

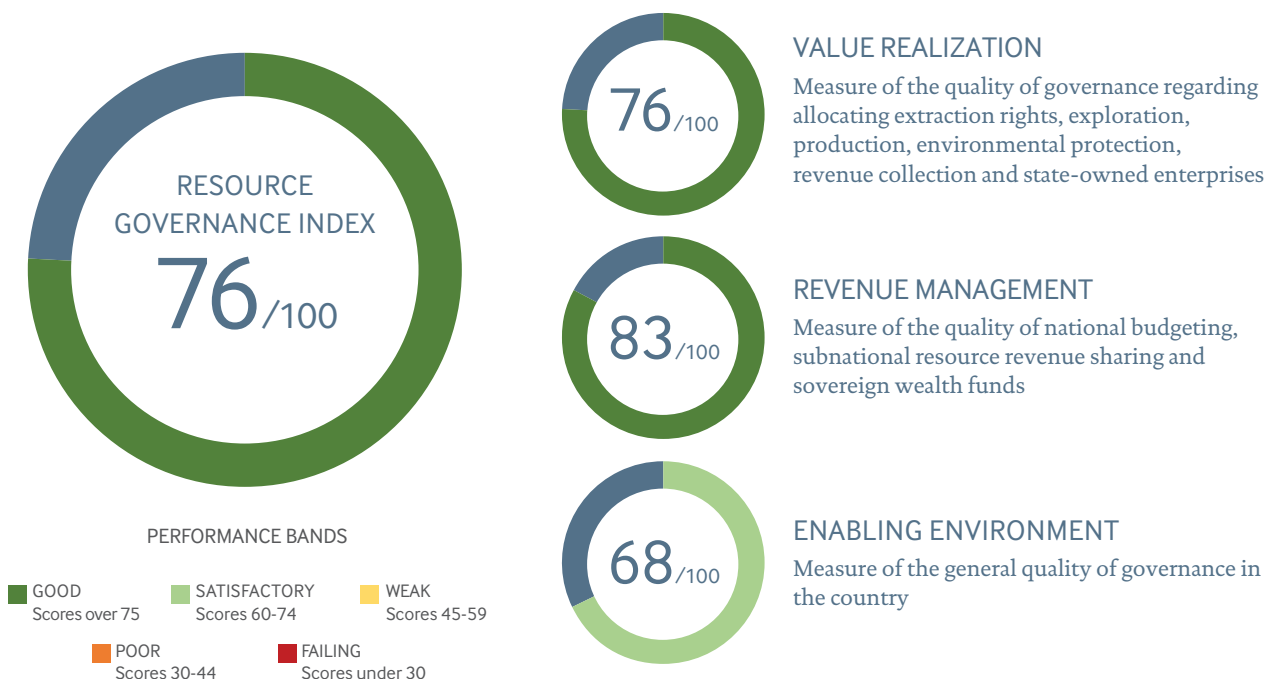
2021 Resource Governance Index Colombia



With a score of 76 points out of 100, the Colombia’s oil and gas sector has placed in the “good” performance band of the 2021 Resource Governance Index (RGI). The score is five points higher than in the 2017 RGI, and all scores for the constituent parts of the index were good or in the upper range of “satisfactory.”

- Colombia’s oil and gas revenue management received the highest score, at 83 points, thanks to transparency in royalties administration. Nonetheless, the disclosure of information from the state-owned enterprise and information on environmental licenses require improvement.
- The greatest gains have been reported in governance of local impacts. This score increased from 36 points in the RGI 2017 to 79 in the new edition, driven by improvements in the regulations on environmental impact assessments and mitigation plans. Weaknesses remain in both the regulations and real-world compliance around land rehabilitation, project closure, compensation and resettlement.
- Important progress has been made in the governance of licensing, contributing to positive results in the recent licensing rounds.
- There have been no advances in the transparency of payments by extractive companies to the government or companies’ beneficial ownership, even though both are commitments under Colombia’s membership in the Extractive Industries Transparency Initiative (EITI).

Colombia oil and gas: 2021 Resource Governance Index and component scores



2021 Resource Governance Index

RESOURCE GOVERNANCE INDEX RESULTS SUMMARY

Colombia recorded an average daily production of 780,000 barrels of oil in 2020, 12 percent lower than the average in 2019. The hydrocarbon sector accounts for around 5 percent of GDP, 40 percent of exports, and 12 percent of fiscal revenue.

The 2021 RGI assessment of oil and gas governance in Colombia shows progress. The sector climbed from a score of 71 in the 2017 RGI to 76, indicating a good level of governance. Progress is particularly notable on management of local impacts and the award of licenses.

Colombia oil and gas sector 2017 and 2021 Resource Governance Index scores

	2017 RGI score	2021 RGI score	Trend
RGI COMPOSITE SCORE	71	76	5
VALUE REALIZATION	59	76	17
Licensing	57	70	13
Taxation	72	80	8
Local impact	36	79	43
State-owned enterprises	73	74	1
REVENUE MANAGEMENT	85	83	-2
National budgeting	87	96	9
Subnational resource revenue sharing	70	78	8
Sovereign wealth funds	100	75	-25
ENABLING ENVIRONMENT	67	68	1
Voice and accountability	72	77	5
Government effectiveness	72	76	4
Regulatory quality	83	87	4
Rule of law	71	67	-4
Control of corruption	74	73	-1
Political stability and absence of violence	20	30	10
Open data	81	69	-12
LAW	69	79	10
PRACTICE	72	80	8
GAP (PRACTICE LESS LAW)	3	1	-2

VALUE REALIZATION

Licensing has improved, but more transparency is needed around environmental licensing and Ecopetrol sales

Colombia's governance of oil and gas has improved the most in the RGI's value realization component. Two of the four subcomponents that were previously problematic have improved significantly; these are the governance of licensing and local impacts.

Regarding licensing, Colombia worked actively in 2020 to perform "[area award rounds](#)," which were the bidding rounds or auctions of oil-rich areas. After several of years without an auction and despite the coronavirus pandemic, these rounds have been successful in attracting investment. One of the factors contributing to these good outcomes for awarding licenses may have been the regulatory improvements that offered greater clarity in the process and ensured disclosure of the participants in the pre- and post-award stages.

The registry of licenses, available at the National Hydrocarbons Agency (*Agencia Nacional de Hidrocarburos, ANH*) has been supplemented with an online geo-viewer to identify geo-referenced oil blocks, with information on their location and current state of exploitation. Nonetheless, there is still work to be done in licensing: legislation requiring the disclosure of the identities of companies' beneficial owners has not yet been passed.

The governance of local impacts has also evolved positively due to progress by the National Environmental Licensing Authority (*Autoridad Nacional de Licencias Ambientales, ANLA*) in developing regulations and implementing the VITAL platform. This platform facilitates the submission of environmental impact assessment procedures and mitigation plans, although access to this information is not yet available online. Public access to the environmental impact and mitigation plans through the VITAL platform will be a significant step forward.

The 2021 RGI has found no progress in compliance with rules governing the closure of oil and gas operations. There is significant environmental liability in areas that have not been rehabilitated, in many cases due to attacks on pipelines as well as failure to comply with environmental norms by operating companies.

Governance of state oil company Ecopetrol has placed in the satisfactory performance band. Nonetheless, the company could score higher by publishing information on procedures and results of its crude oil sales in the international market, as well as the expenditures of its Community Development Program. For Ecopetrol, these expenses are not comparable with the parafiscal expenditures for other state-owned enterprises, due to their low levels, but it is a best practice to publish disaggregated information on such social contributions.

2021

Resource Governance Index

REVENUE MANAGEMENT

Solid transparency practices and access to information, except for minor deteriorations by the Savings and Stabilization Fund

Colombia's results for the management of oil and gas revenue are similar to those for mining; royalties are managed in the same way. Although the 2021 RGI score dropped by 2 points compared to the 2017 RGI (from 85 to 83), it remains in the good performance band. This shift does not change the solid practices, robust transparency systems and access to information developed since the implementation of reforms in 2012. These practices are incorporated in the different platforms for the [General Royalties System](#) such as the royalties map, Gesproy, Sicodis and others.

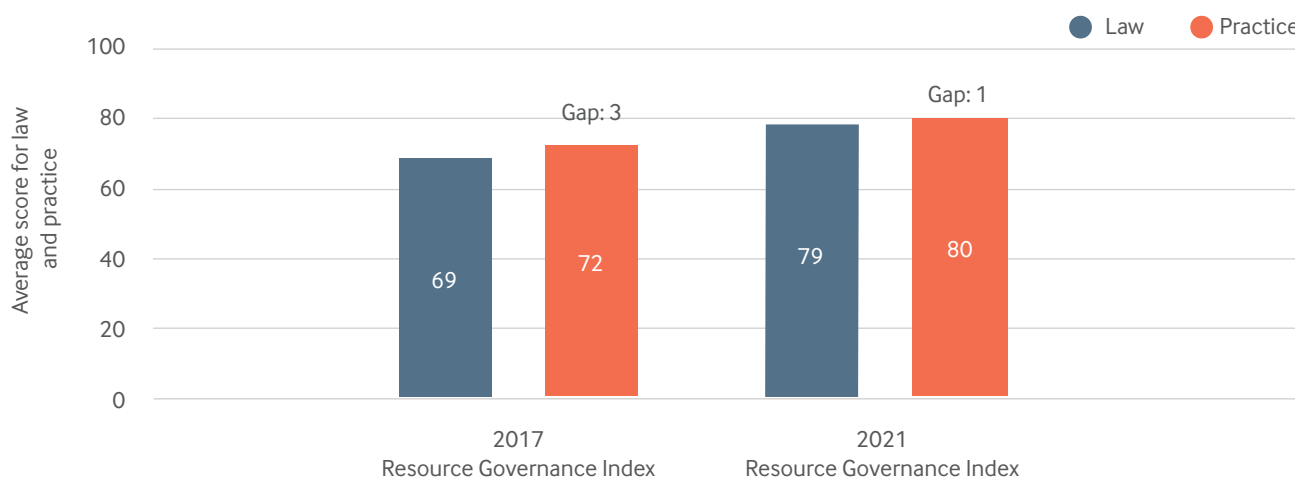
The slight drop in score is due to the lack of annual reporting from the Savings and Stabilization Fund (FAE). Previously, annual reports described deposits and withdrawals, as well as the details of investments and yields. For this assessment period (2019-2020), researchers were only able to access quarterly and monthly reports for the FAE. Although the importance of the FAE has diminished due to the reforms in the General Royalties System in 2020, the fund still administers significant resources for local territories, for which access to detailed information is necessary.

Political instability and violence remain significant detriments to oil and gas governance in Colombia. The poor score in this indicator reflects the persistence of armed conflict, violence, and numerous [killings of social movement leaders](#).

LAW AND PRACTICE SCORES

The 2017 RGI described an unexpected situation for the gap between the legal framework and its implementation, in which regulatory implementation outpaced legislative development. The 2021 RGI shows that this gap has narrowed as development of legislation and norms has advanced.

Evolution of the gap between law and practice in Colombia's oil and gas sector



2021 Resource Governance Index

PILOT QUESTIONS

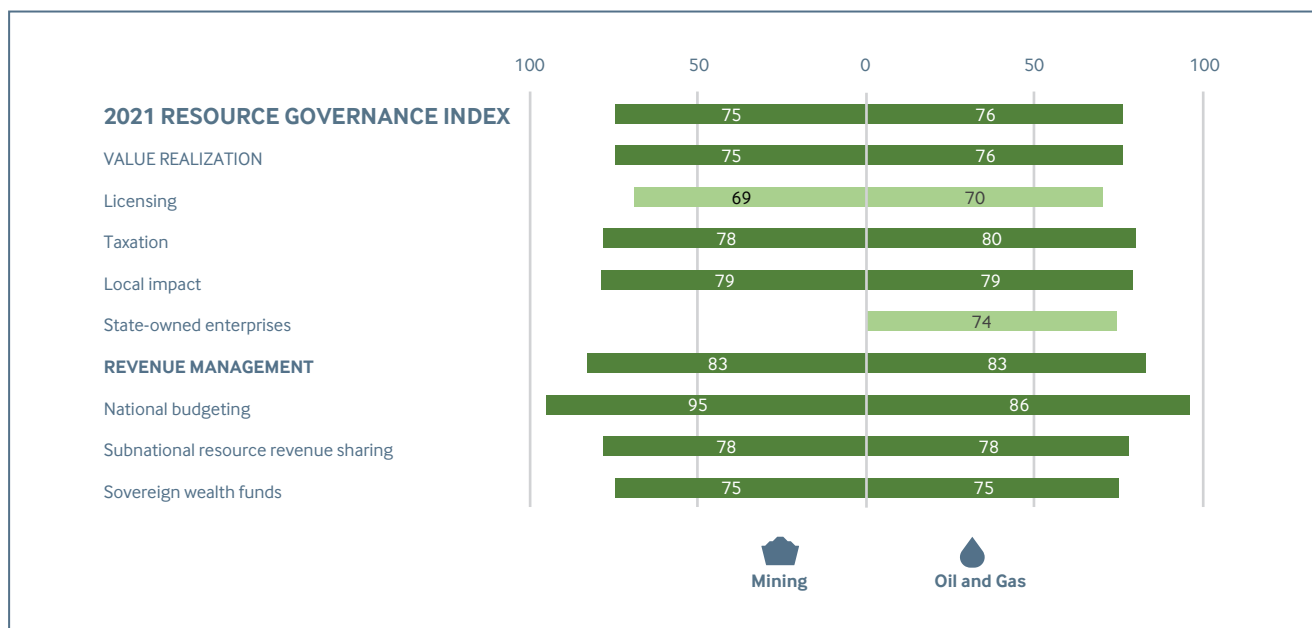
New questions in the RGI questionnaire, answers to which do not affect the overall score, reveal that the oil industry in Colombia is pursuing important vertical integration to meet the objective of ensuring fuel supply for the entire country.

There has also been progress on the energy transition. The Ministry of Mines and Energy has developed regulations to promote energy generation from renewable sources. Meanwhile the state-owned Ecopetrol has analyzed the risks of its investments in exploration in light of the implications of the energy transition regarding the evolution of oil demand and prices.

COMPARISON OF THE MINING AND OIL AND GAS SECTORS

In addition to the oil and gas sector, NRGi assessed Colombia’s mining sector. Since the 2017 RGI, both the mining and the oil and gas sectors have made positive strides, with similar scores (75 and 76 respectively), placing them in the “good” performance band. This reflects progress made in the development and implementation of both sectors’ regulatory frameworks.

Comparison between Colombia’s mining and oil and gas sectors in the 2021 Resource Governance Index



RECOMMENDATIONS



Given the importance of oil and gas exploitation as a source of tax revenue and exports, NRGi makes the following recommendations to improve governance of the oil and gas industry:

1. **The Congress of the Republic of Colombia** should pass legislation requiring disclosure of beneficial ownership information and payments made to the state by all mining companies. Both are requirements under the EITI standard to which Colombia is a party.
2. **The National Environmental Licensing Authority** should facilitate the online disclosure of environmental impact studies and mitigation plans and make use of the capacity of the VITAL platform to allow online access to environmental impact assessments, mitigation plans, and others, to ensure effective disclosure of environmental licensing.
3. **Ecopetrol** should disclose procedures and results for the sale of crude oil, and publish disaggregated information on social expenditures as part of its Community Development Program.
4. **The Ministry of the Treasury** should publish the annual reports of the Savings and Stabilization Fund. Although the regulatory framework for the sovereign wealth fund does not stipulate this, publication of an annual report disclosing deposits and withdrawals, as well as a detailed description of investments and their yields, is a best practice.
5. The **Vice-Ministry of Energy** should provide further information on Ecopetrol's plans and strategies to adapt to the energy transition, particularly on future investments in exploration and development, as well as the company's anticipated breakeven prices, considering the greater financial risk that comes with the future decline in oil demand.

What is the Resource Governance Index?

The 2021 RGI assesses how 18 resource-rich countries govern their oil, gas and mineral wealth. The index composite score is made up of three components. Two measure key characteristics of the extractives sector – value realization and revenue management – and a third captures the broader context of governance — the enabling environment. These three overarching dimensions of governance consist of 14 subcomponents, which comprise 51 indicators, which are calculated by aggregating 136 questions.

Independent researchers, overseen by NRGi, in each of the 18 countries completed a questionnaire to gather primary data on value realization and revenue management. For the third component, the RGI draws on external data from over 20 international organizations. The assessment covers the period 2019-2020. For more information on the index and how it was constructed, review the RGI Method Paper.