

# Use of Natural Resource Revenues for Development in Peru

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**Commission on  
Sustainable Development**

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# Summary

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- Current situation
- How much revenue are regional and local governments receiving?
- How are the resource funds being used?
- Obstacles to a more efficient use
- Policy recommendations

# **Current situation**

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# General context

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- Recovery of mineral prices
- Some regions worried about the volatility of canon revenues and pressed by public opinion because of poor budget execution
- Open conflicts and opposition of local communities to let the opening of new mining operations
- Other conflicts regarding native communities and informal miners

# Economic performance of regional expenditure

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- Too many resources and lack of execution capacity
- Pressure for expending from the central government and the local communities → relaxation of fiscal controls
- Uncoordinated investments with low local and regional impact

# Attitudes of agents

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- Mining firms resigned to deal with local groups but exerting pressure to maintain the legal status quo → Voluntary giving, implementation of funds, direct execution of projects
- Local government representatives and communities demand to have control of the funds → fights that impede taking action
- Central government overwhelmed by the general situation
- Extreme positions → from no mining to no large projects



# Risks at the political level

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- Conflicts as a negotiating strategy... but difficulty to define an agenda → many hidden agendas
- Weak position of local authorities in front of all actors
- Central government following a fire-fighting strategy
- Scallation of violence → capture of roads, informal miners
- Vulnerable situation for future deposit bids

# Risks at the social level

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- Fragmentation of the social structure → weak social capital
- Increase of vulnerability of the poorest segments of society
- lack of regional capacities to face emergencies → Ica after the earthquake



**How much revenue are  
regional and local  
governments receiving?**

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# Regional transfers (1)

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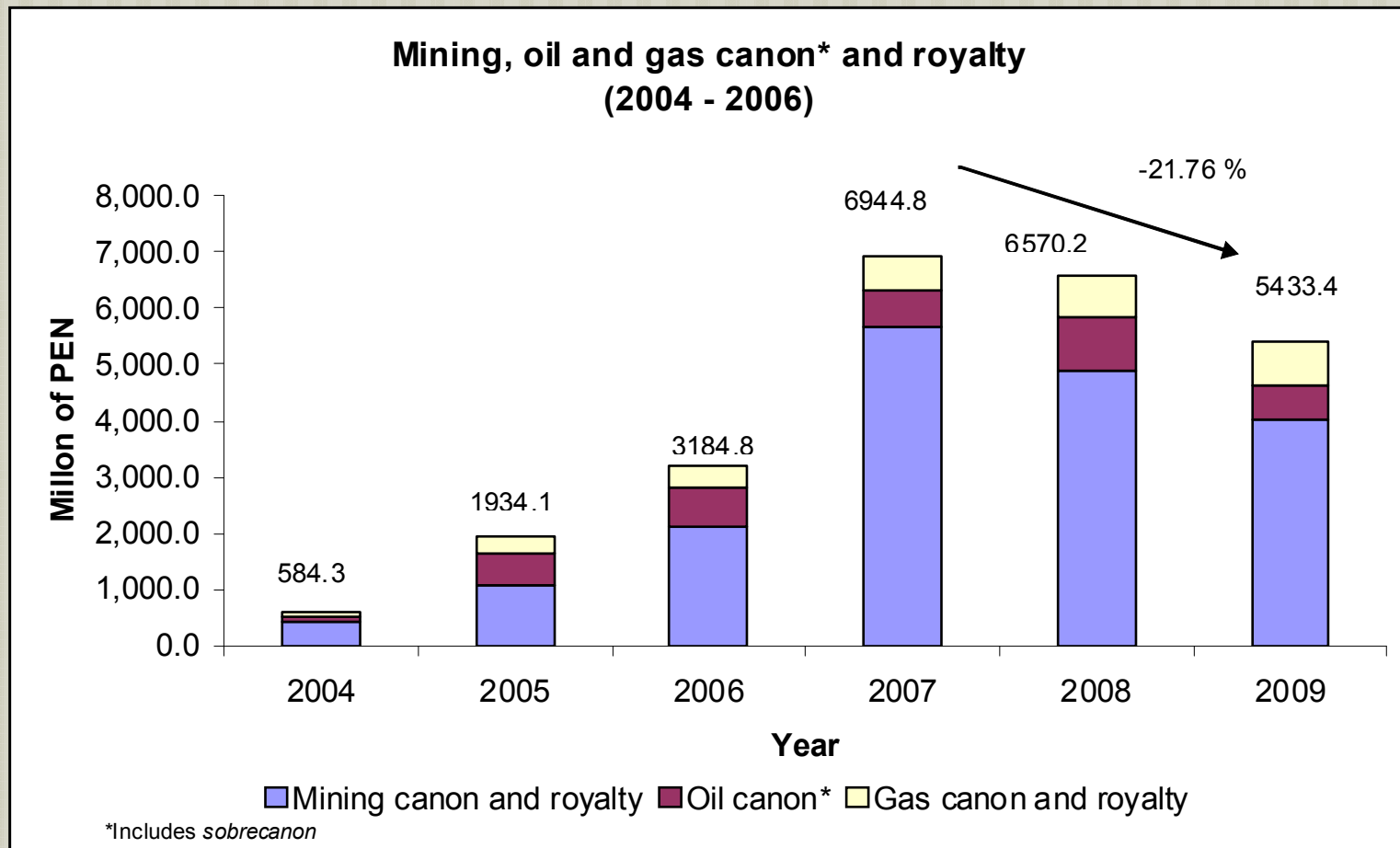
- Canon (Resource revenue transfers)
  - Mining
  - Hydroenergetic
  - Oil
  - Gas
  - Fishing
  - Forestry
- Sobrecanon (Other transfers)
  - FONCOMUN → Compensation fund for local governments
  - Customs rent
  - FOCAM → Camisea project compensation fund
  - Royalties
  - Milk glass programme

# Regional transfers (2)

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- Initial increasing transfers at the national level, decrease in certain regions but recovery is expected
- Local government transfers differ widely
  - Producing regions
  - Non producing regions
  - Differences due to mining product and/or process
  - Additional transfers (sobrecanon) subject to distribution criteria and fiscal performance

# Mining canon evolution



# Regions that receive most

## Transfers to regional and local governments (2009)

Million of PEN

	Mining canon and royalty	Other canon and royalty	Total	%
ANCASH	930.4	30.3	960.7	18.89%
AREQUIPA	597.9	9.7	607.6	11.94%
MOQUEGUA	454.8	4.9	459.7	9.04%
CUSCO	147.7	302.3	450.0	8.85%
LA LIBERTAD	410.4	3.6	413.9	8.14%
TACNA	392.0	0.0	392.1	7.71%
OTROS	1,068.6	734.3	1,802.9	35.44%
<b>TOTAL</b>	<b>4,001.7</b>	<b>1,085.1</b>	<b>5,086.8</b>	<b>100.00%</b>

Source: Ministry of Economy and Finance

**How are the resource  
revenues being used?**

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# What needs to be avoided (1)

## Mirador/Obelisco

Gasto realizado: S/. 1,9 millones

## Prov. Tambopata:

TMI: 38.5/1000

Carencia Agua pot: 64%

Carencia Desagüe: 68%

Población: 47,714



**Fuente:** MEF

# What needs to be avoided (2)

## Piscina/Jacuzzi termal

Gasto realizado: S/. 570,000

Prov. Huancavelica

TMI: 66,8/1000

Carencia Agua pot: 55,6%

Carencia Desagüe: 68%

Población: 36,036



**Fuente: MEF**

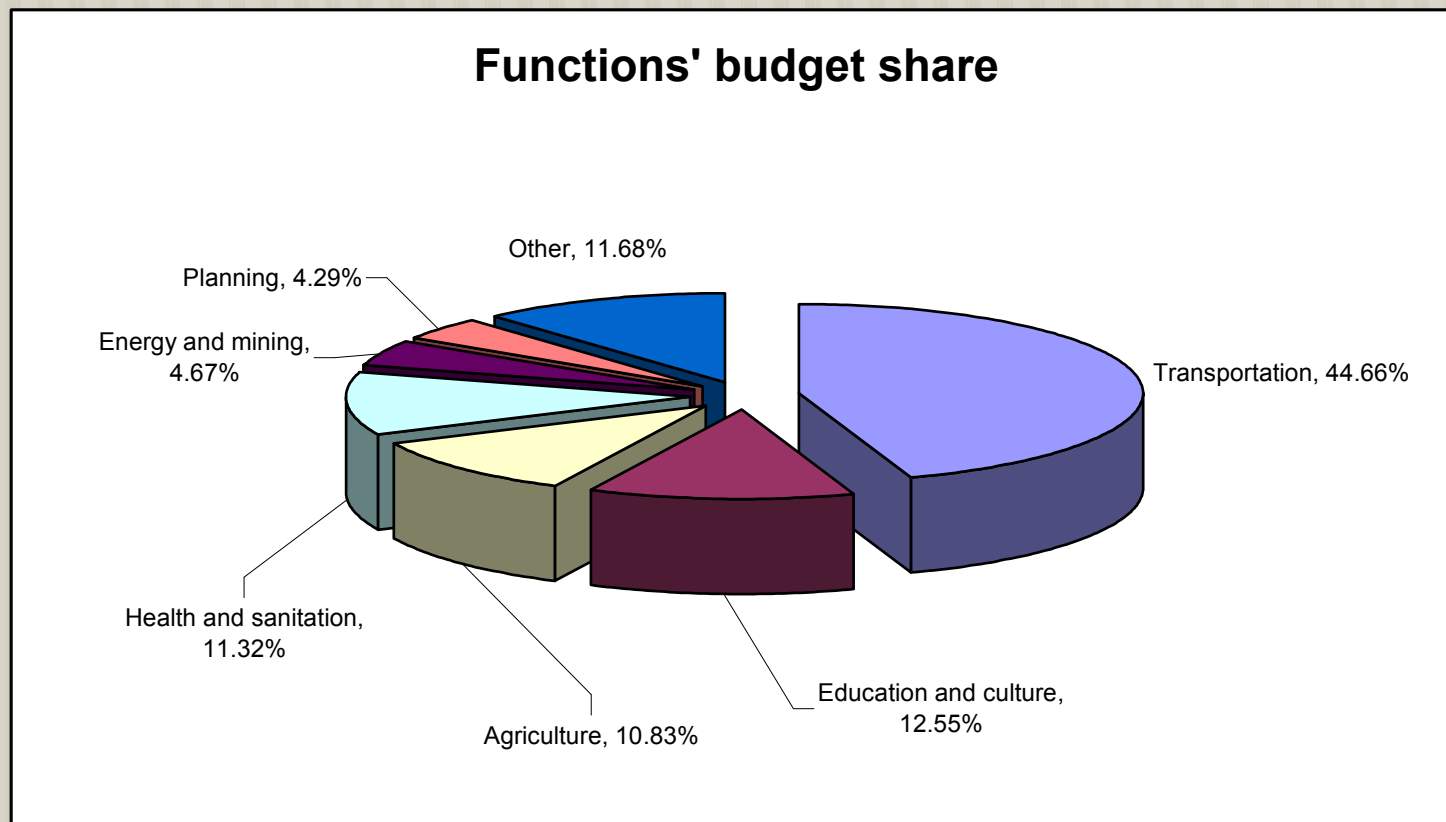


# Use of resource revenue

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- Canon resources must fund investment projects  
→ infraestructure
- Canon resources for regional universities → seldom used
- Sectors favoured by canon resources
  - Transportation
  - Education & Culture
  - Health & Sanitation
  - Agriculture
- Sectors less favoured
  - Housing
  - Industry
  - Fishing

# Projects by function



Source: Ministry of Economy and Finance

# Budget execution (1)

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- Lack of capacities in regional and local governments impede proper execution
  - lack of knowledge of SNIP and other administrative procedures
  - the surprise was that the central government lack also capacities to expend
- Regions with most resources perform worst
- Regions with a rapid increase in transfers are not able to increase execution

# Budget execution (1)

	Budget (million of PEN)			Budget execution		
	2007	2008	2009	2007	2008	2009
LIMA	1,846.53	2,532.55	2,507.47	57.38%	42.69%	70.50%
ANCASH	624.37	1,133.84	1,615.62	48.14%	23.35%	30.27%
CUSCO	675.81	702.03	1,433.69	50.59%	56.35%	79.75%
MADRE DE DIOS	152.21	299.39	803.75	67.16%	47.21%	87.77%
PIURA	476.05	544.36	634.11	62.72%	47.06%	56.89%
CAJAMARCA	541.71	508.73	598.29	54.74%	49.39%	63.00%
PUNO	388.79	436.76	593.93	59.39%	56.20%	74.13%
TACNA	233.26	382.74	511.20	41.42%	28.38%	45.82%
ICA	193.78	375.61	502.63	33.36%	52.34%	51.06%
SAN MARTIN	496.07	513.11	495.35	60.12%	94.57%	84.56%
AMAZONAS	328.26	400.36	468.64	88.10%	68.14%	94.02%
AREQUIPA	276.21	369.65	461.99	69.59%	67.92%	76.55%
OTHER	3,215.89	4,124.05	4,063.69	57.46%	55.98%	72.02%
<b>Total</b>	<b>9,448.94</b>	<b>12,323.18</b>	<b>14,690.37</b>	<b>57.35%</b>	<b>50.79%</b>	<b>67.49%</b>

Source: Ministry of Economy and Finance



# Budget execution (2)

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- Budget can be executed... but is expenditure effective?
- Projects funded by canon resources are rather small
  - Limited development impact
  - Limited complementarities
- Larger projects remain in study phase
  - Require feasibility studies
  - Require central government approval

# Budget execution (2)

## Projects by size (2009)

	Projects	Million of PEN
Less than S/. 1 million	8,474	1,469.33
Between S/. 1 - 3.5 million	971	1,761.35
Between S/. 3.5 - 8 million	208	1,053.42
More than S/. 8 million	164	5,630.09
<b>Total</b>	<b>9,817</b>	<b>9,914</b>

Source: Ministry of Economy and Finance

# **Obstacles to a more efficient use**

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# Constraints in budget management (1)

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- Lack of knowledge of SNIP and administrative procedures
  - Elaboration of projects
  - Bid procedures
  - Lack of technical staff
- Limited coherence between development plans and proposed projects
  - Search for political gain
  - Participatory budget
  - Lack of coherence with national plans → CEPLAN is not helping
  - ...although some regions are taking the right path → regional development plans, productive projects (value chains, recycling, etc.

# Constraints in budget management (2)

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- Pressure to expend favours smaller projects
  - Sluggish transfer of competences to Regional Governments (Pro Vias, FONCODES, INADE, PRONAMACHS, etc.)
  - Delays in the sign of agreements between central and regional governments

# **Policy recommendations**

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# Policy recommendations (1)

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- Increase the presence of state
  - Need of a policy to promote local development → guidelines, instruments, technical assistance, etc.
  - Agreements between mining firms and communities need a government monitoring
  - Participation and coordination of different government branches → Multi-technical group in Camisea
- Propose changes in legislation
  - Creation of funds (compensation, intangible, etc.)
  - Transfer of competences to Regional Governments (projects, fiscal resources)
  - Provide mechanisms to increase accountability

# Policy recommendations (2)

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- Increase of monitoring and fiscal transparency
  - Increase coverage of SIAF
  - Publication of performance indicators
  - Support to transparency initiatives