



Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 04-Mar-2019 | Report No: PIDC177194



BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P169919		Low	Colombia: Subnational Strengthening and Mainstreaming of Transparency in the Extractive Sector
Region	Country	Date PID Prepared	Estimated Date of Approval
LATIN AMERICA AND CARIBBEAN	Colombia	04-Mar-2019	
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	Ministry of Mines and Energy	Ministry of Mines and Energy	

Public Disclosure Copy

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	0.40
Total Financing	0.40
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	0.40
Extractives Global Programmatic Support	0.40

B. Introduction and Context

Country Context

1. The Republic of Colombia, an upper middle-income country, has retained its macro-economic stability despite high declines in commodity prices over the past few years. Between the years 2004-2014, Colombia had sustained a high average GDP growth rate of 4.8%. Oil production and mining activity were booming, following a surge in commodity prices. Subsequently, however, commodity prices fell, with oil process falling



to its lowest level in the past decade during the first quarter of calendar year 2016 (prices adjusted for inflation). Although this led to Colombia witnessing lower GDP growth rates, the country nevertheless performed relatively well on several macro-economic indicators; Gross Capital Formation, which was at a high of 26.72% of the GDP coinciding with the high commodity prices in 2015, still remained relatively stable at 23.39% of the GDP in 2017.[1] Colombia also made substantial progress towards poverty reduction during this period, especially in the rural areas.

2. Colombia has significant natural resource wealth, and the extractives sector remains critical to the economy. The majority of natural resource revenues come from oil. The country also possesses the largest coal reserves in Latin America, is the world's largest producer of emeralds, and has significant resources of gold and nickel. Colombia also produces natural gas, and has interesting potential for copper, iron ore and bauxite. The contribution of the sector to GDP, national revenues, exports, and dividends from State Owned Enterprises has decreased following declines in commodity prices. However, the sector still remains significant, accounting for 6.4% of the GDP and 5% of the national revenues in the year 2016.[2]

[1] <https://data.worldbank.org/country/colombia>, last visited on 14th November, 2018

[2] <https://eiti.org/colombia#revenue-collection>, last visited on 14th November, 2018

Sectoral and Institutional Context

1. Colombia has made significant progress in extractives sector governance by adopting a transparent mechanism for reporting extractive industries revenues. This is indeed significant and opportune, as having these mechanisms in place would enable Colombia to maximize its benefits from the next commodity boom, as commodity prices have been historically cyclic. Colombia has been implementing the Extractive Industries Transparency Initiative (EITI), a global standard for transparency and accountability in the extractives sector, since 2014. The country also established a National Tripartite Committee (CNT), comprising of representatives from the government, industry, and civil society organizations (CSOs) to steer the implementation of EITI in the country, assisted administratively by a National EITI secretariat housed in the Ministry of Mines and Energy, Government of Colombia.

EITI provides an avenue for disclosing company payments and government revenues from oil, gas and mining at the country level as well as other information about the extractive sector such as information about the legal framework and fiscal regime, contracts, licensing practices, state-owned companies, production, exports, etc. The above information is disclosed through annual EITI Reports compiled by an Independent Administrator (IA) that is hired by Colombia. These reports, as well as the other aspects of EITI implementation, are subject to periodic 'validation' commissioned by the International EITI Secretariat (Oslo), subsequent to which Colombia's compliance under the EITI Standard is determined by the EITI Board.



One of the benefits of EITI ‘validation’ is that it compares existing standards of data disclosure in Colombia to an international benchmark in order to determine the country’s progress under the EITI Standard.

2. Through the support of the World Bank, Colombia became the first country in the Latin-America and Caribbean (LAC) Region to achieve ‘satisfactory progress’ under EITI- the highest possible compliance rating. The World Bank, using the Extractive Global Programmatic Support (EGPS) Multi-Donor Trust Fund, had supported Colombia in implementing EITI through a recipient-executed small grant of USD 0.80 million under the project ‘Colombia: Extractive Industries Transparency Initiative Implementation (P106013)’. The project, which was operationalized shortly following Colombia’s acceptance as an EITI candidate country, helped establish the structures required to implement EITI, built capacity for EITI implementation in the country, and financed the publication of two annual EITI Reports that transparently published extractives sector data covering the calendar years 2013, and 2014-15[1]. The high quality of Colombia’s EITI Reports, and EITI process (including stakeholder consultations and advocacy) as a whole, resulted in the International EITI Board finding the country to have achieved ‘satisfactory progress’ following its EITI validation.[2]

Colombia is also a pioneer in several aspects of EITI, and the EITI validation report noted that the country had even surpassed the requirements of the EITI Standard on aspects such as disclosure of data on extractives contracts, revenue management and expenditures, economic contribution of the sector, and sub-national transfers of extractives revenues. In a first-of-its-kind effort, Colombia’s national transparency portal enables reporting companies and government entities, to disclose EITI data digitally, and after reconciliation (where applicable), discloses the EITI data online. Colombia’s 2016 EITI Report was the first 100% digital report in EITI globally, and was published online in December 2017.[3] Colombia has also leveraged EITI as a vehicle for transparent and accountable governance. Its ‘beneficial ownership’ roadmap includes recommendations for mainstreaming this requirement into national extractives sector governance through a national registry, and recommendations for including beneficial ownership information into requirements for awarding mining titles.

3. After the progress made thus far, it now becomes necessary to deepen the EITI process into the subnational level. Implementation of EITI in Colombia has thus far been at a national level, comprising mainly of data and dialogue with central agencies, and departments. In fact, one of the lessons learnt from the previous World Bank project that supported EITI implementation in Colombia was that the process could be linked more closely with national priorities and extractives sector governance by deepening support to municipal level governments, in order to enhance their transparent and accountable functioning, through disclosure of data required under EITI. This becomes especially important, given the large level of sub-national transfers of sector revenues to the regional and municipal governments in the country. This is also reiterated in Colombia’s EITI Reports, and Colombia’s 2019 EITI Action Plan, which note the need for decentralizing EITI into the country’s key extraction areas in order to: a) improve local government accountability in the use of public funds derived from the extractive sector, particularly with regard to royalties, which frequently contribute significantly to local finances; and b) lay the foundations for local tripartite dialogue.



A strategic first step in this regard would be to increase fiscal transparency in zones with significant extractive activity, where technical obstacles and insufficient political will, have thus far impeded transparency, by increasing local voice, participation and support for transparency efforts. Moreover, the information systems of certain agencies (mainly municipal), which could contribute to subnational EITI reporting, have in the past been weak, resulting in inadequate integration of municipal data to the country's extractive industry information systems, and in turn the country's sectoral management mechanisms and policies. Providing support to enhance and operationalize such municipal information systems would, therefore, also be vital towards deepening transparency in the country.

4. Additionally, the need for enhanced extractives sector transparency at the municipal level in Colombia, has been amplified by Legislative Act 05 of 2011, regulated by Law 1530 of 2012, which reformed the General System of Royalties (SGR). The said Act now mandates the distribution of royalties to *all* the country's departments and municipalities. It also enables the use of SGR funds for developing sustainable investment projects, unlike the previous system where they could only be invested in potable water, education and health. The law also created the Collective Organs of Administration and Planning (OCAD) and charged them with defining investment projects financed by the SGR. Comprised by representatives from the governors, mayors and national government, the OCAD seeks to increase transparency in the use of royalties.

Criticism of this new system includes assertions that (a) zones that suffer greater impacts caused by extractive activities now receive lesser funding than before; and b) with the new system has made investment projects approvals more difficult due to technical and operational difficulties. Moreover, citizen awareness raising is also required to enhance public understanding of the modalities of the SGR system, including how much funds are allocated to each municipality and department, and how investment projects are subsequently financed.

Thus, building citizen, municipal, and industry capacities, to understand the sector's revenue flows throughout the value chain and the SGR mechanism, will greatly bolster the implementation of SGR.

[1] For data on year 2014-15, see: <https://eiti.org/document/20142015-colombia-eiti-report>; the data for year 2016 is entirely online, see: <http://www.eiticolombia.gov.co/es/slider/informe-2016/>; last visited on 28th January, 2019.

[2] Colombia's EITI Validation Report is available here: <https://eiti.org/document/colombia-validation-2018>; last visited on 28th January, 2019.

[3] see: <http://www.eiticolombia.gov.co/es/slider/informe-2016/>; last visited on 28th January, 2019.



Relationship to CPF

1. The proposed project directly resonates with the World Bank’s Country Partnership Framework for Colombia (‘CPF’) for 2016-2021. Of the three pillars of the CPF, the proposed project will directly support (i) Pillar 1 (‘fostering balanced territorial development’), as it aligns with Objective 2 under the said pillar, i.e., ‘enhanced capacity for natural resource management in target regions’, and (ii) Pillar 3 (‘supporting fiscal sustainability and productivity’), as it aligns with Objective 5 under the said pillar, i.e., ‘improved fiscal management in support of fiscal consolidation’.

The proposed project will deepen the implementation of EITI into the sub-national level in Colombia in selected municipalities/regions, thereby enhancing the transparency and accountability of municipal institutions, national entities, and extractives companies operating in those selected regions/ municipalities. This, in turn, would foster enhanced capacity for natural resource management, and support improved governance across the extractive industries value chain in such prioritized regions/ municipalities. It would also facilitate the improved fiscal management of extractives sector revenues in Colombia, by enhancing fiscal data reporting on the extractives sector to the central government from municipalities, and thus in turn support efforts at fiscal consolidation, and improved and informed extractives sector governance, by the Government of Colombia.

Public Disclosure Copy

C. Project Development Objective(s)

Proposed Development Objective(s)

The project development objective is to support enhanced transparency and accountability in Colombia's extractives sector governance, by deepening the implementation of EITI into municipalities, and mainstreaming its use into governmental institutions.

Key Results

The key results expected from the project are as follows:

1. EITI implementation is deepened into selected regions/ municipalities, which are identified through prioritization studies;
2. Stakeholder (municipal/regional government, national institutions, industry, and civil society) capacity is built to support sub-national EITI implementation in in the four selected regions/ municipalities;
3. Sub-national EITI implementation structures are created, and a sub-national report is published, in each of the four selected regions/ municipalities;
4. Capacity is built in stakeholders (especially civil society and municipal government) in the four selected regions/ municipalities to facilitate informed, sustained and productive local dialogue on extractives sector governance; and



5. Use of the Colombia's online EITI platform by officials of data-providing agencies is enhanced at the selected regions/ municipalities.

The projects' long term outcome would be to inform the design of policies relating to transparency and accountability in the selected regions/ municipalities, where extractives investments have taken place.

D. Preliminary Description

Activities/Components

The project would comprise of the following components and activities:

1. Identification of four selected regions/ municipalities. From an initial list of regions/municipalities with significant extractives related activities, a prioritization study would be finalized which identifies four selected regions/ municipalities in which to implement EITI at the subnational level. The study would (i) perform a local stakeholder mapping, and make an assessment of the materiality factors across the extractive industries value chain, and the social dynamics in each of the selected regions/ municipalities (including with regard to stakeholder interests and power of influence), (ii) collect and assess information on citizens concerns through a field trip in order to refine the aforementioned assessment, (iii) within the first six months of the project, make a determination as to whether the scope of the work would be at the regional level ("departmental", in coordination with departmental governments, and municipalities within the department) or if it should be implemented directly by the municipalities; and (iv) subsequently and accordingly, identify four selected regions/ municipalities where the implementation of EITI locally would have the maximum developmental impact.

Outputs: A prioritization study identifying four selected regions/ municipalities for implementing EITI locally.

2. Stakeholder training, and capacity building. Capacity building and training activities will be delivered to stakeholders from selected regional/municipal governments, and civil society from the four pilot municipalities in order to (i) enhance their knowledge of the extractive sector governance, functioning of extractive industries, and associated regulatory, environmental, social and local-community related challenges, (ii) facilitate the identification of their information needs, and existing information gaps, with regard to transparent data disclosure pertaining to the extractives sector, and (iii) facilitate their development of a strategy for locally communicating information on the sector that is produced from EITI reports.

Capacity will also be built in industry, regional/municipal government, national institutions, and civil society in the four selected regions/ municipalities in order to facilitate (i) the enhanced use of the Colombia's direct online EITI data reporting platform, and (ii) where possible, the creation of local level multi-stakeholder groups to implement EITI in each of the selected regions/ municipalities.



Capacity will also be built in each subnational level multi-stakeholder group, upon their establishment, to facilitate their steering of the EITI process locally, and to facilitate their supervision of the creation of subnational EITI reports.

Outputs: (i) A municipal engagement strategy is developed by local stakeholders in each of the four selected regions/ municipalities; (ii) subnational level tripartite multi-stakeholder groups are established, one each in a minimum of 2 selected regions/ municipalities, to implement EITI sub nationally; (iii) at least 4 workshops are held, which build capacity in the subnational multi-stakeholder groups to steer EITI implementation locally, and (iv) a manual on the use of the Colombia's online EITI platform is developed and disseminated to officials of data-providing agencies at the four selected regions/ municipalities.

3. Supporting sub-national EITI reporting. Financial and technical assistance will be provided to the implementation of EITI in each of the four selected regions/ municipalities, through the project recipient agency, including with regard to (i) the production of a subnational EITI report in each selected region/ municipality, (ii) where possible, creation of subnational annual EITI workplans at the regional/municipal level. The sub-national EITI reports will subsequently be included in Colombia's national EITI Report.

The local EITI reports will contain information on (i) data-providing agencies, the data capture process, and data quality assurance mechanisms; (ii) information on how revenues are generated through different channels in the extractive sector at the municipal level; and (iii) data on how the royalties received by the municipalities have been spent or invested.

Outputs: (i) 4 agreed and attested subnational EITI data reporting templates are created, one for each selected region/municipality; (ii) 4 subnational EITI reports are published, one for each selected region/municipality, for inclusion in the national EITI Report of Colombia; and (iii) lessons learnt from the above exercise are crystallized, and a model reporting template is created for replicability in other regions/municipalities.

4. Supporting increased demand for transparency. The above-mentioned four sub-national EITI reports, and reporting templates, will be disseminated in 10 regions/municipalities, including the four selected regions/municipalities. Capacity will be built in local stakeholders, especially civil society, in the ten regions/municipalities in order to facilitate their understanding of the operations of the extractives sector, its challenges, and the contents of the sub-national EITI reports.

At the national level, the project will support the mainstreaming of transparency and accountability into public institutions governing the extractives sector by: (i) holding information and coordination meetings with the heads of transparency offices in relevant public agencies, (ii) holding formative discussions with public officials on methods to mainstream a culture of transparency and accountability in their own agencies, (iii) facilitating increased awareness of the benefits of public sector transparency by showcasing Colombian EITI as an example.



Outputs: (i) At least 3 dissemination and capacity building workshops, covering 10 relevant regions/municipalities, are held; (ii) A national level conference is held, to raise awareness on the benefits increased transparency and accountability in public institutions, showcasing Colombian EITI as an example.

Environmental and Social Standards Relevance

E. Relevant Standards

ESS Standards

Relevance

ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Not Currently Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
ESS 4	Community Health and Safety	Not Currently Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8	Cultural Heritage	Not Currently Relevant
ESS 9	Financial Intermediaries	Not Currently Relevant

Public Disclosure Copy

Legal Operational Policies

Safeguard Policies

Triggered

Explanation (Optional)

Projects on International Waterways OP 7.50

Projects in Disputed Areas OP 7.60

No

No

Summary of Screening of Environmental and Social Risks and Impacts

The implementing agency, Ministry of Mines and Energy (Ministerio de Minas y Energía), had developed the previous project "Colombia: Extractive Industries Transparency Initiative Implementation (P106013)" and achieved the required project indicators in a satisfactory manner. However, as the current project will require developing "Component 2. Stakeholder training, and capacity building, including environmental aspects". At the moment, EITI Colombia, leading by the Minminas, have included in the "Extractive industry Value Chain training program" Module 1: about the environmental process, including access to non-renewable natural resources; Contracts, licenses and generalities of the environmental license, permits,



authorizations or concessions of renewable natural resources follow-up to the extractive activity. The environmental risk is rated Low at the Concept stage, as this is an initiative which does not involve: any physical location, any on-the-ground physical infrastructure creation, any affectation to natural habitats or biodiversity, any direct generation of GHG or pollution. The Social risk is Low, as this is an initiative which does not involve any physical location, and does not involve any on-the-ground physical ***missing word. The main stakeholders relating to the project are extractive industries, government (national and local), and the citizens of Colombia. Extractive industries operating in Colombia ***not all of them surely? already comply with the EITI process at the national level, and the government of Colombia has been very committed to the process. Therefore, their continued support is expected at the municipal levels as well, even though capacity of municipal institutions is relatively weak. infrastructure creation, then the potential risk and impacts are minimal.

Public Disclosure Copy

CONTACT POINT

World Bank

Contact :	Javier Aguilar	Title :	Sr Mining Spec.
Telephone No :	473-0020	Email :	

Borrower/Client/Recipient

Borrower :	Ministry of Mines and Energy		
Contact :	Carolina Rojas Hayes	Title :	Vice Minister of Mines
Telephone No :	5712200300	Email :	crojas@minminas.gov.co

Implementing Agencies

Implementing Agency :	Ministry of Mines and Energy		
Contact :	Carolina Rojas Hayes	Title :	Vice Minister of Mines
Telephone No :	5712200300	Email :	crojas@minenergia.gov.co

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>