

In Brief

Project dates:

- January 2007 to January 2009

Sector:

- Oil and Gas

Country:

- Colombia

Partners:

- Ecopetrol
- Hydrocarbons National Agency (ANH)
- The National Planning Department (DNP)
- Ministry of Mining and Energy
- The Colombian Federation of Municipalities
- Fedesarrollo
- Transparencia Colombia
- Rosario University
- Externado de Colombia

Sponsors:

- Ecopetrol
- Comm Dev
- Norway

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The International Finance Corporation (IFC) is Latin America and the Caribbean's leading multilateral finance institution for the private sector. IFC provides a wide range of innovative financial products and services as well as complementary sustainability products and advisory services. By tailoring these products and services to meet specific client needs, IFC works to build a stronger, more vibrant and equitable private sector for the region.

Enhancing Local Benefits

Colombia Oil Royalty Management

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.

Enhancing Local Benefits



The project consists of three components:

- ✓ **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.
- ✓ **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.
- ✓ **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.

IFC Products and Services

IFC focuses on where we add the most value and have mapped out the key sectors that correspond to core country needs, with an emphasis on those with significant impact potential. We offer a unique combination of Investment Products and Advisory Services.

Financial Products: IFC's traditional and largest activity is to finance private sector projects in developing countries. IFC provides loans, equity finance and quasi-equity. It also offers financial risk management products and intermediary finance.

Advisory Services: The Advisory Services Program for Latin America and the Caribbean is focused on improving the business climate for the private sector, on strengthening competitiveness of micro, small and medium enterprises and on enhancing the development impact of IFC's investments in key sectors.

