



**International  
Finance Corporation**  
World Bank Group

# Royalty Management

**Strategic Community Investment  
Sustainable Business Advisory**

IFC Advisory Services  
in Latin America and the Caribbean

# AS working hand in hand with IS: Why?

## Content

- Context
- Why Royalty Management?
- Why should companies get involved?
- IFC's approach
- Building capacity in municipalities
- Generating demand for accountability and good governance
- Results

# Context: What type of municipalities

## General Conditions

- ✓ Extractive activity often takes place in remote, poor, areas with limited access to basic services and infrastructure
- ✓ Royalties and taxes from mining and oil & gas projects generate substantial income for governments
- ✓ Absence of an effective government presence
- ✓ It is widely expected that extractive companies deliver benefits to the communities in their area of influence

## What happens when companies don't deliver ?

- ✓ Conflict, disruption of operations

## Companies face a challenge:

- ✓ How to translate their presence into benefits for the surrounding communities?
- ✓ **What can be done? How to do it?**

### Baños del Inca (2007)

• Population	35,000
• Poverty	53%
• Extremely poor	23%
• Lack of access to water	34%
• Lack of electricity	41%
• Illiteracy	18%

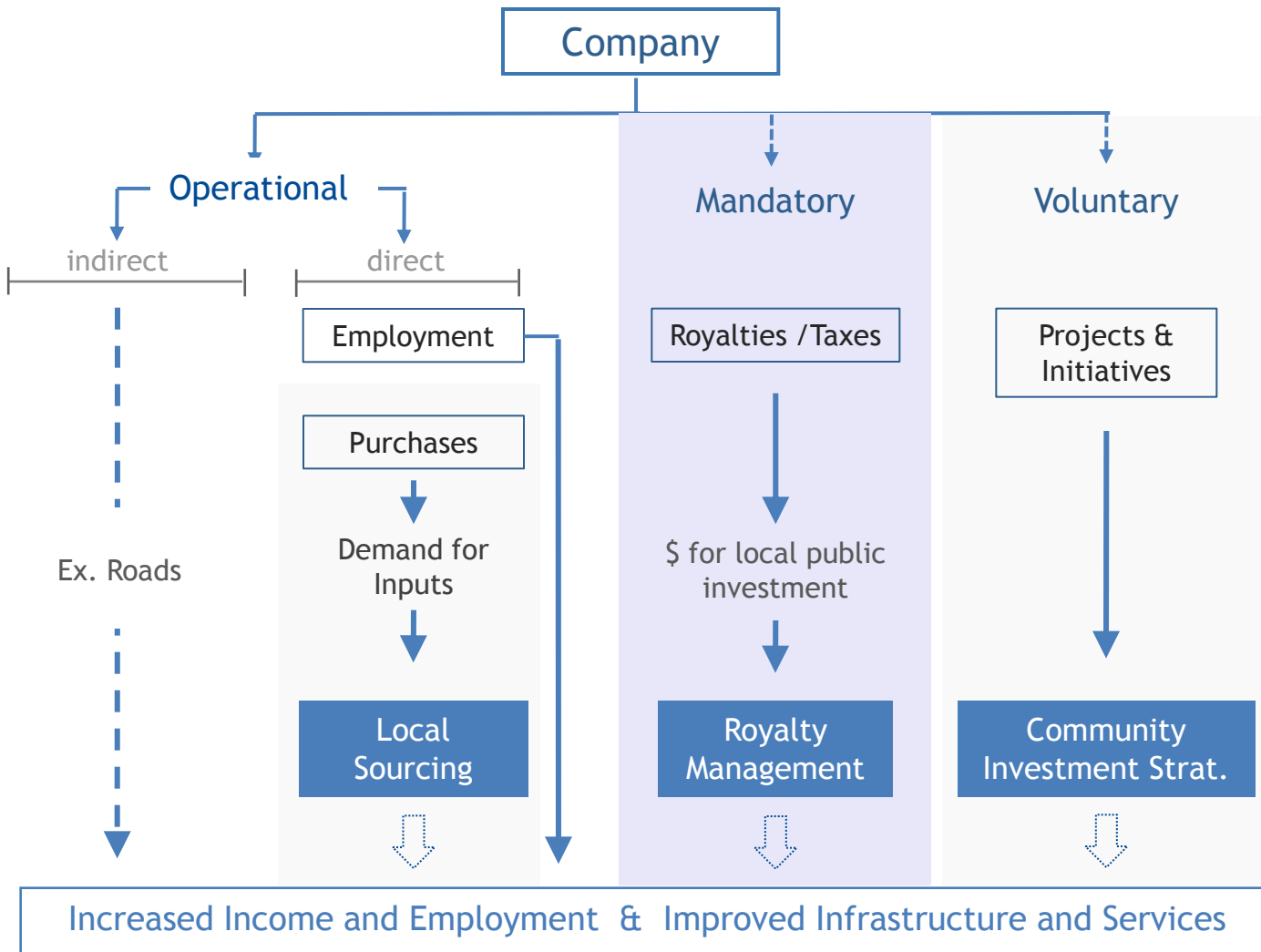
### Querocoto (2007)

• Population	9,300
• Poverty	74%
• Extremely poor	43%
• Lack of access to water	26%
• Lack of electricity	56%
• Illiteracy	12%

### La Mar (2007)

• Population	84,177
• Poverty	81%
• Extremely poor	54%
• Lack of access to water	81-89%
• Lack of electricity	45-92%
• Illiteracy	24.1%

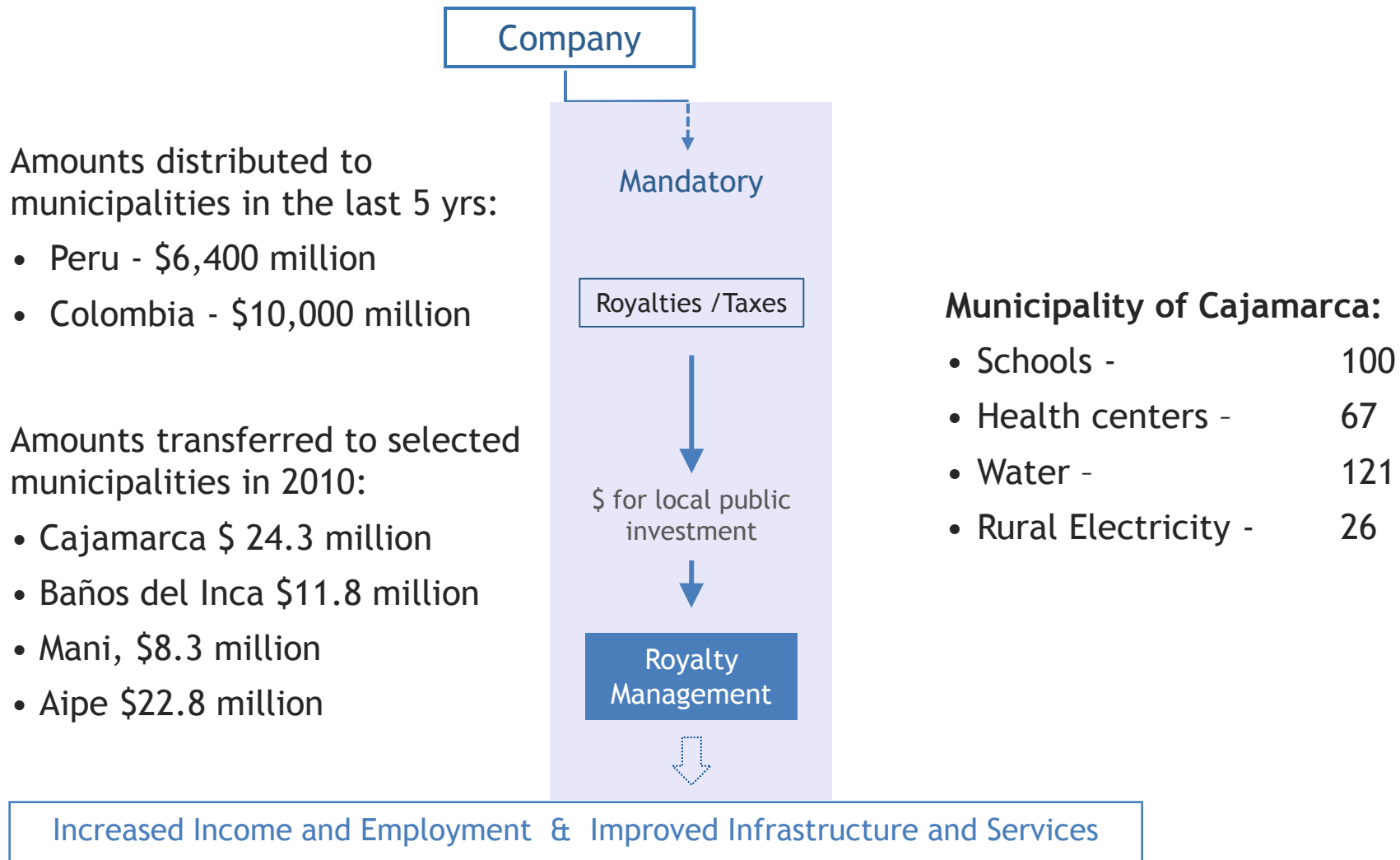
# Why RM? - Significant potential for impact



Increasingly a portion of royalties and taxes flow to local (municipal) governments

Benefits do not materialize automatically, as often restrictions impede resources being used to improve living conditions of the poor

# Why RM? - Significant potential for impact



# Why should companies get involved?

## The Challenge and Opportunity

### Objective:

- ✓ Help ensure communities receive benefits derived from the payments made by extractive activity companies

### Why:

- ✓ Win-Win-Win: it's everybody's business
- ✓ Tripartite solution to a public sector failure
- ✓ Allows for Government to do its job, instead of the company

### How:

- ✓ **Challenge:** Unleash a virtuous 4R circle
- ✓ Get key players involved: Local governments, CSOs, and Companies
- ✓ Support change with tools

### Unleashing a virtuous 4R circle



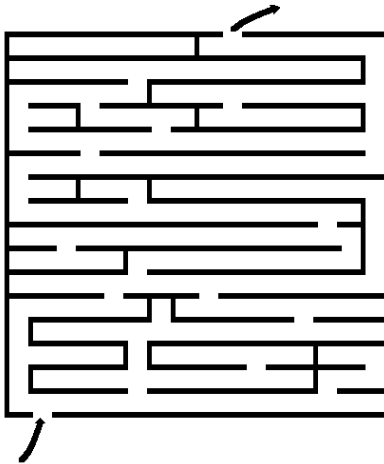
# RM: IFC's Push-Pull Approach

Help enhance the contribution of extractive industries (EI) to local development by working on both sides of the equation, with municipalities and civil society:

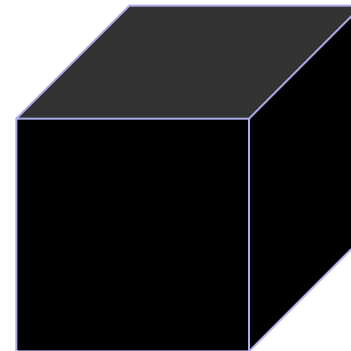
## Situation

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Local Governments often don't have the capacity to invest the revenues in projects that provide tangible benefits for residents



Communities are often unable to provide input, or monitor investment activity, let alone hold local authorities accountable



# RM: IFC's Push-Pull Approach

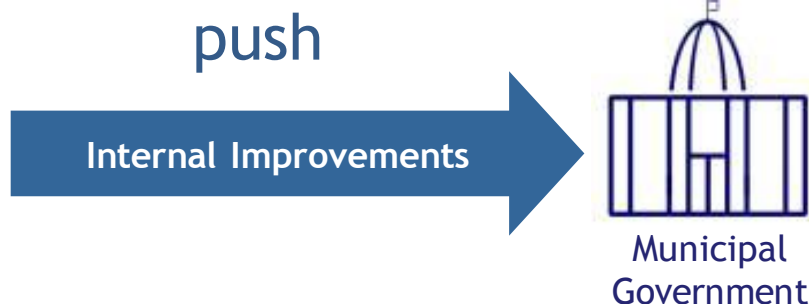
Help enhance the contribution of extractive industries (EI) to local development by working on both sides of the equation, with municipalities and civil society:



**1. Municipalities.-** Helping local governments improve their **capacity to invest** royalties in key sectors. IFC's focus is to ensure that municipalities have the necessary tools and know-how to improve investment execution and make sound investments,

**2. Civil Society.-** Enabling communities and CSOs to exercise their rights to ensure that authorities are **responsive and accountable** in their use of royalties. IFC does this by joining forces with local institutions.

# RM: Work with Municipalities



## How is the work organized:

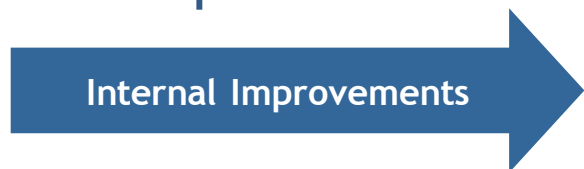
- ✓ Agreement with municipality
- ✓ Consultants applying IFC approach and methodologies
- ✓ Establish a relationship (regular visits)
- ✓ Work at two levels: in partnership with companies and sector wide

## Building blocks

- **Measure investment capacity systematically** - track evolution, compare with peers
- **Consider the whole investment cycle** and promote coordination across areas
- **Break down investment management in steps** and focus on introducing Good Practices in key ones
- **Involve the authority in monitoring investment:** Internal Accountability
- **Combine *in situ* capacity building** with on-demand support

# RM: Work with Municipalities

push



Municipal  
Government

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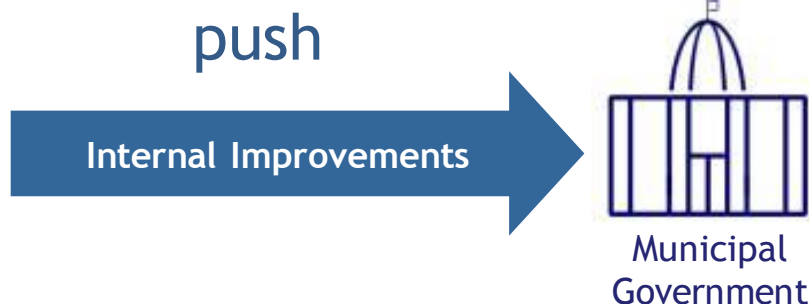
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## Municipio al Dia Platform

- 16,500 questions answered from 1115 municipalities
- 62% of the municipalities served are in rural areas
- More than 374,000 visits to FAQ (over 2.3 million to webpage)
- Survey : 96% important tool for their daily activities  
61% help them make more informed decisions

# RM: Work with Municipalities



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## Key Challenges:

- ✓ How to change attitudes, make officers receptive
- ✓ How to institutionalize change
- ✓ Provide help when needed

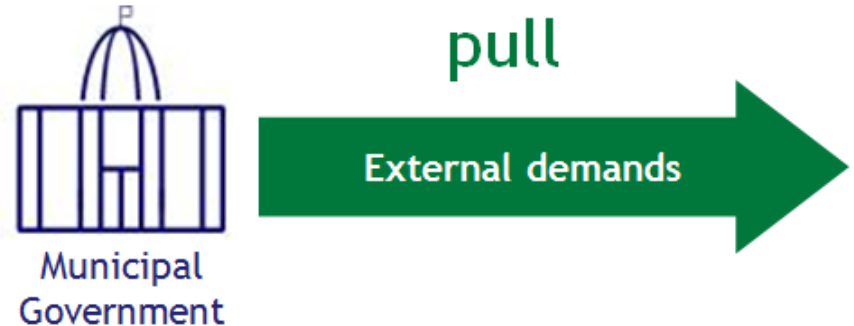
## Keys to success:

- ✓ Focus, do not do it all
- ✓ Quickly prove your usefulness, establish trust
- ✓ Use tools, guides (provide structure)

# RM: Work with Civil Society

## How is the work organized:

- ✓ Partnering with local institutions
- ✓ Trained technical teams
- ✓ Volunteers
- ✓ Network



## Relationship with the Media

- 599 journalists trained (usefulness 4/5)
- 4,230 media reports (free) ave. 21 per month
- 32 radios disseminate educational pills for free
- 3 offer free space (1 hr a week)

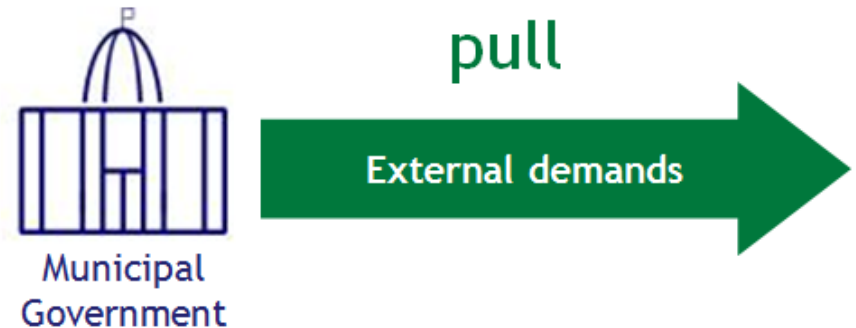
## Building Blocks

- Institutional structure (Credible, formal, competent)
- Information dissemination (Content, treatment, references, audiences)
- Capacity Building (Key players, media, oversight groups)
- Feedback to mayors (“voice”)
- Result tracking (what is being achieved)

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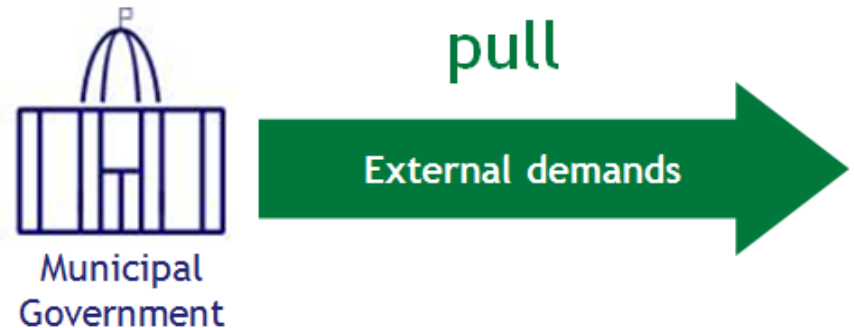
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## Key Challenges:

- ✓ Introduce a new dynamic in the relationship authority-citizen
- ✓ Separate informing, generating local debate, and acting as a bridge between citizens and authorities from engaging in advocacy.

## Keys to success:

- ✓ With information, more is not always better
- ✓ Inform often and in small amounts (findings)
- ✓ Establish presence and credibility - frequency/partners/principles
- ✓ Establish alliances with key players
- ✓ Content, content, content (has to be seen as useful and reliable)



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# Some Results: Aggregate

## Investment:

- ✓ Six projects working with 11 local governments in Peru and Colombia
- ✓ \$ 82 million invested by municipalities
- ✓ More than 500,000 people received access to or improved services (water, sewage, health, education, nutrition)

## Improved social accountability:

- ✓ 15 out of 18 municipalities showed increased accountability (80% success rate)\*.
- ✓ 163,174 people empowered (better understanding of royalties and municipal investment) to engage authorities and hold them to account.
- ✓ Access to information on royalties increased from 37.4% to 50.0%.
- ✓ Behavioral changes in key stakeholders such as CSOs, the media and authorities.

•\* According to APOYO consulting firm

# Example of Results: 3 municipalities

Project undertaken jointly with Peru LNG (Huamanga, La Mar, Huaytara)

## Conditions 2005:

- ✓ Very poor, mostly rural, municipalities
- ✓ Starting to receive resource transfers from the central government strategic government from gas pipeline
- ✓ The municipalities lacked the capacity to identify projects, let alone invest on them
- ✓ Residents not receiving tangible benefits. Uninformed and with little understanding they are unable to hold the mayor to account



## Results

- ✓ Municipal investment increased significantly. Between 2009 and 2010 the municipalities invested US\$ 9.5 million (over and above the baseline trend).
- ✓ Obtained additional transfers from the central government for \$3.9 million.
- ✓ Investment management improved 67% Huamanga, 80% La Mar, and 49% Huaytara.
- ✓ Key projects: Health to reduce chronic malnutrition in children (over 8,000 beneficiaries), drinking water (1,140), waste management system (1,300).
- ✓ Understanding of basic concepts of royalties (8.1% to 18.2%)

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# Results: Reaching People

## Municipality of Aipe

### School bus



“Student Transport” US\$ 2 million project

benefits 838 children

## Municipality of Mani

### Drinking Water



- 60% of the population had access to drinking water
- US\$ 1.9 million drinking water program that benefited 10,833 people

# Thank you