

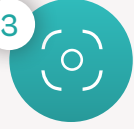
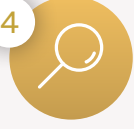




Diagnosing Corruption in the Extractives Sector: Colombia Case Study

November 2023

NRGI launched the first version of [Diagnosing Corruption in the Extractive Sector: A Tool for Research and Action](#) in September 2021, with the support of GIZ. This project sought to create an interactive and adaptable tool that anti-corruption actors could use to structure research, engage key stakeholders, and ultimately develop an evidence-based action plan to improve integrity in their country.

The process requires participants to follow six steps:

-  **1 Choose a sector and set goals:** The user identifies the sector or commodity that will be assessed and formulates a set of broad goals that describe the motivations for conducting the diagnosis.
-  **2 Review existing data:** Through desk research, the independent expert reviews a core set of existing data and analysis on corruption and governance in the country's extractive sector, flagging leading challenges and opportunities.
-  **3 Select the areas of focus:** Based on the Step 2 analysis and multi-stakeholder input, the user identifies the most relevant area of focus for in-depth analysis and eventual action planning.
-  **4 Diagnose corruption:** The independent expert then conducts in-depth research and analysis on the chosen area of focus to identify common forms of corruption, why they occur and how different actors might address them. Research methods include interviews, focus groups, desk research and surveys.
-  **5 Prioritize forms of corruption for action:** Drawing on the Step 4 findings and multi-stakeholder input, the user prioritizes which forms of corruption to address in the action planning.
-  **6 Develop an action plan:** With support from the independent expert, the user engages a relevant set of stakeholders to develop an action plan targeting the forms of corruption prioritized in Step 5. Dissemination, implementation and monitoring then ensue.

How was the process carried out in Colombia?

In Colombia, the corruption diagnostic process was carried out by Crudo Transparente, a Colombian NGO focused on creating an open, informed, and responsible energy sector, with support from the Leveraging Transparency to Reduce Corruption (LTRC) project. The analysis took a subnational rather than national focus, concentrating on the experience of the Tauramena and Maní municipalities in Colombia's Department of Casanare. This allowed the process to look at problems in detail and understand where disagreements with or dysfunctionality of central government activity contributes to corruption risks.

Unlike other initial uses of the corruption diagnostic tool in Mongolia and the Philippines, this process was not carried out through the Colombia's Extractive Industries Transparency Initiative (EITI) Multi-Stakeholder Group. While Crudo Transparente presented the project to EITI-Colombia stakeholders before its start to ensure future engagement and collaboration, its implementation was led by the NGO alone. While this may have allowed some of the diagnostic steps to move forward faster and more efficiently, there were also challenges regarding participation (particularly of oil companies) and buy-in for the action plan from government entities.



Step 1: Choose sector and set goals

Crudo Transparente decided to focus on the **oil sector** given its importance to the national economy as a whole and to the economy of Casanare in particular. Casanare is the second-largest oil-producing department in the country. Within the department, Tauramena is the top-producing municipality, while Maní has a medium-low level of production. The two municipalities were selected because of the different importance of oil in their economies, so that the diagnostic covers two different case studies.

The key goals of the assessment were to:

- Identify the most persistent risks of corruption in the oil industry in Tauramena and Maní.
- Strengthen communication and engagement among oil industry stakeholders to promote greater transparency in the oil industry.



Step 2: Review existing data

This review used the guidance provided by NRGi as part of the diagnostic tool. It took about one month to complete the review, which drew on NRGi's *2021 Index of Governance of Natural Resources: Colombia*, the Corruption Perceptions Index from Transparencia por Colombia, Ecopetrol's 2021 Integrated Sustainable Management Report, the Extractive Industries Transparency Initiative's (EITI's) Colombia EITI Report for 2019, and media reports on oil-industry corruption.

The review analysed the key corruption risks in main stages of the value chain and with regards to key relevant thematic areas. These included decision-making, approvals, and contracting, operations, revenue collection, income management, management of state-oil companies, and the energy transition.

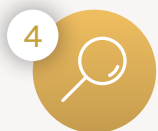


Step 3: Select area of focus

The review and its findings were presented at a multistakeholder workshop involving 33 participants. The participants included representatives from civil society (social organizations, community action committees, and unions); public officials (congress members, government secretaries, and energy and mining liaison officers); and companies serving the oil industry (environmental clean-up, transportation, and food provision). Regrettably, no representatives from the oil sector operating companies attended the workshop despite being invited.

Participants at the workshop selected high-priority areas of concern, based on an assessment of their significance, the seriousness of corruption in this area, and the opportunities to act and achieve positive change. These were environmental licensing, oil industry recruitment, community consultations, the procurement of goods and services, and royalty management, with an overarching focus on operations

- **Economic incentives to prevent inclusive community participation**, with economic incentives to attend creating conflicts within communities between those who do and those who do not.
- **Irregularities in recruitment and hiring**, with operating companies using unclear hiring criteria and continuing to hire staff from outside of the region despite local content requirements and allegations that local officials issue false residency certificates in exchange for bribes. These issues are compounded by a lack of presence of the Ministry of Labour in the region.
- **Irregularities in the procurement of goods and services**, with a perception that local vendors have been excluded or receive lower prices and calls to bid conducted in an untimely and non-transparent manner.
- **Misuse of royalties**, with issues around unnecessary and unfinished projects, concerns around conflicts of interest between companies hired to monitor progress and the contractors (who are their clients), issues around the quality of investigations by the Attorney General and Comptroller which do not have a continuous presence in the department, and lack of community oversight, with corruption risks heightened by a lack of oversight and accountability mechanisms.



Step 4: Diagnose corruption

With key sub-areas of focus identified as priorities, further in-depth research was carried out into the nature of corruption in these areas:

- **Irregularities in environmental licensing and auditing**, with concerns about the accuracy of environmental impact studies linked to conflicts of interest regarding the consultants conducting the study and the oil company (who are also their client) and the lack of institutional presence and resources for environmental authorities in the region creating a reliance on fees paid by operating companies and the risks of conflicts of interest.



Step 5: Prioritize for action

The findings of Step 4 were presented to a group of stakeholders, including 28 attendees/officials from the municipal city halls, government secretaries, congress members, contractor companies from the hydrocarbon industry, and members of social organizations, JACs, and unions (again, the operating companies did not attend the event despite being invited). The issues above were ranked in the following order relation to their likelihood of occurring, the potential damage they could cause, and the feasibility of progress in addressing them:

- Recruitment of staff who live outside the region in violation of regulations
- Lack of rigor in the environmental licensing process (=2nd)
- Economic incentives for environmental officials to approve environmental licenses and audits (= 2nd)
- Use of royalty monies for unnecessary and unfinished projects (= 2nd)
- Operating companies use their negotiating leverage to set vendor rates below market value
- Economic incentives to community members in exchange for their attendance at public forums



Step 6: Develop an action plan:

The action plan was split into six objectives, specifying the actors involved, the expected timeframe, next steps, and indicators of progress for each of the actions identified. It was presented in two events. The first event took place in the municipality of Aguazul, Casanare. This was to share the action plan with all the people involved during the process, in addition to deliver the document to local authorities and community representatives for their appropriation and implementation in the territories. More than 20 social leaders, congress members, mayor delegates and union representatives attended this event, both from Maní and Tauramena.

The second event took place in Bogotá, the country's capital. It aimed to share the action plan with representatives of academia, civil society organizations, and citizens interested in the fight against corruption in the extractive sector. Although the plan is specific to Casanare, it can be adapted by other Colombian oil-producing regions facing the same challenges.

Summary of actions:

- **Objective 1: Strengthen mechanisms related to environmental impact studies.** Actions include strategies to improve oversight of environmental licensing, developing protocols to promote rigor and strengthen the independence of environmental impact studies, and increased regional presence of environmental authorities.
- **Objective 2: Increase the institutional presence of environmental authorities in oil-producing municipalities.** Actions include increasing the budget of environmental authorities to strengthen technical and personnel capacity, incorporating environmental authorities into the national hydrocarbon strategy, and ensuring that regional autonomous corporations are more transparent and accountable.
- **Objective 3: Improve communication between communities and companies.** Actions include operating companies providing better training for staff on conducting community consultation, more accessible publication of information, and better incorporation of community member input into environmental authorities' work.
- **Objective 4: Improve transparency of staff recruitment.** Actions include creating oil industry recruitment procedures, more training for prospective local workers, and greater citizen, union and social organization, and Ministry of Labor oversight processes.
- **Objective 5: Improve the negotiation capacity of local vendors of goods and services.** Actions included measures to prioritize local vendors for procurement, create a list of local vendors, increase the use of open bidding and bidding information dissemination, and stronger monitoring and complaints mechanisms.
- **Objective 6: Increase transparency in royalty management.** Actions include increased availability of information on projects and royalties, strengthened citizen oversight of royalty-funded projects, and strengthening inspections and sanctions regarding royalties, including via greater whistleblower protection.