Enhancing Local Benefits from extractive industries investments:
the public investment channel

Javier Aguilar, ELB program manager
EI week, Washington DC, March 2009
**Enhancing** managerial and oversight capacities for reaching **Local** communities which expect to (should) receive tangible **Benefits** from extractive industries investments.
Outline

1. The Public Investment Channel: ELB’s framework
2. IFC’s ELB Advisory Program: LAC experience
3. Building blocks: adjustable to country context
1. The Public Investment Channel: ELB’s framework

- Importance of benefiting communities affected by extractive industries investments:
  - clear macro benefits: taxation, fiscal revenues, exports
  - what are the actual/expected local benefits?

- Alternatives: CSR, Procurement, Employment, Fiscal outreach
Extractive Industry Companies Yields Benefits to Communities

1. The Public Investment Channel: ELB’s framework

Amount invested depends on the company

- Royalties, Revenues and Taxes to Government
- Suppliers, spin off businesses
- Employment
- Community Investment

The Public Investment Channel:

- ELB’s framework

Amount invested depends on the company
1. The Public Investment Channel: ELB’s framework

- **Government** (national, subnational) **responsibilities**: to provide access to basic services, rural infrastructure and technical assistance

- **Restriccions**: mandatory (voluntary), defined public sector rules (private)

- **Source of fiscal revenue**: tax, royalty or participation

- **Legal foundation**: single contract, sectoral law, decentralization framework

- **Design**: share, distribution, allocation, administration, reporting, accountability
The Challenge: Support EI investments in effectively contributing to local development.

1. The Public Investment Channel: ELB’s framework

The 4R circle

1. Resources
   Associated to extractive industries’ operations

2. Results
   Improved services
   Satisfied basic needs

3. Recognition
   Of the impact that extractive industries can have

4. Receptivity
   from the population towards Extractive industries
2. IFC’s ELB Advisory Program: LAC experience

- Started operations in LAC on March 2005

**Objective**

Enhancing the development performance of large investments from oil, gas and mining sectors.

- Focused on extractive industries: Royalties at the sub-national level

We provide advisory services on:

- **Revenue Management**: Improve local public investment performance financed by royalty transfers.
- **Social Accountability**: Empower civil society to help local governments become socially accountable.
Situation of EI in Peru and Colombia

High royalties flows BUT local poor communities are not benefiting – high potential for development impact.

• missing opportunity for local development

• negative effect on EI investment in the region.

How we are doing it:

Pilot: Cajamarca (Yanacocha) capacity building/monitoring
Publicize Results: Industry fora/Business Development
Replicate: Peru/Colombia – Several OGM companies
Scale up: Industry Programs in Peru and Colombia/Toolkits
Example: Baños del Inca, Cajamarca

- **Objective**: improve local government use of mining royalties for public investment

**Results**

Municipal investment increased from $1.4 mm (2004) to $6.7 mm (2006).

- Key sectors targeted: health & education (41%), electricity and infrastructure (21%), local economic development (28%).
Example: Baños del Inca, Cajamarca
- **Objective**: Empower civil society to help local governments become socially accountable

---

**Results**

The MIM increased:

i) population’s access to information from 39% to 60%;

ii) awareness of their right to request information on the use of mining royalties flows from 45.6% to 58.5%
Revenue Management

- 9 active projects in Peru and Colombia
- 750 municipalities served – direct assistance to 15
- Almost all of them in frontier regions

Clients and companies:
- PLNG
- BPZ
- Rio Tinto
- Ecopetrol
- Chinalco
- Yanacocha
- Vale

Donors:
USAID, DFID, Netherlands, Norway
Social Accountability

- 2 industry programas in Peru and Colombia
- 9 regions being monitored
- Almost all of them in frontier regions
- Activities in Peru integrated into the EITI national workplan

MIM – Peru in numbers
- 5 MIMs created and operating
- 27 local institutions engaged
- 12 municipalidades being monitored
  (22% of the Mining Canon transfered)
- 1 active MIM National Network

Partners:
6 Universities, 5 Chambers of Commerce
12 Professional Associations, 2 NGOs
Ministry of Energy and Mines
ECOPETROL

Donors:
DFID, Norway, USAID, CIDA, Spain, CommDev
Institutional arrangement:
Agent to be supported

- From Centralized to Decentralized fiscal arrangements (cash transfers, Chinese preference, intergovernmental)

Different perspectives / objectives:

- Government: to get the proper regulatory framework and the right capacities
- Communities: to get tangible benefits in the short run
- Companies: to demonstrate contribution to development impact
3. Building blocks: adjustable to country context

- Business case (investment related, ownership, cost sharing)
- Approach (push-pull)
- Expertise (public investment, stakeholder engagement)
- Tools (assessment, implementation, citizen report card)
- Delivery model (platform, training, coaching, practices)
ELB’s Approach

**Internal Improvements**
- **Municipal Government**
  - Providing technical support for investment management
  - Promoting the adoption of tools and practices to improve investment management

**External demands**
- **Civil Society**
  - Monitoring receipts and investment
  - Making a “voice” mechanism available
  - Promoting a dialogue between local government and CS

**Component 1:**
Improving Municipal Investment Management

**Component 2:**
Promoting Social Accountability
Expertise: MIM Operations in a nutshell

- Information handling
- Monitoring of key indicators
- Information dissemination
- Debate stimulation
Introducing investment management standards for evaluating and assessing municipalities’ practices

• Consider the whole investment cycle
• Identify “good practices” for each step
• Evaluate existing practices against “good practices”

• Identifies week areas that need to be improved
• Introduces a standard for assessing municipal investment management
• Provides a Baseline for the municipalities in the program
• Allows for municipalities to be compared (ranked)
• Allows for impact of capacity building efforts to be assessed
Tools: Good Practice Modules

Guides to support the adoption of “good practices” that help improve investment management

- Practice modules focus on key aspects
- Provide a step by step guide, as well as supporting material, to facilitate adoption

- Focuses on critical aspects that are restrictions common to many municipalities
- Breaks them down into “small” manageable improvements
- Emphasizes “the way things are done” to promote institutionalization of changes
- Helps ensure that improvements obtained are sustainable
Delivery model: Municipal support

- Discussion Forum
- Service Platform
- Rules
- Assessment Methodology
- Good Practice Modules
- Consultations
3. Building blocks: adjustable to country context

Operational model (roles for sponsor, advisor, beneficiary):

Public good

+ Social license to operate

+ Stakeholder engagement

= Public Private Partnership
Companies, Partners and Donors

C1: Investment Management

COMPANIES
• Yanacocha
• BPZ
• PLNG
• Rio Tinto
• Chinalco

PARTNERS
• IEP
• SNMPE
• CONFIEP
• PCM
• MEM

DONORS
• CommDev
• CIDA
• USAID
• DFID

COMPANIES
• Ecopetrol (National oil company)
• Occidental de Colombia
• Hocol
• Pacific Rubiales
• Oleoducto de Colombia
• OCENSA

PARTNERS
• Nacional Planning Department (Government)
• Colombian Association of Petroleum (ACP)
• ECOPETROL
• National Agency of Hydrocarbon (ANH)

DONORS
• CommDev
• Norwegian Ministry of Foreign Affairs, Spanish TF

COLOMBIA

PERU
Enhancing managerial and oversight capacities for reaching Local communities which expect to (should) receive tangible Benefits from extractive industries investments
ELB contacts:

• Javier Aguilar P. : jaguilar@ifc.org
• Fernando Ruiz-Mier : fruizmier@ifc.org
• Duval Zambrano : dzambrano@ifc.org