

## Bolivia Revenue Sharing

Natural gas and oil revenues represent some of the largest sources of income for Bolivia's economy. In 2014, the oil and gas sector represented 8.7 percent of GDP and 55 percent of total exports. The sector has contributed to more than one third of the Treasury's income in recent years. Bolivia is also a major producer of silver.

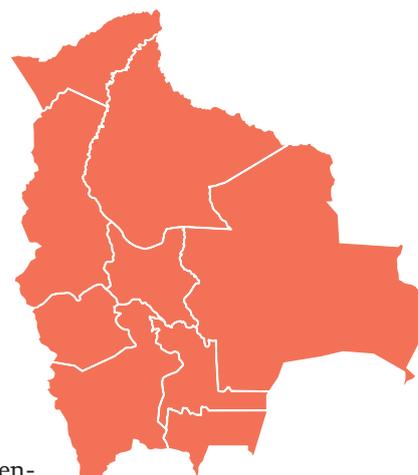
Bolivia is divided into nine departments, 112 provinces and 339 municipalities. Departments and municipalities raise very little own-source revenue and most of their revenue consists of inter-governmental transfers to finance expenditures. Departments are responsible for large infrastructure projects. Municipalities are responsible for infrastructure maintenance as well as many health, education, police, culture, sports and tourism services, for instance.

Oil and gas revenues are transferred to subnational entities via two channels: A general intergovernmental transfer system and a derivation-based system. According to the general transfer system, municipalities are meant to receive 20 percent of general tax-based intergovernmental transfers to fulfil their mandates. This is called "fiscal cooperation". An additional source of revenue for municipalities (the "HIPC transfers") is allocated based on poverty rates. Indigenous territories are also legally recognized and receive a small share of revenues.

The derivation-based system differs by revenue stream (e.g., royalties, profits tax). Royalties constitute the main source of oil and gas income for the four producing departments (Santa Cruz, Tarija, Cochabamba, and Chuquisaca). An 11 percent royalty is levied on all oil and gas production, distributed to departments by volume of production. Since Tarija's three fields contribute nearly 70 percent of Bolivia's national production of hydrocarbons, it has received 60 percent of total royalty payments since 2006. An additional compensation royalty of one percent is shared among the two poorest departments Beni and Pando, two-thirds to Beni and one-third to Pando.

There is very little information available about the sharing of royalty revenue within each department. The only departments offering some information on this are Tarija and Santa Cruz. 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 the 50/40/10 formula: 50 percent for producing provinces, 40 percent for non-producing provinces and 10 percent for indigenous villages.

The Direct Tax on Hydrocarbons (IDH), a large profits tax introduced in 2005, is also distributed to departments by derivation. According to the law, each producing department is meant to receive four percent of the IDH and each non-producing department receives two percent. Within each department, departments retain one percent, municipalities are allocated 2.7 percent and universities 0.3 percent. There is no specific percentage of either royalties or IDH that needs to be spent on any specific expenditure item or project.



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In October 2007, President Evo Morales changed the internal distribution of IDH revenue inside departments: the share accruing to municipal governments would increase from 34 percent to 67 percent, while transfers made to departments would diminish from 57 percent to 24 percent. This change was part of the country's fiscal decentralization process. Municipalities today receive more than one third of their revenue from the IDH. In 2012, 47 percent of total revenue received by municipalities came from the IDH. The rest largely came from their participation in revenue received from the application of the general fiscal regime (fiscal co-participation), most of which does not necessarily come from the oil and gas sector.

The revenue from the IDH also allows the government to finance a universal old-age pension scheme, *Renta Dignidad* (formerly known as Bonosol) as well as other conditional cash transfers programs, such as the *Bono Juancito Pinto*.<sup>1</sup> While the distribution of revenue from the IDH has been modified several times by the current President, the 11 percent royalty has been unaltered since its creation, and it constitutes a critical source of income for Bolivia's four producing departments. Bolivia's 2009 Constitution turned this royalty into a legal right, making it even more difficult to change.

The national government discloses a large amount of disaggregated information on oil, gas and mineral revenues and fiscal transfers. This allows local governments to verify they are receiving their entitlements. For example, the Ministry of Finance releases all data on transfers made to departments, municipalities and universities, as well as on cash transfers made to private beneficiaries (*Renta Dignidad* and *Bono Juancito Pinto*). The report provides the beneficiaries for each transfer and the amount. Intergovernmental transfers made to departments, municipalities, and universities—including IDH transfers but not royalties—are available in the Ministry of Economy and Finance webpage.<sup>2</sup>

The Analysis Unit of Social and Economic Policy, an executive branch research unit, also offers disaggregated information on revenues transfer to and between departments, provinces and municipalities, including royalties.<sup>3</sup> Additionally, a breakdown by type of revenue is available for each municipality: revenue from fiscal co-participation, HIPC flows, as well as IDH transfers. The information is presented in a clear and understandable way.

Finally, the website of the Ministry of Hydrocarbons and Energy contains a Royalty Information System, which shows information about the 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 available on a monthly basis.<sup>4</sup>

1 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 through two installments, one at the beginning of the academic year and one at the end of it, each of USD 14.50 per student.

2 See reports: [http://www.economiayfinanzas.gob.bo/?opcion=com\\_contenido&ver=contenido&id=2885&id\\_item=646&seccion=269&categoria=1523](http://www.economiayfinanzas.gob.bo/?opcion=com_contenido&ver=contenido&id=2885&id_item=646&seccion=269&categoria=1523) and <http://www.economiayfinanzas.gob.bo/viceministerio-de-presupuesto-y-contabilidad-fiscal.html>

3 See report: [http://www.udape.gob.bo/portales\\_html/dossierweb2012/doss0308.htm](http://www.udape.gob.bo/portales_html/dossierweb2012/doss0308.htm).

4 See data: <http://www2.hidrocarburos.gob.bo/index.php/viceministerios/97-viceministerio-de-exploracion-y-explotacion-de-hidrocarburos/liquidacion-de-regalias-y-participacion-al-tgn.html>