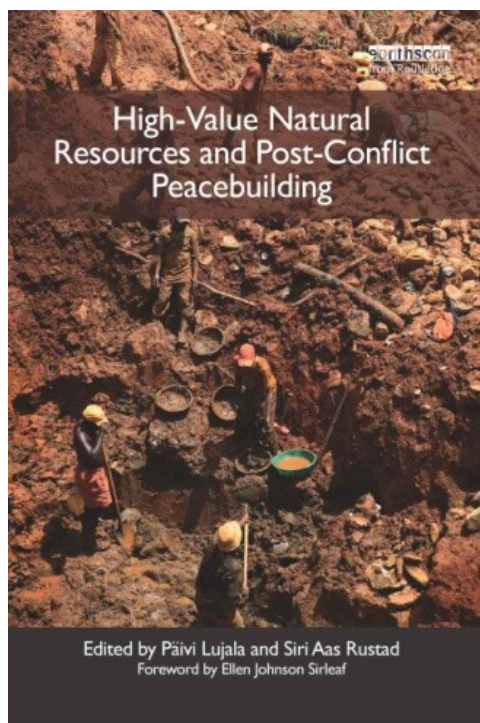


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Part 3: Revenue distribution: Introduction

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PART 3

Revenue distribution

Introduction

Post-conflict countries often have to navigate between incompatible needs. On the one hand, they need to rapidly increase revenue flows from natural resources, in order to recover from conflict. On the other hand, they need to develop or strengthen the capacity to properly manage resource revenues—a process that can take considerable time. It is thus important to consider strategies for revenue distribution while institutions are still developing.

In this regard, the transfer of revenues from the central government to subnational entities is an important issue. Distribution schemes must balance the needs of the nation as a whole against what is considered fair by certain groups, particularly those in producing regions. It is also important to provide safeguards to ensure that revenues reach the general population, instead of being siphoned off by corruption.

No matter what principles are used to distribute revenues, there will always be disputes over who gets what. For example, should revenues be distributed equally among all subnational entities, or should the producing regions get a larger share? If so, how much more should the producing regions get? Should ethnic or religious groups get a larger share, as reparation for past harms? However difficult it may be to find a formula that satisfies all groups or regions, the effort must be made: if some groups feel that they have been unfairly treated, there is a risk of conflict relapse.

In “Sharing Natural Resource Wealth during War-to-Peace Transitions,” Achim Wennmann argues that wealth sharing plays a dual role in post-conflict societies—simultaneously helping to end and ameliorate old disputes while laying the foundation for a new economic future. Wennmann describes several wealth-sharing mechanisms, including vertical and horizontal distribution, direct distribution, and tax base adjustments; compares centralized and decentralized distribution of resource revenues; and analyzes wealth-sharing strategies in Sudan and Aceh.

In “Horizontal Inequality, Decentralizing the Distribution of Natural Resource Revenues, and Peace,” Michael L. Ross, Päivi Lujala, and Siri Aas Rustad further explore centralized versus decentralized revenue distribution, focusing particularly on cases in which resources are distributed along ethnic, religious, or other lines. Ross, Lujala, and Rustad argue that because local institutions often lack both policy-making and administrative capacity, a fairly centralized approach may be more practicable and efficient. More decentralized strategies, on the other hand, can better address demands for self-determination and regional compensation, which may be politically important in settings where there are potential peace spoilers, or where producing regions are dominated by particular religious or ethnic groups.

In “The Diamond Area Community Development Fund: Micropolitics and Community-led Development in Post-war Sierra Leone,” Roy Maconachie

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examines a wealth-sharing strategy that engages local communities in decision making about the expenditure of resource revenues. Since 2001, 25 percent of the 3 percent diamond industry export tax (i.e., 0.75 percent of the total export value) levied by Sierra Leone has flowed into a fund that was designed to support locally driven development projects in diamond-producing regions. When the funds were initially distributed to the communities, however, expenditures were heavily influenced by local power relationships and prewar patronage structures; as a result, the funds were not used efficiently, and distribution was temporarily suspended. Although community-led decision making does create a new space for public participation, Maconachie argues that to continue to successfully engage the public, the government must carefully design a participation strategy that takes existing power relationships into account.

In the final chapter of part 3, “Direct Distribution of Natural Resource Revenues as a Policy for Peacebuilding,” Martin E. Sandbu highlights a more controversial strategy: direct distribution, in which resource revenues are distributed directly to the public. Sandbu argues that direct distribution could address many of the concerns raised by Wennmann and by Ross, Lujala, and Rustad. For example, it can be a particularly effective means of bypassing corruption at both the central and subnational levels. Despite the potential advantages noted by Sandbu, direct distribution has been fully implemented only in Alaska, although it has been discussed as a possible solution in some post-conflict countries.

The chapters in part 3 highlight various aspects of post-conflict distribution of natural resource revenues. The chapters do not offer a single solution but discuss the advantages and disadvantages of various strategies. Two themes that all the chapters share, however, are the challenge of curbing corruption and the importance of ensuring that revenues are used as a peace dividend.