays a specific amount to it.
21 The IEHD is a tax applied to all companies that commercialize hydrocarbons in the domestic market, regardless of whether hydrocarbons are internally produced or imported.
22 Velásquez G. and del Carmen Inch S., *Renta hidrocarburífera*, 3.
23 YPFB, *Boletín Estadístico 2012* (2013), 12-13, 31.
24 YPFB, *Boletín Estadístico 2012* (2013), 12-13, 31.

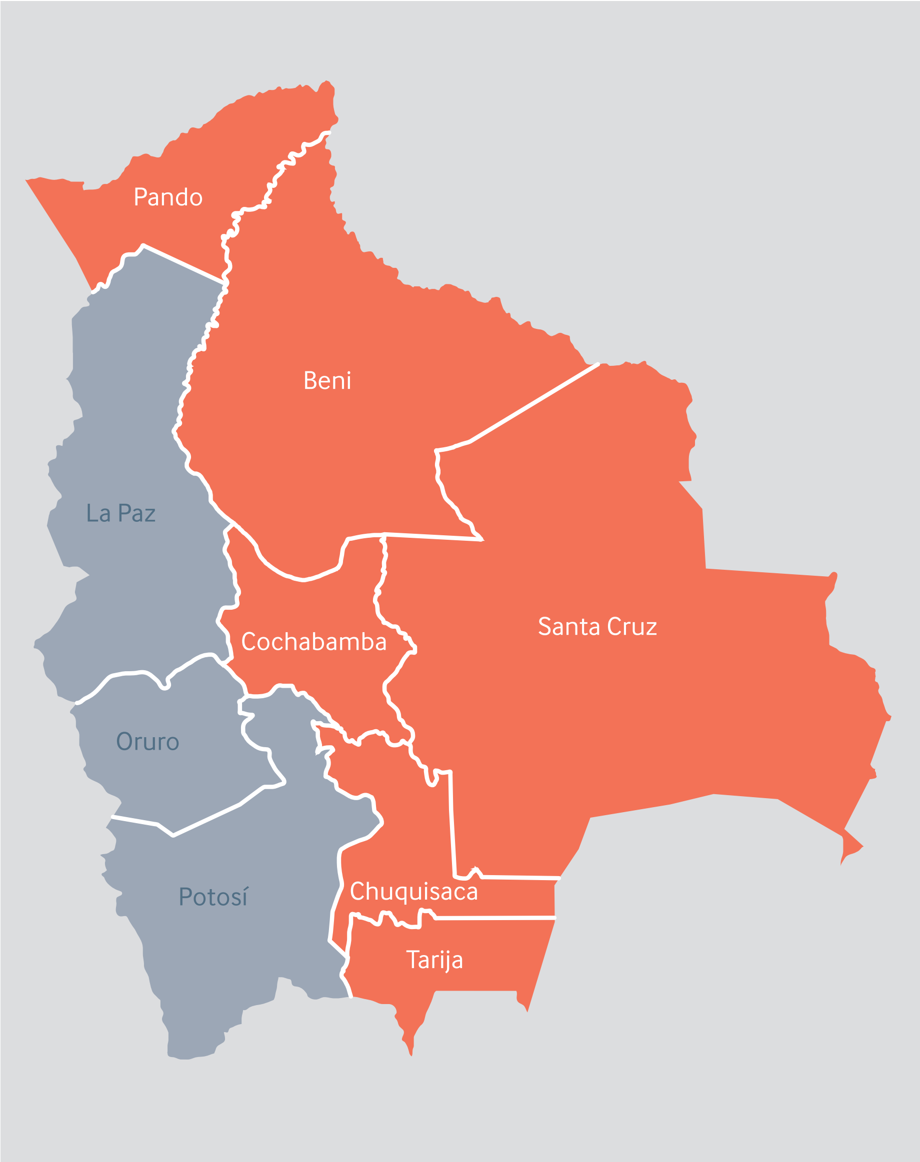
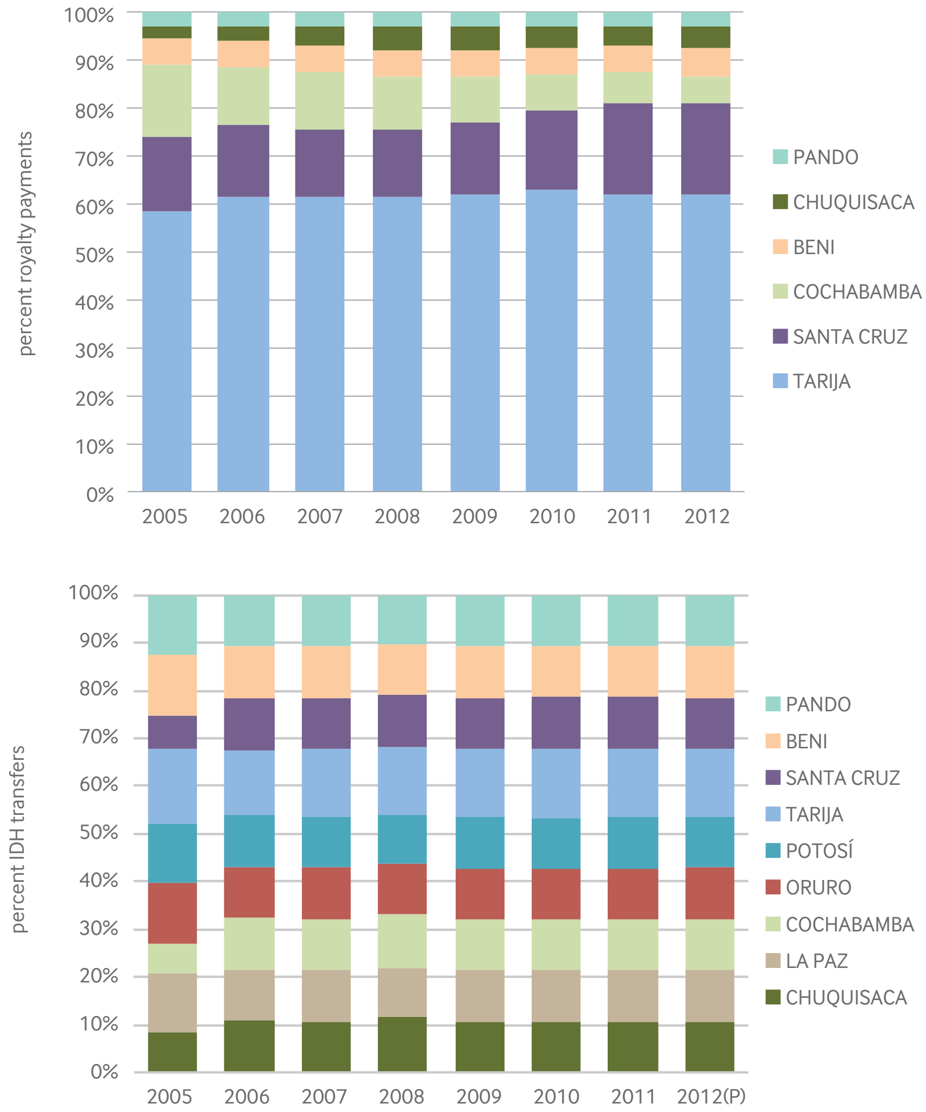


Figure 2. Map of Bolivian departments

IDH (hydrocarbon tax) revenue is shared with all the country's nine departments in an equitable manner, as can be seen in the right part of figure 3. Each department except Tarija was allocated an average of USD 165 million of IDH revenue from 2005 to 2012. Tarija received a total of USD 220 million over the same period, due to its higher levels of production. Thus, while royalties continue to largely favor producing departments over non-producing ones, IDH is more equitably shared across departments. Both producing and non-producing departments are required to share 66.9 percent of their IDH funds with their municipalities, apportioned by municipal population.

In sections I and II we briefly describe the process of decentralization and local governance and associated history of revenue sharing in the country. In section III we map the details of how oil and gas revenue is collected and shared in the country. In section IV we investigate how this revenue is *supposed* to be spent and, when information is available, how it is *actually* spent. Finally in section V we study the level of transparency around the revenues shared with subnational authorities.

Figure 3. Distribution of revenue from hydrocarbon royalties (top) and IDH (bottom), by department (2005-2012)[25]



25 Martínez Céspedes and del Carmen Inch S., *A Siete Años del IDH*, 29.

I. Decentralization and local governance

Bolivia's local government structure consists of departments, municipalities, regions, and indigenous territories. (See figure 4.) The department governments are elected every five years. The departments are subdivided into provinces, although these are just geographical and administrative subdivisions. Province governors are appointed by the respective department governor. Municipalities are locally administered by municipal governments, which are elected every five years. Regions can be formed by various provinces or municipalities as long as the region's size does not surpass that of the department. In 2015 Bolivia had only one region: the Chaco region, which is part of the department of Tarija.

Through Law No. 1551 (the Popular Participation Act) of 1994, the national government divided the Bolivian state into 311 municipalities and for the first time allocated resources as well as formal responsibilities to these entities. Article 20 of the law put in place fiscal co-participation, defined as the percentage of selected national revenues shared with municipalities and public universities (discussed further in section III).[26] Municipalities and universities respectively received shares of 20 percent and 5 percent of total national revenue.[27] In terms of obligations, the act transferred to municipalities responsibility over administration and maintenance tasks, as well as over the provision of equipment for health, education, culture, sports, and tourism, among others. The process of decentralization was carried out by President Sánchez de Lozada[28] in response to several problems: the weakening of the central government authority, pressure from local elites to further decentralize the country at the department level, and a series of corruption scandals that had damaged the image of the central government. Decentralizing the country more toward the municipal level also reinforced the country's central and municipal power bases, and decreased the power of the departmental governments and their elites.[29]

Law No. 2235 (or Law *Dialogo*), enacted in 2000 placed more responsibility on municipalities as the main agents for reducing poverty in the country. This law finds its origin in the World Bank- and IMF-administered Heavily Indebted Poor Countries Initiative (HIPC II Initiative, or PPME II in Spanish).[30] Through HIPC II, international donors required Bolivia to elaborate its poverty reduction strategy. In return, donors agreed to alleviate the country's debt and allow Bolivia to use the resources freed up through debt relief for programming in the service of development goals. To ensure effective use of such resources, Law No. 2235 redefined the allocation of resources coming from the state, the HIPC II facility, and international donors based on municipalities' poverty ratios: 30 percent of HIPC II resources would be equally distributed across departments, but the remaining 70 percent would go directly to the poorest municipalities. Moreover, Law No. 2235 gave more flexibility to municipalities in terms of expenditures. Finally, in

26 The list of national revenue applicable to this are listed in section A of Article 19 of Law No. 1551.

27 Article 20, Law No. 1551.

28 Gonzalo Sánchez de Lozada was the president of Bolivia from 1993 to 1997 and then from 2002 to 2003. During his first mandate he further pushed the previous efforts towards economic liberalization, particularly in the hydrocarbons industry.

29 Juan José Almagro, *La Estrategia de Reducción de la Pobreza y el proceso de descentralización en Bolivia* (Fundación CILAE, DT/02/04, 2004), 6-9.

30 The World Bank and the International Monetary Fund have launched a variety of initiatives over the years aimed at providing debt relief for HIPCs. In return, countries need to demonstrate a certain level of economic performance and improvement.

order to put an end to the discretionary nature of the allocation of some resources, programs, and projects whereby the central government and some departments would arbitrarily allocate funds to specific groups or people living in municipalities, a national policy for compensation was introduced: such discretionary transfers would automatically result in corresponding decreases in automatic transfers from the central government.[31][32]

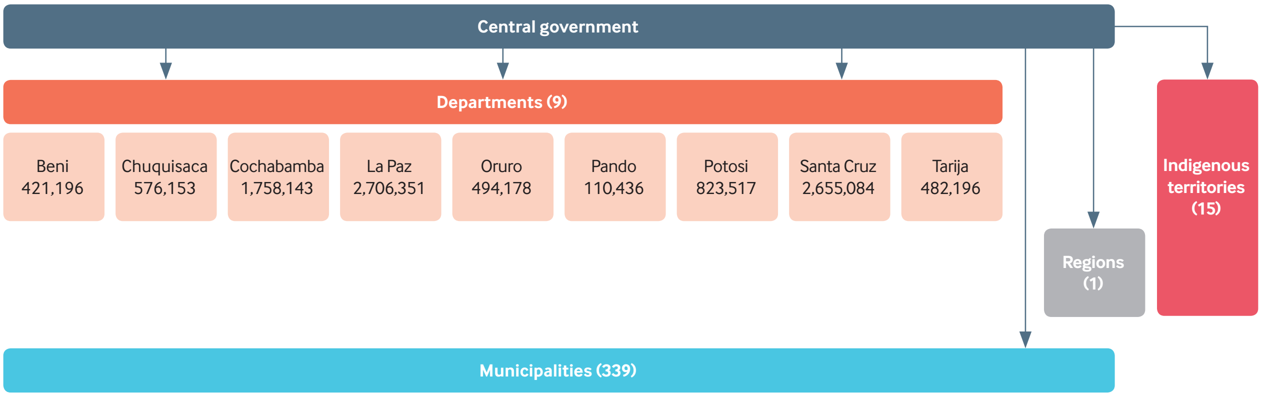


Figure 4. Local government structure in Bolivia (population census as of 2012)[32]

The election of department prefects in 2005 was a turning point in the decentralization process whereby departments were given more autonomy.[33] Santa Cruz and Tarija, the departments with the largest oil and gas reserves[34] and the lowest share of indigenous people–who constitute the main support of current President Evo Morales, the country's first indigenous president—spearheaded the push for increased autonomy. These departments, along with Beni and Pando, sought greater autonomy after Morales' re-nationalization of the hydrocarbon sector in 2006. In 2008, all four of these departments organized autonomy referenda. While the majority of people in these four departments voted for departmental autonomy, the president rejected this move claiming that the referenda were illegal.[35]

31 Almagro, *La Estrategia de Reducción de la Pobreza y el proceso de descentralización en Bolivia*, 9-14.
32 Number of provinces as follows: Beni (8), Chuquisaca (10), Cochabamba (16), La Paz (20), Oruro (16), Pando (5), Potosí (16), Santa Cruz (15), Tarija (6).
33 In 2005, 350,000 residents of the Santa Cruz department mobilized in support of departmental autonomy. To appease the opposition, the President Carlos Mesa agreed to institute direct elections for departments' prefects through Law No. 3015. The first departmental elections were held in 2005 at the same time as the general election that brought Evo Morales to power. Roberta Rice, *Regional Autonomy and Municipal Politics in Post-Neoliberal Bolivia*, (University of Toronto at Scarborough, 2011), 7.
34 Rice, *Regional Autonomy and Municipal Politics in Post-Neoliberal Bolivia*, 7.
35 Mark Weisbrot and Luis Sandoval, "The Distribution of Bolivia's Most Important Natural Resources and the Autonomy Conflict," *CEPR Issue Brief* (July 2008), 6-11.

The results of the 2010 departmental and municipal elections marked a deeper divide between the east and the west: the governing Movement to Socialism (MAS in Spanish[36]), headed by Morales, won the majority of the mayoral races in the western highland departments of Chuquisaca, Cochabamba, La Paz, Oruro, and Potosi, whereas the opposition won the majority of the mayoral seats in the eastern departments of Santa Cruz, Tarija, Beni, and Pando.[37] However, three of the four opposition governors had to resign their posts or take to exile shortly after the elections, due to a variety of legal proceedings, which the opposition said were politically motivated. As a result, MAS gained control of eight out of nine departments.[38]

Law No. 031 (Law on Decentralization and Autonomy) in 2010 replaced Law No. 1551 and provided autonomy to the nine departments, the 339 municipalities, the Chaco region, and the 15 indigenous territories.

The country is presently composed of newly established autonomous department, municipal, and indigenous governments with significant responsibilities which include, for example, legislative powers. However, the current intergovernmental transfer arrangement does not seem to reflect this increased autonomy. Specifically, departments do not receive enough resources to meet their responsibilities. Municipalities, in contrast, benefit from larger transfers, and therefore have higher levels of *de facto* autonomy. But, even for the relatively powerful municipalities, the situation is challenging—department level laws to institutionalize their powers and transfer increased revenues to them have been delayed since 2010.

With respect to Bolivia's indigenous population, the new constitution of 2009 recognized indigenous territories, and acknowledged the right to autonomy of indigenous groups. As a result in 2009, after a referendum, 11 indigenous groups received autonomous status. Law No. 031 then recognized indigenous territories and allocated specific resources to them for the first time.[39] There are currently 15 indigenous territories.

At the beginning of 2015 the national government was formulating a new fiscal agreement (*pacto fiscal*), which is a critical component of Law No. 031. The agreement is intended to clarify decision-making responsibilities and resources of both national and subnational governments. Moreover, one of the components of the agreement addresses the generation and allocation of revenue from extractive industries, and in particular from the hydrocarbon sector. This is expected to enable the new autonomous governments to fulfil their newly acquired responsibilities.[40]

36 The Movement for Socialism-Political Instrument for the Sovereignty of the Peoples, MAS-IPSP or MAS for its acronym in Spanish, was founded in 1998 by Bolivia's current president, Evo Morales.

37 Roberta Rice, *Regional Autonomy and Municipal Politics in Post-Neoliberal Bolivia*, 15. It is important to note that the MAS held the majority of the votes (approximately two-thirds) in both houses of the Congress.

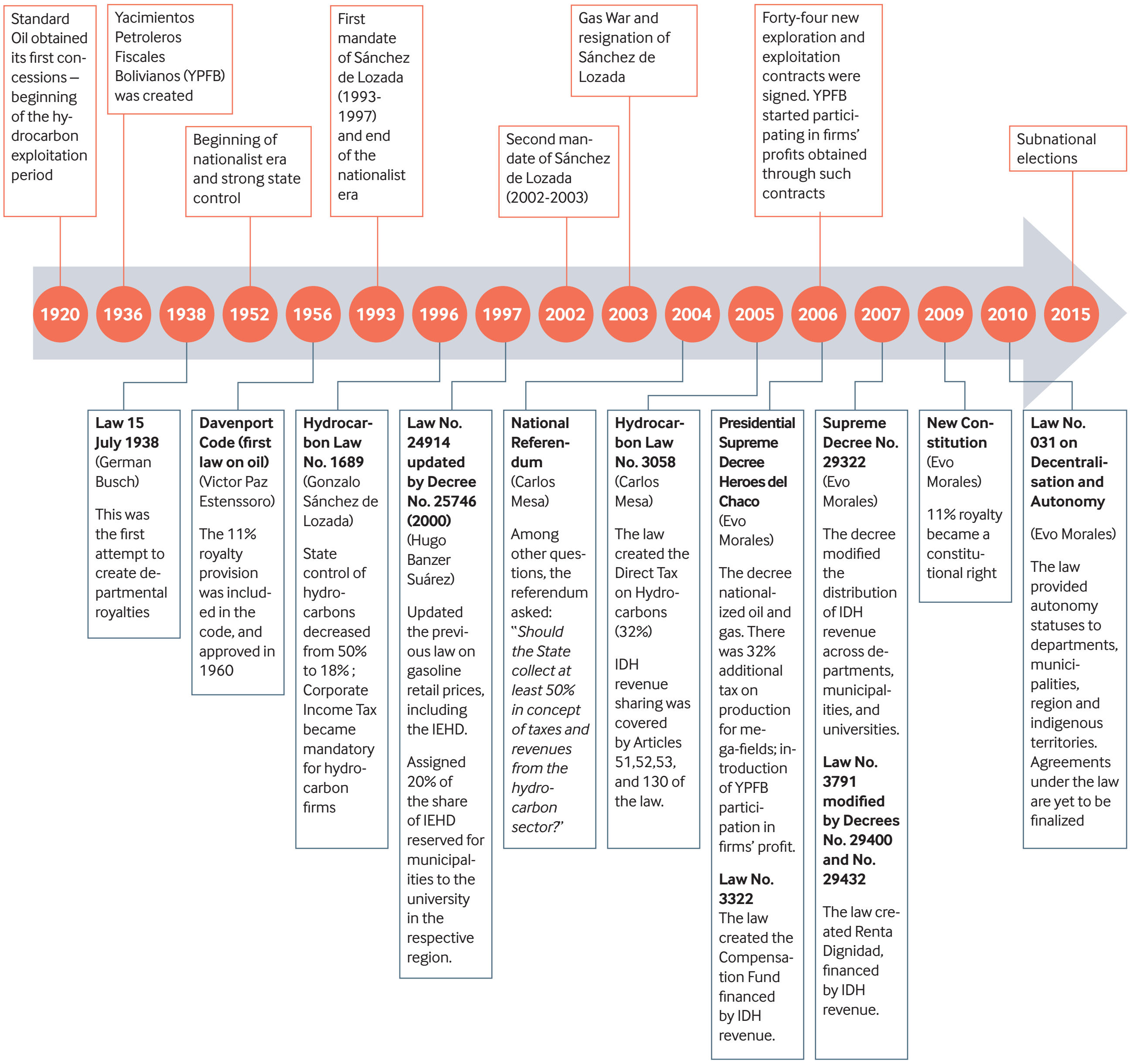
38 Pando's governor was accused of being responsible for the deaths that occurred during a protest, and is currently in jail. Tarija's government was suspended for misuse of its resources. During the judiciary process, the governor took up exile in Paraguay. Beni's government was also suspended for misuse of its resources. Santa Cruz's governor was the only one who remained in power.

39 See Articles 103, 104, 105, 106, and 107 of Law No. 031.

40 Jorge Jiménez Jemio, *Pacto Fiscal: Un Instrumento Para La Concertación Entre La Sociedad Civil y El Estado* (Fundación Jubileo, 2013), http://www.jubileobolivia.org.bo/publicaciones/revistas-especializadas/item/227-pacto-fiscal-un-instrumento-para-la-concertacion-entre-sociedad-civil-y-estado.html.

II. History of oil and gas reforms

Figure 5. Key developments in the history of oil and gas extraction and revenue sharing in Bolivia



Exploitation of hydrocarbons in Bolivia started in the 1920s. The government of David Toro, the president of Bolivia from 1936 to 1937, created the state-owned company YPFB in 1936 and two years later the government enacted the Law of 15th July 1938, a first attempt to create departmental royalties. The 1952 national revolution[41] marked the beginning of a period of increasing state control through the nationalization of the mining sector. In 1956 the government of Víctor Paz Estenssoro, president from 1985 to 1989, published the Davenport Code (also known as the Petroleum Code), becoming the first national law regulating the petroleum sector. Paradoxically in this period of state control, one of the main objectives of the Davenport Code was to facilitate foreign investment by multinational companies in the hydrocarbons sector.[42] As a result, in 1957 Gulf Oil and 14 smaller international companies started operating in the country. However a decade later, in 1969, a new military government[43] nationalized the interests of Gulf Oil and derogated the Davenport Code. Full control of the hydrocarbons industry was therefore assumed by the Bolivian state. Despite another military government[44] issuing in 1972 a new hydrocarbons law that re-opened the economy to foreign investment, the hydrocarbon sector remained largely under state control.[45]

State control of the hydrocarbon sector, mainly through YPFB, ended in 1985. From 1985 to 1989 the government of President Victor Paz Estenssoro implemented structural adjustment programs and liberalized the economy.[46] In 1993 Gonzalo Sánchez de Lozada was elected as the new president of the country and, in a context of worldwide and national economic liberalization, a new hydrocarbons law was approved in 1996 (Law No. 1689) under his mandate. One of the main objectives of Law No. 1689 was to turn YPFB from a commercial player into a regulatory body.[47] Another important objective was to attract private investment to the country. Law No. 1689 created two different fiscal regimes that would apply to old and new oil and gas fields. [48] For old fields, the fiscal regime applied to production at the wellhead, and was composed of

- a departmental royalty of 11 percent for the four producing departments;
- a compensation royalty of 1 percent for the two poorest departments, Beni and Pando;
- a participation of 6 percent in favour of YPFB that would be transferred to the nation's general treasury after deducting the necessary funds to cover YPFB's budget for the administration of contracts;
- a complementing royalty of 13 percent for the nation's general treasury; and
- a 19 percent participation paid in cash to the national treasury.

41 The 1952 Bolivian revolution is considered as one of the great twentieth-century social revolutions in Latin America. It deepened Bolivia's democracy and made the country's society more inclusive. James F. Siekmeier, *The Bolivian Revolution and the United States, 1952 to the Present* (2011).

42 Carlos Toranzo Roca, *Economía política de los hidrocarburos en Bolivia (Borrador)* (2009), 4.

43 Under the mandate of Alfredo Ovando, president of Bolivia from 1964 to 1966 and from 1969 to 1970.

44 Under the mandate of Hugo Banzer, president of Bolivia from 1997 to 2001.

45 Carlos Toranzo Roca, *Economía política de los hidrocarburos en Bolivia*, 4.

46 Carlos Toranzo Roca, *Economía política de los hidrocarburos en Bolivia*, 4.

47 Until then and since its creation, YPFB had had all the rights to explore, extract, industrialize and commercialize oil and gas in the country.

48 For a more detailed study on the different phases of state ownership in the hydrocarbon sector, see Jorge Jiménez Jemio, *Capitalización y Nacionalización, El Sector de Hidrocarburos en Bolivia* (Fundación Jubileo, 2012), http://www.jubileobolivia.org.bo/publicaciones/revistas-especializadas/item/155-regal percentC3 percentADas-y-participaciones-hidrocarbur percentC3 percentADferas-2008-2011.html.

For new fields, the fiscal regime consisted of departmental royalty of:

- 11 percent for the four producing departments;
- compensation royalty of 1 percent for the two poorest departments; and
- YPFB's participation of 6 percent.

Although Law No. 1689 seemed to result in the reduction of state participation from 50 percent to 18 percent of the value of the hydrocarbons produced, companies that operated new fields were subject for the first time to a corporate income tax of 25 percent and to a surtax (Law No. 1689, Article 77).[49] Though both taxes were computed on profits and hence would not help the state effectively reach its previous participation share of 50 percent, together these taxes could still significantly contribute to increasing state revenue from oil and gas activities, particularly in a scenario of high prices for large fields. However, failure by government to explain the complexities behind these calculations led citizens to believe that the actual benefits of the state had been effectively reduced with the new law. Moreover, it was not communicated clearly to the public that profits were likely to be relatively low during the early years of each project, and would increase only once the operations matured and the initial capital was paid back.[50] This resulted in citizen dissatisfaction, with President Sánchez de Lozada losing much popularity.

From 1985 to 2000 the country underwent a period of economic liberalization and macroeconomic stability. Although these were at first seen as positive outcomes for the Bolivian economy (particularly if compared to 1982-1985), at the end of the 1990s popular discontent grew due to mixed results in reducing poverty and social inequality.[51] The government of Sánchez de Lozada came back to power in 2002 and continued economic liberalization through structural adjustments. Demonstrations against Sánchez de Lozada's plans of exporting liquefied natural gas (LNG) to the US and Mexico reached their highest point in 2003 with the so-called Gas War.[52] Protests led Sánchez de Lozada to resign in 2003. The transitional president, Carlos Mesa, pressured by the MAS' indigenous leader Evo Morales and his supporters[53] both in the street and in the parliament, announced a referendum in 2004. The referendum primarily asked Bolivian citizens if the Bolivian state should resume control of the hydrocarbons sector, and whether it should charge taxes and royalties of at least 50 percent of the value of gas and use the collected funds for education, health, road infrastructure, and employment purposes. As the majority voted for an increase in the state control of the hydrocarbons industry, the central government

49 Since the creation of the corporate income tax in 1986 oil and gas companies had been exempted from paying it. Only Law No. 1194 enacted in 1990 had made an attempt to impose the corporate income tax for petroleum firms. However, because royalty payments and the aforementioned national participation of 19 percent were deductible for the computation of the corporate income tax according to this law, this was in reality a "fiscal fiction".

50 Leila Mokrani, "Reformas de última década en el sector de hidrocarburos en Bolivia: esquemas de apropiación y reproducción de la renta," *Umbrales. Revista del Postgrado Multidisciplinario en Ciencias del Desarrollo* 20 (2010): 42, 51.

51 Carlos Toranzo Roca, *Economía política de los hidrocarburos en Bolivia*, 6.

52 The so-called Gas War was a social conflict that started in September 2003. These social movements were mainly provoked by MAS (Evo Morales' party), social unions, and farmers, and its main driver was opposition to exports of LNG to Mexico and the US through Chile. Protesters were opposed because they wanted the government to first satisfy the country's needs in terms of natural gas consumption, before exporting it elsewhere at prices that they considered very low. The Gas War resulted in around 70 deaths.

53 Pressure also came from other social sectors. For a full report on the different processes of nationalization of the hydrocarbon industry in Bolivia, see Jorge Jiménez Jemio, *Nacionalizaciones de Hidrocarburos en Bolivia* (Fundación Jubileo, 2009), http://www.jubileobolivia.org.bo/publicaciones/revistas-especializadas/item/131-nacionalizaciones-de-hidrocarburos-en-bolivia.html

enacted a new law on hydrocarbons (Law No. 3058) in 2005, to replace Law No. 1689. This law further reformed Bolivia's petroleum fiscal regime, increasing taxes and royalties collected by the state from the oil and gas sector from 18 percent to again 50 percent of the value of hydrocarbons produced (just as it was before 1996). This increase took the form of a new tax called the Direct Tax on Hydrocarbons (IDH, or *Impuesto Directo a los Hidrocarburos*). The IDH had a rate of 32 percent, calculated on the basis of gross value of production at the wellhead.

In May 2006, one year after the enactment of Law No. 3058, newly elected President Evo Morales issued Presidential Supreme Decree No. 28701 ("*Heroes del Chaco"*[54]), which nationalized all of Bolivia's oil and gas. The state would gradually gain back total control of the hydrocarbon industry. One measure of this decree was a transitory one-year provision of a 32 percent participation of YPFB in oil and gas production to be applied only to the mega-fields, i.e., those with production greater than 100 million cubic feet per day, in addition to the 50 percent share already imposed by Law No. 3058. In practice, this applied only to Petrobrás Bolivia S.A., which would pay to the Bolivian state 82 percent of its oil and gas production value from its San Alberto and Sábalo fields, while companies operating in the other fields would continue paying 50 percent.

From May 2007, according to the decree, new exploration and exploitation contracts (also called contracts of operation) signed in 2006 came into effect.[55] Since then, YPFB, as the holder of resources, remunerates contractors based on production levels and recoverable cost of operation. Rates vary from contract to contract.

The 2006 nationalization represented a significant increase in Bolivian state participation in the country's oil and gas industry, with a corresponding increase in the revenue from the sector.[56] Even though the new fiscal regime brought by Law No. 3058 decreased the profit potential of contractors, increasing prices compensated for such effects. Investors initially threatened to take the Bolivian state to court and freeze their investments in the country, but most of them did not and eventually signed the new agreements.[57] Most of these firms had already made substantial investments—hence making it undesirable to divest. Also the country offered attractive returns even after the new measures were implemented. As Roberto Mallea, one of Repsol's directors in Bolivia stated, "for every dollar invested in Bolivia, the return is ten dollars." This was due to the low production costs relative to other Latin American countries such as Venezuela, Argentina, and Mexico.[58]

In sum, through Law No. 3058 and Decree No. 28701 the Bolivian government started a period of nationalization which is still in place today. Later in 2009, the new constitution established the 11 percent royalty as a legal right for producing departments. These measures overall increased the state's participation in oil and gas revenue as well as producing departments' revenue from the industry.

54 Presidential Decree No. 28701.
55 A total of 44 new contracts were signed between YPFB and hydrocarbon operators.
56 Brent Z. Kaup, "Bolivia's nationalized natural gas: social and economic stability under Morales," in Powering up: Latin America's energy challenges, ed. Nicholas Kitchen, (ed.) LSE IDEAS Reports SU005, London School of Economics and Political Science, 2010), 26.
57 Kaup, Bolivia's nationalized natural gas, 26.
58 Rosío Vargas Suárez, *"The bolivian hidrocarbons nationalization during the presidency of Evo Morales Ayma," Latinoamérica. Revista de estudios Latinoamericanos* 49 (2009).

III. Revenue collection and sharing[59]

Intergovernmental transfers[60] within Bolivia consist of all revenue allocations from the central government to subnational authorities. As seen in table 2, revenue received by departments is composed of hydrocarbon royalties, mining royalties, forest royalties, IEHD, IDH, and revenue from the Compensation Fund (a fund created to compensate the three most populated departments which is then shared with municipalities and universities). In 2012 oil and gas revenue made up almost 90 percent of total transfers received by departments. The remaining 10 percent were non-hydrocarbon-related transfers. Revenue from oil and gas included hydrocarbon royalties (which in 2012 alone represented 62 percent of total departmental transfers), the IEHD, the IDH, and the Compensation Fund.

Municipalities receive revenue from three sources: fiscal co-participation (established by Law No. 1551 in 1994), the HIPC initiative (from 2000), and IDH. As table 2 shows, fiscal co-participation (which includes oil and gas revenue) and the IDH (which consists of only oil revenue) are the biggest sources of revenue transfers for municipalities. In 2012 IDH transfers represented 47 percent of total transfers to municipalities. Similarly, revenue from fiscal co-participation represented 49 percent of total transfers. Only 4 percent of transfers from the central government came from HIPC. The introduction of the IDH in 2005 significantly increased the revenue that the central government transferred to municipalities. Because their own-source revenue was not increasing at the same pace, the ratio of own-source revenue over total revenue for municipalities went down from 44 percent in 2000 to 17 percent in 2011.[61] In sum, municipalities depend to a lesser extent on oil and gas revenue (at least 47 percent) than departments (more than 90 percent).

59 Main document used for this section: Chávez A., *Ingresos fiscales por explotación de hidrocarburos en Bolivia,* (2013).

60 For more detail on intergovernmental transfers and resource mobilization in Bolivia see Giorgio Brosio, "Step on the Gas: Bolivia's Reliance on Natural Resource Revenue," in *Decentralizing Revenue in Latin America: Why and How, eds. Vicente Frete Cibils and Teresa Ter-Minassian,* (Inter-American Development Bank, 2015), 83-91.

61 Giorgio Brosio, *Step on the Gas,* 83-91.

Table 2. Intergovernmental transfers in Bolivia (2005-2012), in USD millions[62]

	2005	2006	2007	2008	2009	2010	2011
TOTAL DOWNSTREAM+UPSTREAM	383.2	477.5	549.0	754.5	1,028.2	661.9	686.2
UPSTREAM							
Total Upstream	**81.4**	**122.0**	**139.5**	**338.5**	**568.0**	**265.9**	**221.4**
IUE (Business Profit Tax)	49.9	68.8	47.6	187.0	473.5	204.6	140.3
IVA (VAT)	5.2	28.0	65.7	78.1	69.6	45.7	55.6
IT (Tax on Transactions)	14.6	10.9	19.6	65.9	12.3	3.8	12.3
IUE-RE (Business Profit Tax for remittances abroad)	5.7	13.1	5.4	5.7	10.3	8.3	9.5
RC IVA (Complementary Regime for VAT)	1.0	1.2	1.2	1.8	2.3	3.1	3.7
Other	5.0	-	-	-	-	0.4	-
DOWNSTREAM							
Total downstream	**301.8**	**355.5**	**409.5**	**416.0**	**460.2**	**396.0**	**464.8**
IEHD	241.9	249.5	303.1	336.8	316.6	306.6	360.2
IVA (VAT)	27.1	44.7	45.8	44.1	44.1	46.9	46.5
IUE (Business Profit Tax)	4.0	20.3	27.4	7.5	31.6	13.4	28.3
IT (Tax on Transactions)	21.7	22.5	20.4	19.4	30.4	19.5	21.2
IUE-RE (Business Profit Tax for remittances abroad)	5.4	16.4	10.9	5.3	34.8	5.4	7.2
RC IVA (Complementary Regime for VAT)	1.7	2.1	1.9	2.9	2.7	2.2	1.4
Other	-	-	-	-	-	2.0	-

62 MEFP, *Memoria de la Economia Boliviana 2012*, 275.

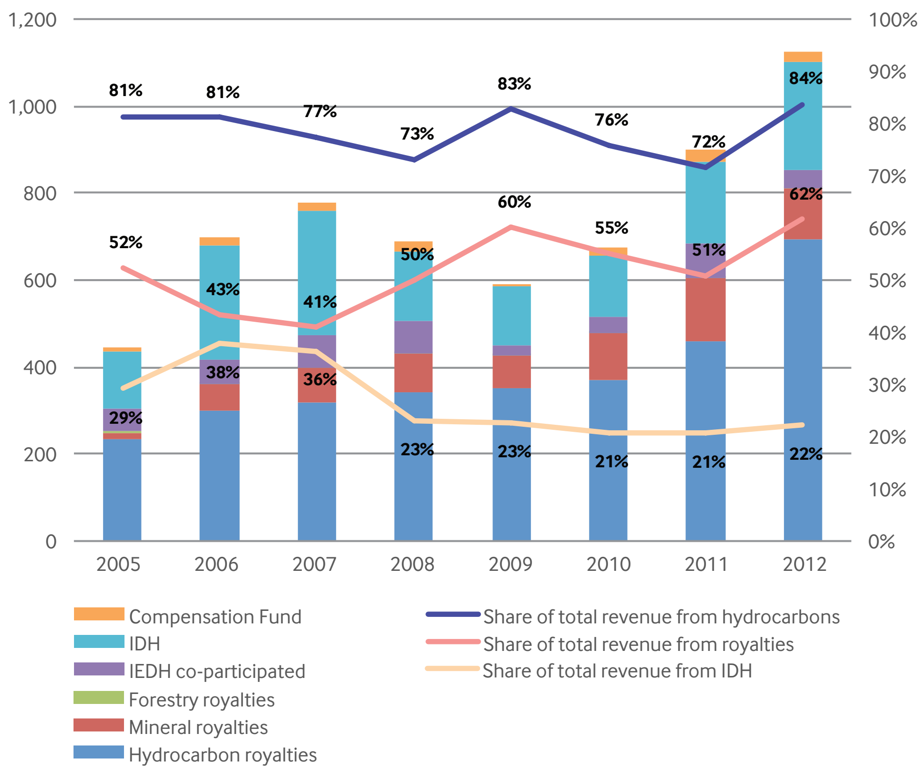


Figure 6. Intergovernmental transfers for departments (2005-2012), in USD millions

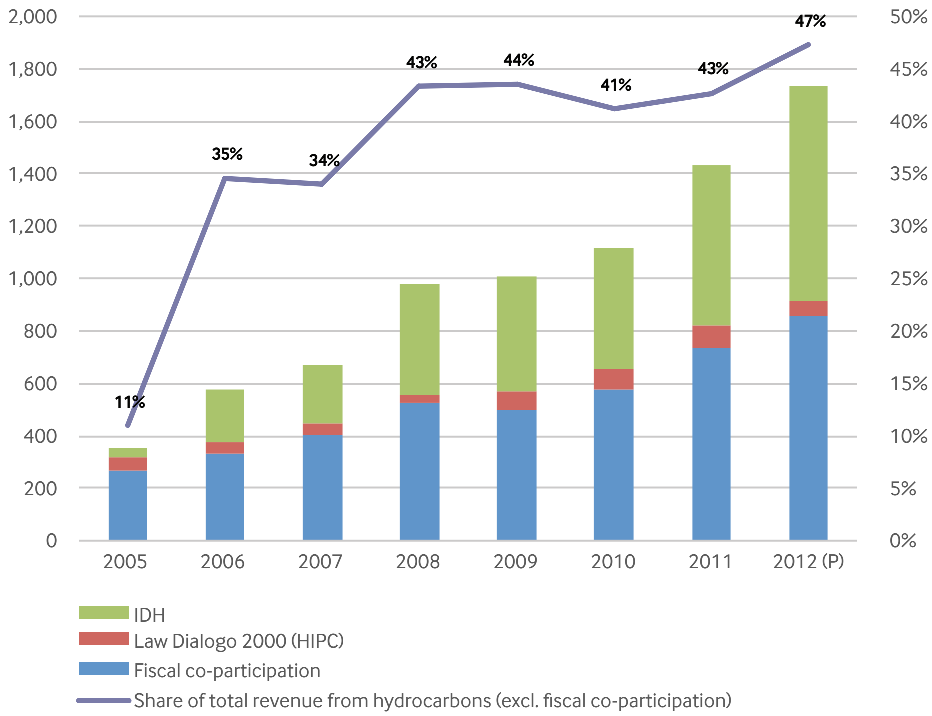


Figure 7. Intergovernmental transfers for municipalities (2005-2012), in USD millions

SOURCES OF REVENUE WITHIN THE HYDROCARBON SECTOR

Law No. 3058 regulates revenue collection for petroleum exploration and exploitation activities. All revenues collected from the hydrocarbon sector are presented in table 2. All payments, including royalty and IDH, and revenue from the general fiscal regime, are collected from bank deposits by either YPFB or the National Tax Authority, and registered in national account systems.[63] Departments each have their own offices to measure the production levels in the fields located within their boundaries, and to calculate their respective share of revenue.

Since the publication of the Decree No. 28701 in 2006, all firms operating in the country must hand over their oil and gas production to YPFB, and YPFB in turn manages the commercialization of hydrocarbons. As firms are only service providers in the exploitation and exploration activities and YPFB is the owner of the hydrocarbons produced, it is YPFB which makes the IDH and national treasury participation payments to the treasury, and the royalty payments to the producing departments as well as the remote departments of Beni and Pando.

Table 3. Revenue streams from the hydrocarbon sector in Bolivia[64]

Revenue stream	Base for calculation	Rate	Collecting authority	Revenue sharing in place?
Patents	[See Table 3]	[See Table 3]	YPFB	Yes: indirect [See Table 3]
Departmental royalty	Gross value of production	11 percent	YPFB	Yes: indirect
National compensation royalty	Gross value of production	1 percent	YPFB	Yes: indirect
Treasury participation	Gross value of production	6 percent	YPFB	No
Direct tax on hydrocarbons (IDH)	Gross value of production	32 percent	National Tax Authority[65]	Yes: indirect
YPFB participation in exploration and exploitation contracts ("contracts of operation")	Corporate profits	Variable tax rate, which depends on the contract. The rate is calculated based on tables established on Annex F of such contracts.	YPFB	No
Corporate income tax (IUE)	Corporate income with ring-fencing of up-, mid- and downstream operations	25 percent	National Tax Authority	Yes: through fiscal co-participation
Withholding tax (IRUE)	Payments made as dividends	12.5 percent	National Tax Authority	Yes: through fiscal co-participation
Value-added tax (IVA)	Value added of domestic sales	13 percent	National Tax Authority	Yes: through fiscal co-participation
Tax on transactions (IT)	Corporate income from transactions in transportation, refinery, commercialization and storage, distribution	3 percent	National Tax Authority	Yes: through fiscal co-participation
Complementary regime to the value-added Tax (RC-IVA)	Value added of domestic sales	13 percent	National Tax Authority	Yes: through Fiscal co-participation
Special Tax on Hydrocarbons and Derivatives (IEHD)	Litre or equivalent measuring indicator	Varies with product taxed	National Tax Authority	Yes: through fiscal co-participation

63 Royalty payments are collected by YPFB, and the Ministry of Hydrocarbons makes the monthly payment to the producing departments, Beni, Pando, and the national treasury. As the IDH is a tax, it is treated differently: it is the National Tax Authority which collects it and distributes it to the fiscal accounts of the different beneficiaries (departments, municipalities, universities, funds, etc.).

64 Own elaboration based on Velásquez G. and del Carmen Inch S., *Renta hidrocarburífera.*

65 The National Tax Authority is the main tax authority in Bolivia

SHARED OIL AND GAS REVENUE

Patents[66]

Companies are required to pay a "patent" to YPFB during exploration and exploitation, for the exclusive use of what is considered a public good, for a definite period of time. The patent is paid in advance by YPFB to the national treasury on a yearly basis—at the time when the contract is signed, and then at the beginning of each operational year. Companies then reimburse YPFB within 30 days of the receipt of the payment. The rate of these payments depends on the phase of exploration. The following table describes the amount to be paid in national currency (bolivianos) by oil and gas firms operating in the country. During the first three years of implementation of Law No. 3058 (from 2005 to 2007), revenue from patents amounted to USD 5 million. This amount has increased since 2008, reaching more than USD 9 million in 2011.[67]

Table 4. Patent payments, in bolivianos

	Traditional areas[68] Bs/hectare	Non-traditional areas Bs/hectare[69]
Phase 1	4.93	2.47
Phase 2	9.86	4.93
Phase 3	19.71	9.86
Phase 4	39.42	19.71

Once all payments from patents have been received by the treasury, the latter transfers 50 percent of these funds to the municipalities where the concessions are located, and the remaining 50 percent to the Ministry of Environment and Sustainable Development, which finances environmental management and investment projects in all producing departments.[70]

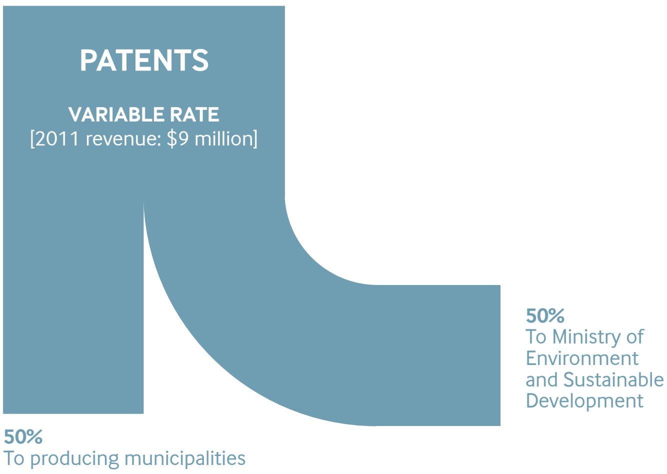


Figure 8. Revenue sharing arrangement for patents

66 The payment of patents and the redistribution of their revenue are regulated in Law No. 3058, Articles 47 to 51.
67 Velásquez G. and del Carmen Inch S., *Renta hidrocarburífera*, 10.
68 Traditional areas are defined by Law No. 3058 as "areas where hydrocarbons are commercially exploited". The executive designates these areas by decree. Traditional areas are phased as follows: years 1 to 3 (Phase 1), years 4 and 5 (Phase 2), years 6 and 7 (Phase 3), years 8 to 10 (Phase 4), years 11 and 12 (Phase 5), years 13 and 14 (Phase 6).
69 Non-traditional areas are areas that are not part of a traditional area. Non-traditional areas are phased as follows: years 1 to 5 (Phase 1), years 6 to 8 (Phase 2), years 9 and 10 (Phase 3), years 11 to 13 (Phase 4), years 14 and 12 (Phase 5), years 16 and 17 (Phase 6).
70 Chávez A., *Ingresos fiscales por explotación de hidrocarburos en Bolivia*, 7.

Royalties[71]

Bolivia distributes a royalty levied at 12 percent of total value of hydrocarbon production (or gross sales value). Eleven of the 12 percent is distributed to producing departments according to each department's production. The main beneficiary of royalty payments is the department of Tarija, as it contains the country's largest oil and gas fields: San Alberto, Sábalo, and Margarita. Altogether, these three fields contribute nearly 70 percent of Bolivia's national production of hydrocarbons—mainly natural gas that is then exported to Brazil and Argentina.[72]

The remaining one percent is calculated on national gross sales and allocated to the two remote non-producing departments of Beni and Pando as "compensation royalty." Two-thirds of this one percent are allocated to Beni and one-third to Pando. (See figure 3 left for royalty distribution 2005-2012.)

There is little information available about the sharing of royalty revenue within each department. The only departments offering some information on this are Santa Cruz and Tarija. Tarija allocates 45 percent of its revenue from royalty payments to the province of Gran Chaco, and Santa Cruz allocates its royalty revenue according to a 50/40/10 formula: 50 percent for producing provinces, 40 percent for non-producing provinces, and 10 percent for indigenous villages.

From 2005 to 2011 royalty payments—both departmental and compensation royalties—increased overall. Specifically, in 2008 and 2011 royalty payments were high at respectively to USD439 million and USD539 million. This was mainly due to an increase in export prices of natural gas (to Argentina and Brazil), rather to an increase in export volumes. After the 2008 peak there was a significant decrease in the amount collected in 2009, mainly because of decline in international oil prices. The amount collected went down to USD 289 million in that year, an amount similar to that of 2007.[74]

71 Law No. 3058, Article 52.
72 Velásquez G. and del Carmen Inch S., *Renta hidrocarburífera*, 14
73 Information on revenue redistribution within each department is only available for the departments of Tarija and Santa Cruz. For Tarija, there is only information on how 45% of the revenue is shared. No information was found for Chuquisaca or Cochabamba.
74 Velásquez G. and del Carmen Inch S., *Renta hidrocarburífera*, 12.

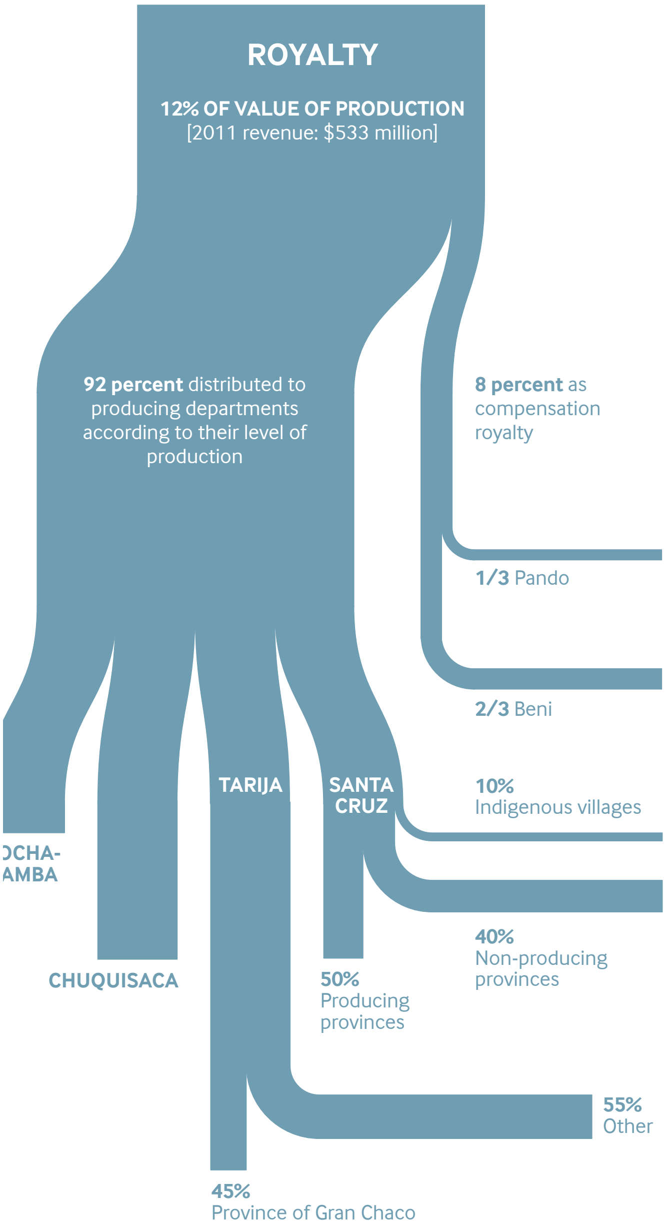


Figure 9. Revenue sharing arrangement for royalties[73]

Direct Tax on Hydrocarbons (IDH)[75]

The beneficiaries of the distribution of IDH revenue (32 percent levied on the gross value of petroleum production in the country) are municipalities, Renta Dignidad, the national treasury, departments, universities, the Indigenous Fund, the Compensation Fund, and the Development Fund for Indigenous Groups.

In theory, Law No. 3058 (which created the IDH) indicates that each producing department is to receive 4 percent of its production at the wellhead, for a total of 16 percent for all four producing departments. Of this 4 percent, municipalities are allocated the largest share of the production revenue, with 2.7 percent, universities 0.3 percent, and departmental governments 1 percent. Non-producing departments are transferred 2 percent each—so 10 percent in total for the five non-producing

75 Chávez A., *Ingresos fiscales por explotación de hidrocarburos en Bolivia*, 20, 27, and 36-38.

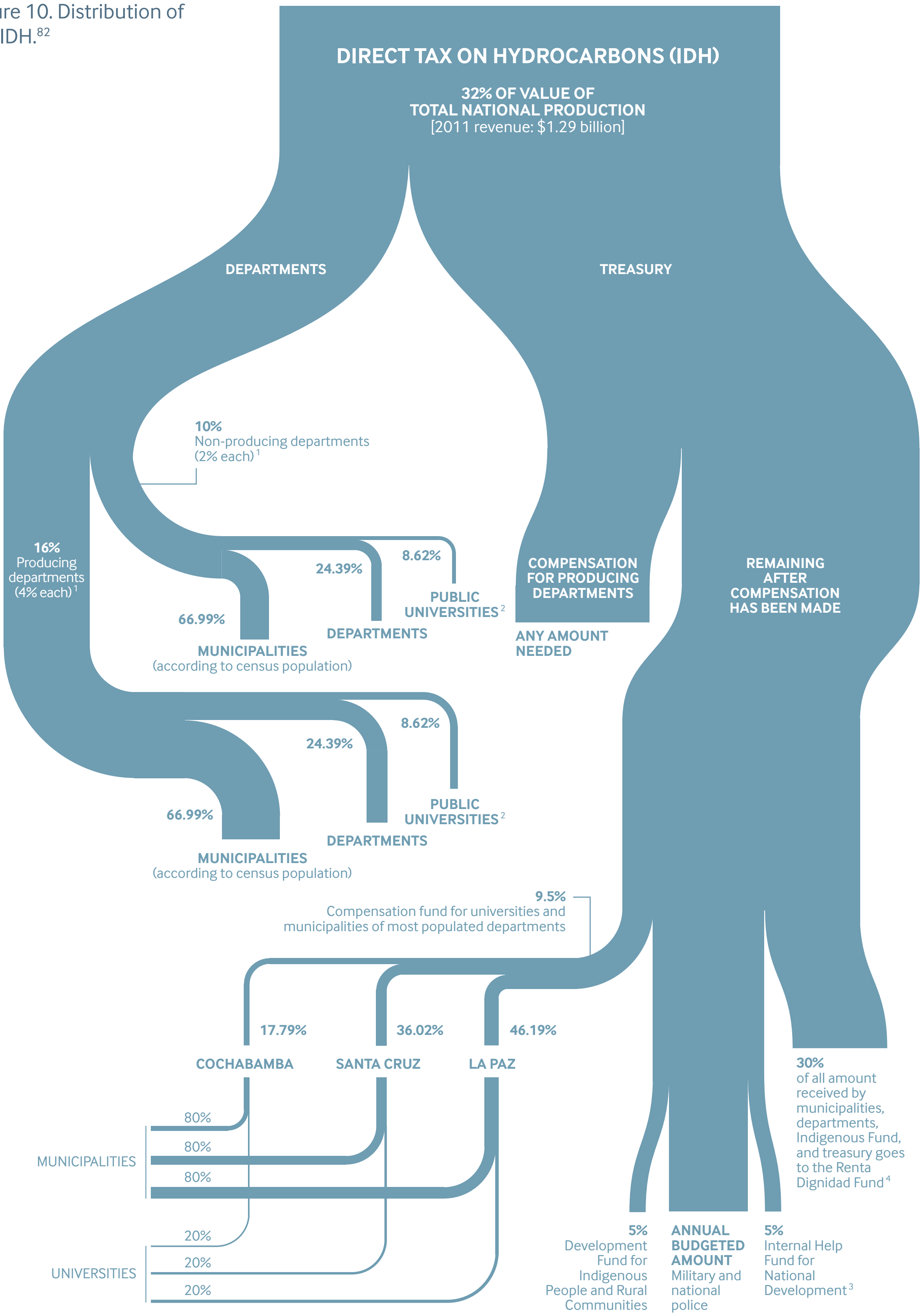
departments. The redistribution scheme within each non-producing department is exactly the same as the one used for their producing counterparts.[76] The law also states that if a producing department receives less than any non-producing department, the treasury must address this imbalance by transferring the difference to the producing department (such payment is also sourced from IDH revenue). In practice however, all producing departments with the exception of Tarija receive less than non-producing departments. The treasury then balances the revenue for all producing departments; these adjustments are made on a monthly basis using automatic transfers.[77] For this reason, eight of nine departments receive the same amount of IDH revenue. (Tarija receives a slightly higher amount. See figure 3 right for IDH distribution 2005-2012.) Finally, Law No. 3058 indicates that the executive must allocate the remaining balance to the national treasury, indigenous and rural populations, municipalities, universities, armed forces, and national police.

The legislative framework on which the current redistribution is based on consists of the following pieces of legislation:

- Supreme Decree No. 28421 (2005), which established that 5 percent of IDH revenue must be deducted from the treasury's share and transferred to the Indigenous People's Fund. The same decree also indicates the way in which IDH revenue is to be redistributed within departments (although the formula was later modified again by Decree No. 29322 in 2007).[78]
- Law No. 3322 (2006), which created the Compensation Fund for municipalities and public universities of the three most populous departments: La Paz, Santa Cruz and Cochabamba. The fund is financed though 9.5 percent of the treasury's resources from the IDH. The shares allocated to each department are as follows: 46.19 percent for La Paz, 36.02 percent for Santa Cruz, and 17.79 percent for Cochabamba. In turn, each department must allocate 80 percent of its share to its municipalities according to their population and 20 percent to its universities.[79]
- Law No. 3791 (2007), created the pension scheme Renta Dignidad (formerly known as Bonosol), and established that the cash transfer scheme is to be financed through 30 percent of IDH revenues received by departments, municipalities, the Indigenous Fund, and the national treasury. This measure does not affect universities. [80]
- Decree No. 859 (2011) created the Development Fund for Civic and Patriotic Education, which is financed through 0.2 percent of IDH revenue received by departments, municipalities, universities, Indigenous People's Fund, and the national treasury.[81]

76 Martínez Céspedes and del Carmen Inch S., *A Siete Años del IDH*, 7-8.
77 This is supervised by the tax authority Servicio de Impuestos Nacionales.
78 Martínez Céspedes and del Carmen Inch S., *A Siete Años del IDH*, 8.
79 Martínez Céspedes and del Carmen Inch S., *A Siete Años del IDH*, 8-9.
80 Martínez Céspedes and del Carmen Inch S., *A Siete Años del IDH*, 9.
81 Martínez Céspedes and del Carmen Inch S., *A Siete Años del IDH*, 9.

Figure 10. Distribution of the IDH.[82]



1 100% goes to an "IDH Departmental" account in each department and is then distributed among municipalities, universities, and departments' prefectures.
2 If there is more than one public university in the department, the share will depend on the consensus between the Internal Revenue Ministry, Education Ministry, and the Executive Committee of the University of Bolivia, respecting the limit for each department.
3 This fund is aimed at promoting widespread growth of natural gas in the country, and is administered by the Ministry of Hydrocarbons.
4 Law no. 3791 establishes that 30% of the pension scheme Renta Dignidad will be financed by IDH received by all departmental prefectures, municipalities, Indigenous and Farmers Fund, and Treasury. In other words, these four entities will need to "give up" 30% of the revenue received through the IDH to finance the Renta Dignidad. See section on Earmarks and Use of revenue.

82 Author's elaboration based on Chávez A., *Ingresos fiscales por explotación de hidrocarburos en Bolivia.*

FISCAL CO-PARTICIPATION

Fiscal co-participation refers to revenue collected through the general tax regime and shared with subnational governments. The amounts collected through applying the fiscal regime to the oil and gas sector can be seen in table 5.

Fiscal co-participation was established through Law No. 1551 in 1994 (which was replaced by Law No. 031 in 2010), which mandates that revenue from a specific set of taxes (Value Added Tax [VAT], Complementary Regime for VAT, Business Profit Tax, Tax on Transactions, Tax on Consumption of Excise Goods, Customs and Excise Duties, Tax on Free Transfers of Goods, and the Business Profit Tax for remittances abroad) is shared by the central government with subnational authorities. Departments receive 20 percent of revenue from IEHD. Municipalities and indigenous territories receive 20 percent of the rest of the taxes collected, as can be seen in figure 11.Revenue from downstream operations is generally much higher than that from upstream operations. This is mainly explained by the large amount of revenue collected from the IEHD, which is primarily levied on refined hydrocarbons. All of these taxes are shared according to the fiscal co-participation arrangement.

Table 5. General fiscal regime applied to oil and gas operations, in USD million (2005-2011)[83]

	2005	2006	2007	2008	2009	2010	2011
TOTAL DOWNSTREAM+UPSTREAM	383.2	477.5	549.0	754.5	1,028.2	661.9	686.2
UPSTREAM							
Total Upstream	**81.4**	**122.0**	**139.5**	**338.5**	**568.0**	**265.9**	**221.4**
IUE (Business Profit Tax)	49.9	68.8	47.6	187.0	473.5	204.6	140.3
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IUE-RE (Business Profit Tax for remittances abroad)	5.7	13.1	5.4	5.7	10.3	8.3	9.5
RC IVA (Complementary Regime for VAT)	1.0	1.2	1.2	1.8	2.3	3.1	3.7
Other	5.0	-	-	-	-	0.4	-
DOWNSTREAM							
Total downstream	**301.8**	**355.5**	**409.5**	**416.0**	**460.2**	**396.0**	**464.8**
IEHD	241.9	249.5	303.1	336.8	316.6	306.6	360.2
IVA (VAT)	27.1	44.7	45.8	44.1	44.1	46.9	46.5
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IT (Tax on Transactions)	21.7	22.5	20.4	19.4	30.4	19.5	21.2
IUE-RE (Business Profit Tax for remittances abroad)	5.4	16.4	10.9	5.3	34.8	5.4	7.2
RC IVA (Complementary Regime for VAT)	1.7	2.1	1.9	2.9	2.7	2.2	1.4
Other	-	-	-	-	-	2.0	-

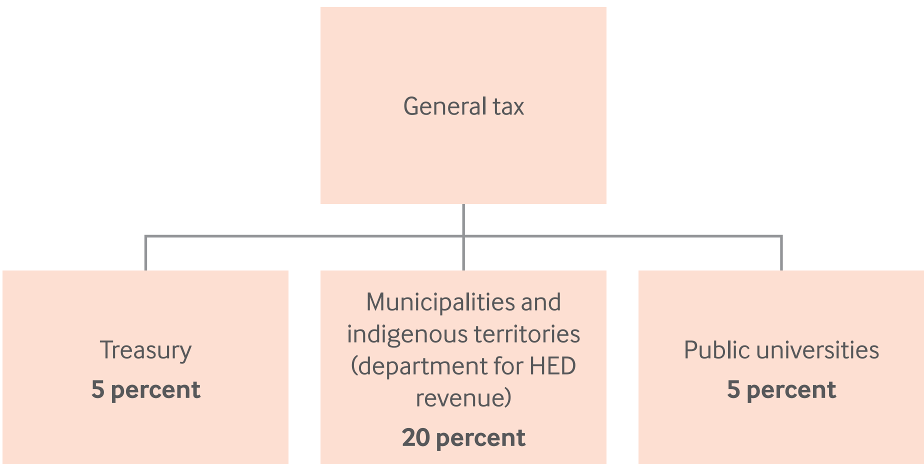


Figure 11. Fiscal co-participation

83 Velásquez G. and del Carmen Inch S., *Renta hidrocarburífera*, 33.

IV. Earmarks and use of revenue

While there is not much regulation around the use of royalty revenue (with the exception of the department of Tarija), IDH payments must be spent in accordance with certain considerations. Departments are directed to spend on infrastructure and investment programs while municipalities are to spend on socio-economic programs. Cash transfers have also become very important in the country's redistribution of hydrocarbon revenue, particularly with the creation of the *Bono Juancito Pinto*, a cash transfer for educational purposes, in 2006, and Renta Dignidad in 2007. What follows provides a detailed overview of earmarks for each fiscal tool.

ROYALTIES

There are no specific earmarks or restrictions for the use of royalties. Decree No. 28222, which regulates royalties, and its further modification (Decree No. 28669 in 2006) do not mention anything about the use of revenue from royalties. Law No. 1654 on administrative decentralization contains some provisions with respect to the use of a broad set of financial resources—including royalties—that are allocated to departments. More specifically, it stipulates that no more than 15 percent of the financial and economic resources received by departments should be allocated to the administrative expenditures of the departments' dependent units. The law also states that up to 85 percent of the same body of revenue can be allocated to departments' investment projects.[84]

At the departmental level, only the government of Tarija has a few legislative notes that offer some guidance on earmarking provisions for royalty revenue. Law No. 3038 (2005) states that 45 percent of all royalty revenue received by the department must be transferred to the province of Gran Chaco, and that 20 percent of such share should be used for health and education purposes in equal proportions in three of the province's municipalities: Yacuiba, Villamontes, and Carapari. In addition Law No. 3384 (2006) established the Regional Development Fund, which is financed through 10 percent of that same 45 percent share. Resources from the Regional Development Fund must be used to finance the following sectors: productive, agricultural, artisanal, small and medium agroindustry, and departmental industry.[85] Finally, Law No. 3385 (2006) created a Social Program for Housing with Access to Basic Services in the Gran Chaco province, and required that it should be financed with resources from the 45 percent share received by the province.

84 Law No. 1654, Articles 21 and 22.
85 Law No. 3384, 3 May 2006.

IDH

Revenue from the Direct Tax on Hydrocarbons must be used as follows:[86]

The National Treasury should allocate an annual budgeted amount of IDH revenue to:

- the armed forces
- the national police
- 5 percent to the Internal Help Fund for National Development (more on this in the Fund section)

Departments' prefectures should spend IDH revenue on:

- Economic development: roads, rural electrification, irrigation, technical assistance and training of the private sector, among others
- Social development: infrastructure, maintenance, equipment, and capacity building in the health and education sectors
- Citizen security: strengthening institutions for citizens' security, infrastructure, and prison equipment

Municipalities should spend IDH revenue on:

- Education: strengthening municipalities' management, infrastructure provision, promotion of education, promotion of equality in education, distribution of education material provided by the Ministry of Education, transport, school nutrition, incentives
- Health: strengthening of local health centers, campaigns for vaccination and municipal actions for prevention and control of endemic illnesses, nutritional assistance for children under 2 years old, health brigades, creation of municipal funds for projects aiming at promoting health and preventing disease, and surveillance programs and epidemiological control in the local environment
- Local economic development and employment promotion: technical assistance and training of the productive sector, easiness of access to the financial system, service provision, infrastructure and equipment of productive centers, organization and development of institutions responsible for productive promotion
- Citizen security: providing modules or facilities, equipment and services to the police

Universities should spend IDH revenue on:

- Infrastructure and academic equipment
- Evaluation and certification processes
- Programs for improving academic quality and efficiency
- Scientific research, technology and innovation following development and production plans at the national, departmental, and local levels
- Programs on social interaction

86 Claudia Viale and Edgardo Cruzado, *La Distribución de la Renta de las Industrias Extractivas a los Gobiernos Subnacionales en América Latina,* (Revenue Watch Institute and Fundación Jubileo, 2012), 11-12.

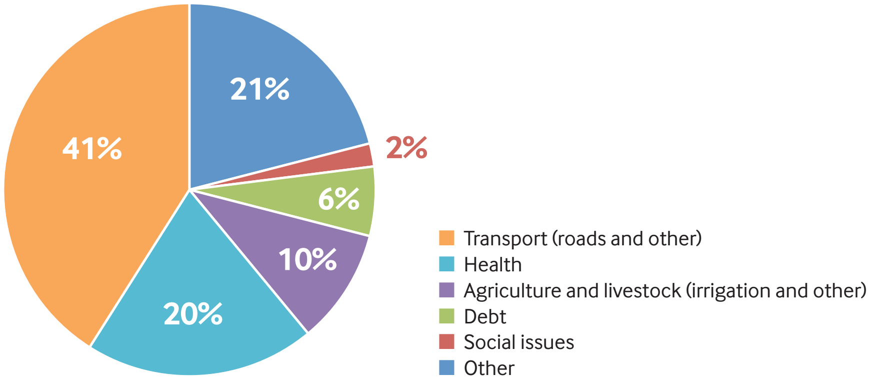
Decree No. 28421 requires the use of indicators for measuring the impact: "In a period no longer than 90 days after the publication of this Decree, the Executive Power and the beneficiaries of the revenue must create a database with the aim of establishing goals, performance indicators, as well as control, monitoring, and evaluation systems."[87]

Decree No. 29565 (2008) allows for a portion of IDH revenue to be transferred to communities, and extends municipalities' earmarking provisions by adding: the promotion of educational processes; construction and maintenance of cultural centers; construction and maintenance of sports centers; financing health infrastructure equipment, materials, supplies, medicines, services, etc.; water provision; the promotion of economic growth, incentives to production, incentives to organic agriculture, forestry and biodiversity use; strengthening local productive capacities; investment in support programs for food production; creation of public and mixed enterprises; hiring labour in order to generate temporary jobs; hiring doctors and teachers on an occasional basis and only for one year only; support of streetlight and electrification projects; emergency services, road safety, and citizens' security councils; infrastructure in different sectors.[88]

Law No. 031 (2010) stipulates that departments can finance health and education items with revenue from the IDH[89], and that any autonomous territorial entity that receives resources from the IDH can use these in the scope of its competencies and in alignment with the constitution and the legal framework. This further extended the already large scope for using IDH revenue.[90]

There is no specific percentage for the amount that must be spent on each earmarking provision. Instead, the use of IDH revenue is at the discretion of each level of government. Also, in comparison with other sources of revenue such as fiscal co-participation or royalties, there are no limits to the amount of IDH revenue that can be spent on each project. As a result, revenue from the IDH can be equally spent on current expenditure from the government or on investment plans.

87 Decree No. 28421, Article 8, Section II.
88 Martínez Céspedes and del Carmen Inch S., *A Siete Años del IDH*, 12-13.
89 The amount must be approved by the relevant ministries.
90 Martínez Céspedes and del Carmen Inch S., *A Siete Años del IDH*, 14.



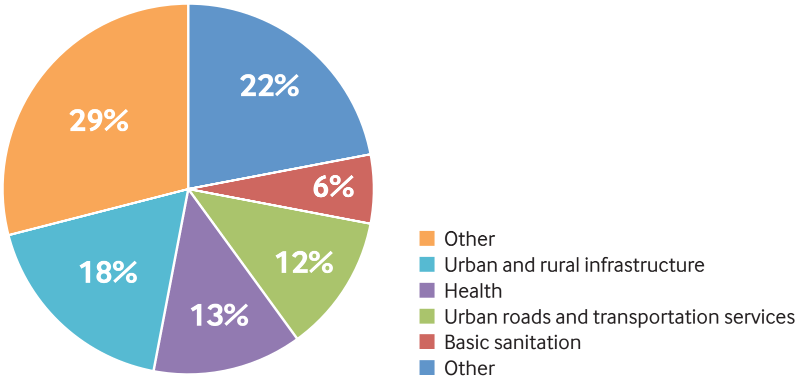


Figure 12. Use of IDH by departments (top) and municipalities (bottom) (by economic sector, average 2011-2012)[91]

Note: This represents 70 percent of the IDH received by departments and 70% of IDH funds received by municipalities. Per the law, departments and municipalities transfer 30 percent of IDH to the Renta Dignidad Fund at the national level.

FUNDS

Law No. 031 (2010) created the Development Fund for Productivity and Solidarity, with the aim of promoting productive development and contributing towards a more equitable distribution of resource revenues. According to the law, the fund is to be financed by resources from the IDH, additional to the other sources of funding established in the budget and generated whenever the price of exported natural gas surpass the parameters established in the law.[92] As of 2015 the fund is yet to start operating. Once operational, it is expected to have three components:

- A "solidarity mechanism" that will contribute to financing those autonomous departmental governments that are less favoured in the redistribution of economic resources
- A reserve and stabilization mechanism that will accumulate resources with the aim of reducing volatility of the revenue that helps funding priority expenses of the state
- A development mechanism through which strategic projects that promote productive development are financed

Decree No. 28421 created the Internal Help Fund for National Development. The fund is financed through 5 percent of the revenue received by the National Treasury, and it is aimed at promoting widespread growth of natural gas in the country. It is administered by the Ministry of Hydrocarbons.

91 NRGI, "Chapter III – Bolivia," in *The distribution, use and impact of the fiscal incomes generated by the mining and hydrocarbons sectors in Latin America and the Caribbean*, Report presented to the United Nation´s Economic Commission for Latin America and the Caribbean (ECLAC), (Natural Resource Governance Institute, 2014).

92 Martínez Céspedes and del Carmen Inch S., *A Siete Años del IDH*, 13-14.

CASH TRANSFERS

Cash transfers have been particularly relevant in Bolivia since the creation of the IDH in 2005 and the nationalization of the hydrocarbon industry in 2006. In 2007, the government recentralized a large part of hydrocarbon revenue in order to fund new social programs at the expense of departments which would no longer receive large amounts of revenue from oil and gas activities. The most important program was the pension scheme Renta Dignidad, which is funded through 30 percent of all IDH revenue. The Bono Juancito Pinto educational transfer was mainly financed during its first years through the 32 percent newly created participation of YPFB in national oil and gas revenue.

Bono Juancito Pinto

Bono Juancito Pinto was the first conditional cash transfer in Bolivia. It was established in 2006 after the nationalization of the hydrocarbon industry, and was to be financed by the additional resources resulting from nationalization. Bono Juancito Pinto was introduced to reduce the government school dropout rate in the country by annually giving students enrolled in government schools 200Bs (USD25) conditional on their attendance at school. Financing came entirely from the additional 32 percent share that YPFB had in total revenue from the hydrocarbon sector.[93] In 2007 and 2008, YPFB and the state mining consortium (COMIBOL) financed 47 percent of the program, and the treasury provided the remaining funds. YPFB shares were 53 percent and 18 percent in 2009 and 2011 respectively. Although the program is now financed by several companies (non-specific to natural resources), its funding primarily comes from the hydrocarbon sector. In 2010 some 1.6 million children received the Bono Juancito Pinto at a cost of about USD 54 million, about 0.24 percent of Bolivia's GDP. According to researcher James McGuire, Bono Juancito Pinto benefits people in a progressive manner since usually poor families have a larger number of children, and wealthier parents tend to send their children to private schools, students of which are not eligible to receive such transfers. In 2006 the poorest 30 percent of the population received 45 percent of the value of Bono Juancito transfers; the richest households received only 11 percent. According to Morales himself, revenue made available after the 2006 nationalization of the hydrocarbons industry was one of the main reasons why he was able to fund the transfer program.[94]

Renta Dignidad

From 1997 to 2007 Bolivia had non-contributory benefits for people over 65 years of age, such as Bolivida and Bonosol. In November 2007 Law No. 3791 cancelled Bonosol to create a new program called Renta Dignidad, which is a universal social income program for aged people (over 60). The program started in 2008 and consisted of one annual payment of USD 340 for people without a pension income, and 75 percent of that amount to people with another existing pension. The program is funded by 30 percent of all IDH revenue received by departments, municipalities, the Indigenous Fund, and the National Treasury, as well as from dividends from renationalized companies.[95]

93 Established by Presidential Decree No. 28701.
94 James W. McGuire, *Conditional Cash Transfers in Bolivia: Origins, Impact, and Universality* (2013), 13.
95 Law No. 3791, Article 9.

V. Impact of revenue sharing

The objectives of revenue sharing in Bolivia are not clearly codified and there are currently no available studies that show a direct impact of revenue sharing on socioeconomic indicators, such as poverty. Even when statutory instruments mandate the setting of objectives, performance indicators and monitoring and evaluation systems (i.e., Decree No. 28421 on the Internal Help Fund for National Development), these are not implemented in practice.

The importance of intergovernmental transfers for subnational governments combined with the substantial increase of oil and gas revenue since 2005 has however led to an increase in disputes between different levels of government. For example, the fourfold increase in resource revenue for Tarija from 2004 to 2008 as well as for its municipalities led to several disputes between the governments of Tarija and other departments; between the department of Tarija and the central government; and within the department of Tarija itself. The intra-department disputes have typically been between the two main producing provinces (Chaco and O'Connor) or between these provinces and the departmental capital. The dispute between Tarija and the national government on the other hand is mainly due to a conflict of interest between the department's elites and Morales' goal to have a more even distribution of resources between the eastern departments and the western highland departments. The fact that the president announced in 2009 that royalties would be directly transferred to the province of Gran Chaco (instead of going first through Tarija) reflected a pact between the province and the national government at the cost of Tarija's elites.

VI. Disclosure of revenue sharing

Revenue transparency is a crucial requirement for departments and municipalities to know what they are owed, to resolve conflicts and to ascertain impact. Different civil society organizations in Bolivia have been developing their capacity to carry out monitoring of company payments to the state and the management of related revenue at the national and subnational levels. Some of these organizations include Centro de Estudios para el Desarrollo Laboral y Agrario (CEDLA), Fundación Jubileo, and Fundación Tierra.

All the rules regulating resource revenue sharing with subnational authorities, and those indicating the relevant earmarking provisions, are available for public consultation. Data on the amounts transferred to subnational authorities is also available online. However such data is not available in one consolidated website, as it has to be accessed from different sources depending on the type of transfer studied.

DISCLOSURE OF TRANSFERS BY THE NATIONAL GOVERNMENT

- The 2012 Report on the Bolivian Economy published by the Ministry of Economy and Public Finances in 2013 contains all data on transfers made to departments, municipalities, and universities, as well as on cash transfers (Renta Dignidad and Bono Juancito Pinto) made to private beneficiaries. The report provides data for each of these transfers to departments and the amount. [96]

96 MEFP, *Memoria de la Economía Boliviana 2012.*

- The website of the Ministry of Hydrocarbons and Energy maintains a Royalty Information System, which contains information about hydrocarbon production by department, field and company, as well as the value of the produced hydrocarbons and the amounts in dollars received by every departmental government. The data is published on a monthly basis.[97]
- Intergovernmental transfers made to departments, municipalities, and universities are available on the Ministry of Economy and Public Finances webpage (in the section on fiscal information and accounts).[98]
- This information includes IDH transfers but not royalties, as these, although collected nationally, are directly transferred to departments. The latest available data is from December 2014 and the page is updated on a monthly basis. The data is clear and understandable. Below is an example of the intergovernmental transfers made to the Department of Tarija in December 2014 (IDH first red boxed block, IEHD second block).[99]

Figure 13. Example of disclosure of intergovernmental transfers to departments (Tarija, December 2014)

INSTANCIA: PAGADO
EN BOLIVIANOS

Gestión Fiscal: 2014
G. A. D. : 906 - Gobierno Autónomo Departamental de Tarija

Mes: Diciembre

Mes	IMPUESTO DIRECTO A LOS HIDROCARBUROS (IDH)							IMPUESTO ESPECIAL A LOS HIDROCARBUROS Y SUS DERIVADOS (IEHD)			
	Coparticipación Líquido	Comisiones Bancarias	Subvención Líquido	Comisiones Bancarias	Renta Dignidad	Fondo E. Cívica	Total I. D. H.	Liquido I.E.H.D.	Comisiones Bancarias	5 % Universidades	Total I. E. H. D.
Dic	16.120.613,11	48,00	0,00	0,00	6.928.650,90	46.190,99	23.095.503,00	2.684.848,64	212,70	671.265,36	3.356.326,70
Totales	16.120.613,11	48,00	0,00	0,00	6.928.650,90	46.190,99	23.095.503,00	2.684.848,64	212,70	671.265,36	3.356.326,70

Below is another example of the intergovernmental transfers made to the municipality of Yacuiba, in the Department of Tarija, in December 2014. Transfers under Law No. 1551 (i.e., co-participated taxes) appear in the first red boxed block, transfers under Law No. 2235 are displayed in the second block, and IDH transfers in third block.[100]

Figure 14. Example of disclosure of intergovernmental transfers to municipalities (Yacuiba, December 2014)

INSTANCIA: PAGADO
EN BOLIVIANOS

Gestión Fiscal: 2014
Departamento : TARIJA

Mes : Diciembre
Gobierno Autónomo : 1611 - Entre Ríos

Mes	PARTICIPACION POPULAR (P.P.ACT)					LEY DEL DIALOGO 2000 (LAW DIALOGO)						
	Cta. Principal (Líquido)	Comisión Bancaria	SUMI/SSIEP	Comisión Bancaria	Total Ejecución	Salud (Líquido)	Comisión Bancaria	Educación (Líquido)	Comisión Bancaria	Infraestructura (Líquido)	Comisiones Bancarias	Total Ejecución
Dic	1.118.158,82	1.806,88	205.138,35	299,16	1.325.403,21	7.397,06	9,47	15.098,90	19,33	185.806,27	237,89	208.568,92
Total	1.118.158,82	1.806,88	205.138,35	299,16	1.325.403,21	7.397,06	9,47	15.098,90	19,33	185.806,27	237,89	208.568,92

Mes	IMPUESTO DIRECTO A LOS HIDROCARBUROS (IDH)						
	Coparticipación (Líquido)	Comisión Bancaria	Compensación y Nivelación (liquido)	Comisión Bancaria	Renta Dignidad	Fondo E. Cívica	Total Ejecución
Dic	1.962.970,98	23,41	0,00	0,00	843.704,43	5.624,70	2.812.323,52
Total	1.962.970,98	23,41	0,00	0,00	843.704,43	5.624,70	2.812.323,52

97 MHE, *Liquidación de Regalías y Participación al TGN* (Ministry of Hydrocarbons), http://www2.hidrocarburos.gob.bo/index.php/viceministerios/97-viceministerio-de-exploracion-y-expltacion-de-hidrocarburos/liquidaci percentC3 percentB3n-de-regalias-y-participaci percentC3 percentB3n-al-tgn.html.

98 MEFP, "Vice-Ministry for the Budget and Fiscal Accounting," (Ministry of Economy and Public Finances), http://www.economiayfinanzas.gob.bo/viceministerio-de-presupuesto-y-contabilidad-fiscal.html. Note that there is the option of displaying transfers made to departments before year 2010 under the name of "Departmental Prefectures" –as they were called before 2010. More recent transfers to departments are displayed under the name of "Autonomous Departmental Governments".

99 MEFP, "Budgetary and Accounts Information – Transfers made to Departmental Governments," (Ministry of Economy and Public Finances), http://vmpc.economiayfinanzas.gob.bo/coparticipacion_gobdepartamentales.asp.

100 MEFP, "Budgetary and Accounts Information – Transfers made to Municipalities," (Ministry of Economy and Public Finances), http://vmpc.economiayfinanzas.gob.bo/coparticipacion.asp?tipo=1&g=2014&flag=0.

- The Analysis Unit of Social and Economic Policy also offers an online version of aggregated and disaggregated information on revenue received by municipalities and departments, including revenue received from royalties.[101] Information by department is then available at the municipal and provincial levels. Additionally, a breakdown by type of revenue is available for each municipality: revenue from fiscal co-participation, HIPC II flows, as well as IDH transfers. Universities' revenue is then added to the provinces' revenue in order to have the total revenue per department. The information here is also clear and understandable.
- Last, Bolivia's National Institute of Statistics also offers online information on fiscal co-participation by department, university, and municipality.[102]

DISCLOSURE OF TRANSFERS BY SUBNATIONAL GOVERNMENTS

Only one subnational government—the department of Santa Cruz—has receipt and spending information available online.[103]

101 UDAPE, 3. *Sector Fiscal - 3.8 Coparticipación Tributaria* (Analysis Unit of Social and Economic Policy, 2012), http://www.udape.gob.bo/portales_html/dossierweb2012/doss0308.htm.

102 INE, *Coparticipación Tributaria* (National Institute of Statistics), http://www.ine.gob.bo/indice/general.aspx?codigo=40305.

103 Gobierno Autónomo Departamental de Santa Cruz, *Presupuesto Gestion 2011 Aprobado Mediante Ley N° 062 Del 28/11/2010 Distribución de Ingresos y Gastos* (2011) http://www.santacruz.gob.bo/archivos/AN08092011154052.pdf.

Final remarks

Hydrocarbon revenue in Bolivia is shared with both levels of local government: departmental and municipal governments. While income from royalties is only shared with producing departments, IDH revenue is shared with both producing and non-producing departments and municipalities. IDH revenue is also allocated to universities, indigenous groups, elderly population through the *Renta Dignidad* fund, school students through the cash transfer *Bono Juancito Pinto*, and the police and military forces. Departments depend the most on hydrocarbon revenue: from 2005 to 2012, an average of 85 percent of total transfers to departments came from the hydrocarbon industry. This was largely due to royalties, which, alone represented 52 percent of total transfers made to departments in the same period. Municipalities also depend on oil and gas revenue transfers from the center in a significant, if more limited manner. This is particularly true since 2007, when the government changed the internal distribution of IDH revenue inside departments, favouring municipal governments at the expense of departmental governments. From 2005 to 2012, the average contribution of hydrocarbon revenue to transfers made to municipalities (without including fiscal co-participation in the general tax regime) was 37percent.

As a rule, governments at the departmental level spend the larger part of their hydrocarbon revenue in transport infrastructure (roads and bridges), while municipal governments tend to use these revenue more for education, health, and basic sanitation. (See figure 12.) This is due to the fact that the law assigns more responsibilities regarding infrastructure to departments, while social services' competencies are assigned to municipalities. Although the nationalization of hydrocarbon revenue increased municipalities' resources significantly, these don't seem to have influenced their spending patterns.

With regards to transparency, all the laws regulating Bolivia's hydrocarbon revenue sharing arrangement are publicly available. The national government discloses most of the information on the transfers made to subnational governments, although the data is published with some delay and sometimes in an aggregated fashion. At the subnational level the story is quite different with only one departmental government disclosing receipt and spending information.

The objectives of revenue sharing in Bolivia are not clearly codified and there are currently no available studies that show a direct impact of revenue sharing on socioeconomic indicators, such as poverty. The importance of intergovernmental transfers for subnational governments combined with the substantial increase of oil and gas revenue since 2005 has however led to an increase in disputes between different levels of government.

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