

Enhancing Local Benefits, Office for Advisory Services in Latin America and the Caribbean

Taking EITI to the Sub-national Level

The spirit of the Extractive Industry Transparency Initiative

The EITI is based on the belief that the exploitation of natural resources can have very different impacts on resource rich countries. If used prudently natural resource wealth can contribute to sustainable development and reducing poverty and inequalities. However, if not managed properly it can create negative economic and social impacts. The initiative recognizes that public information and understanding of government revenues and expenditure is necessary to stimulate public debate and inform the choice of appropriate and realistic options for sustainable development.

“... improved transparency and accountability for the huge revenues generated by oil, gas, and mineral industries is vital to avoiding the 'resource curse' and improving their use in reducing poverty and generating economic growth”

The EITI seeks to help improve governance in developing, resource-rich countries by requiring that company payments and government revenues from oil, gas and mining be fully published and verified. Knowing what companies pay and what governments receive, is a critical first step for civil society organizations, and society as a whole, to be able to hold decision-makers accountable for the use of those revenues. Greater social accountability will help improve governance, which in turn, will help ensure that revenues generated by extractive industries contribute to sustainable development and poverty reduction.

EITI at the Sub-national level?

The contributions of extractive industries to national coffers can be substantial. As transfers of part of those public resources from the national to the sub-national levels become more common, the need to seek greater transparency and improved governance at sub-national levels becomes evident: to be effective EITI has to follow the money. Making EITI work at the sub-national level involves, for the most part, similar issues and challenges than those at the national level. However, dealing with them at the local level is slightly different because of the proximity, and hence the more direct identification, between who administers the resources and who should feel the impact. Also, the notion of institutional capacity building at the micro level and transparency take on a different meaning as they become more concrete.



The ELB approach to address sub-national level 'resource curse'

Taking the spirit of the EITI to municipalities, ELB has developed an approach to address the resource curse effect at the sub-national level. The basic idea is to address a local government's limited absorptive capacity to make effective use of the EI resources it obtains to contribute to local development. The approach is two-pronged: i) working on one hand directly with a local government building capacity in investment management and execution, and ii) working with civil society organizations, to establish effective transparency and social accountability mechanisms. The idea behind simultaneous efforts, from within and from outside the municipality, is to generate complementary forces working in the same direction to build synergies that help improve local public investment, and hence the impact of EI related public resources. While the work within the municipality is meant to help “push” internal reforms generating capacity, the external work with civil society organizations is meant to generate a demand, or “pull”, for improvements in investment as well as the necessary public debate that can lead to informed choices.

ELB's Cajamarca experience

The identified need

Imagine the following scenario:

- a rich goldmine in one of the poorest regions of a country extracting more than 3 million ounces of gold last year, and generating net income before taxes of \$800 million;
- a rural region located in the Sierra of northern Perú with high indices of illiteracy and malnutrition;
- a national Law which mandates that half of the corporate income tax paid by a mine be devolved to local governments in the vicinity of the mine.

Welcome to the Yanacocha mine in Cajamarca, Peru.

What can be done to help local communities benefit from this financially successful private investment in which IFC participates? How can this case be turned into a successful investment from the perspective of its development impact? For IFC an important part of the answer is to undertake the necessary actions to maximize the local benefits from the Mining Canon.

While these resources can make a significant difference, in general, local governments are ill equipped to seize such an opportunity. They have limited absorptive capacity, as they are used to handling much smaller budgets. Civil society organizations, and the population as a whole, are not in a position to demand social accountability on the part of local Majors, or to engage in productive debate as to how such a significant amount of resources should be employed. There was little understanding of the magnitudes of Mining Canon involved, what it could be used for, and what legal and technical challenges municipalities face when trying to convert these

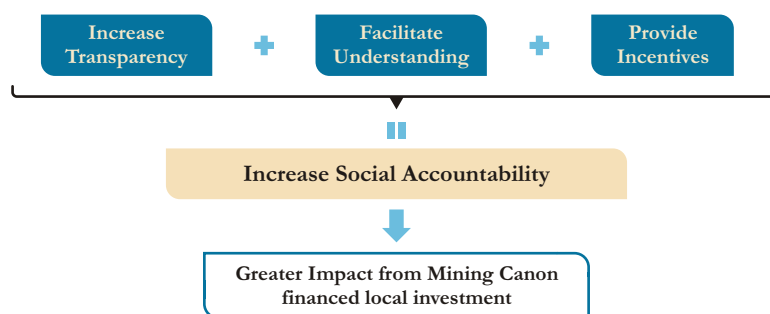
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resources into public works. Furthermore, there was a clear absence of any kind of open public discussion on how to best employ the Mining Canon.

IFC's Enhancing Local Benefit in action

ELB recognized that civil society needed to be up to the task of effectively contributing to make the most of the opportunity the Mining Canon represents. It designed, and helped implement, an independent, civil society-based mechanism with the purpose of monitoring the receipt and spending of Mining Canon resources by municipal governments in the area. The methodology developed by IFC for this mechanism was defined so as to tackle 3 key aspects necessary for effective social accountability:

- *increasing transparency.*- by making information on the Mining Canon and municipal investment publicly and periodically available;
- *facilitate understanding of the available information.*- by introducing a systematic way of presenting the information so as to answer a few basic questions that provide a first idea of what is happening;
- *providing incentives for the population to want to make the effort to understand.*- by establishing ways in which the population can have a voice, making its opinions heard and signaling Mayors, via a survey-based rating, how their performance is viewed:



The Independent Monitoring Mechanism is currently housed in the University of Cajamarca and involves local professional and business associations. It collects and systematizes information on Mining Canon and municipal investment of two municipalities making it public periodically, it organizes workshops in which recognized civil society leaders discuss Mining Canon and municipal investment with the two Mayors, and it discusses its findings in the media, contributing thereby to a better understanding of Mining Canon and to a more open, and well informed, public debate.

In the case of the municipality of Baños del Inca this effort is complemented with a capacity building activity aimed at helping the municipality improve its investment management. This work involves clarifying rules and regulations, and providing support for the adoption of tools to help systematize work and manage information. The work with the municipality recognizes that a well organized municipality will not only be more prone to rely on information based decision making, but also will have a higher propensity to make that information public.

Results of the push for institutional reforms at the municipality, and the pull from civil society that IFC has been supporting can already be felt: Actual total investment spending has more than doubled in each of the last two fiscal years and is on its way to do so again in FY 2006, an open discussion on municipal investment is beginning to take place, and Mayors are increasingly aware that they are being monitored and, consequently, are becoming more responsive.