

Advisory Services Facility for Latin America and the Caribbean

COLOMBIA OIL ROYALTY MANAGEMENT

Project dates: January 2007-January 2009

Country: Colombia

Sector: Oil & Gas

Partners: Ecopetrol, The National Association for Hydrocarbons (ANH), the National Planning Department (DNP), Ministry of Mining (Colombia), The Colombian Federation of Municipalities, Fedesarrollo, Transparencia por Colombia, Rosario University, Externado de Colombia

Sponsors: IFC, Ecopetrol, CommDev, Norway



Background

Colombia is Latin America's fifth largest oil supplier with 1.54 billion barrels of crude oil reserves in addition to 4.0 trillion cubic feet (TCF) of natural gas reserves. The country's oil and gas sectors are vital for the national economy because it generates taxes and royalties for public spending. This is particularly important in poor rural areas as these funds can contribute to job creation and socio-economic growth at the local level. In 2005, the total royalties generated by the Colombian oil industry reached US\$ 938 million.

An important factor for the sustainability of the oil and gas sectors in Colombia is the local management of royalties and the public perception of the benefits generated by the oil companies for local communities. However, public opinion indicates that the fiscal benefits from these sectors fail to reach the local communities due to complex regulations and the poor management of royalties at the sub-national level. Furthermore, the scattered geographical distribution of petroleum operations in Colombia makes the even allocation of funds a challenging task. These problems, along with the socio-economic tensions in rural areas, have led oil companies to create community-based projects directly financed with the companies' resources in an effort to enhance living conditions.

Strategy

IFC is supporting the development of Colombia's oil sector by providing financial and advisory services to the private sector in the form of loans and investments (equity). The project leaders will work with IFC clients, such as Petrotesting and Kappa, to promote specific measures and practices in order to help improve the allocation and leverage of oil royalties in the municipalities where the oil companies operate.

The project consists of three components:

1. An in-depth analysis of royalty transfers and management: A package of financial and advisory services will be offered to select local governments and municipalities to help them incorporate management tools to improve their internal organization, enhancing efficiency and transparency.
2. Local implementation of tailored advisory services plans: Awareness-building and training on municipal royalty management will be implemented at the regional and municipal levels to improve the public investment process.
3. Mainstreaming at the national level: Working with strategic partners at the national level to implement the systemization and dissemination of lessons learned at the local level. This component includes monitoring royalty payments to municipal governments, building private-public partnerships and establishing a network of municipal governments benefiting from oil royalties.