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Diagnosing and Addressing Oil Industry Corruption in Colombia's Casanare Department

Bogotá, Colombia

RESULTS FOR DEVELOPMENT

Natural Resource Governance Institute

CRUDOTRANSPARENTE

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ABOUT CRUDO TRANSPARENTE

Crudo Transparente is a civil society organization funded in 2014 that analyzes and produces economic, social, environmental, and political information related to the extractive sector in Colombia. It promotes transparency, accountability, and mechanisms of trust generation among the different actors: communities, authorities, and companies. Our goal is to contribute to the informed debate and decision-making processes to improve the governance of natural resources, especially oil, and gas, and the investment from their exploitation. Crudo Transparente is part of the EITI Colombia's Multi-Stakeholder Group, Civil Society Table for Transparency in the Extractive Industries, and The Platform for Sustainable Reactivation (PLARS).

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Contents

Abbreviations and Acronyms

ANH	National Hydrocarbons Agency (*Agencia Nacional de Hidrocarburos*)
ANLA	National Authority of Environmental Licenses (*Autoridad Nacional de Licencias Ambientales*)
BPD	barrels per day
CARs	autonomous corporations (*corporaciones autónomas regionales*)
COP	Colombian peso
DFI	direct foreign investment
EITI	Extractive Industries Transparency Initiative
ETH	Territorial Hydrocarbons Strategy (*Estrategia Territorial de Hidrocarburos*)
JAC	community action committee (*junta de acción comunal*)
MWp	megawatt peak
NRGI	Natural Resource Governance Institute
OCADs	Collegiate Bodies of Management and Decision (*Órganos Colegiados de Administración y Decisión*)
R4D	Results for Development
SGR	General System of Royalties (*Sistema General de Regalías*)
SIC	Superintendency of Industry and Commerce

Introduction

The oil industry is a pillar of Colombia's economy. More than a third of the country's exports come from this industry, according to the country's National Administrative Department of Statistics[1]—which means that performance in oil-related activities directly affects the national economy. One major challenge to improving performance in this sector is corruption risks. Addressing this challenge will require greater transparency in the oil industry as well as stronger governance—both of which could also contribute to mitigating environmental impacts from oil extraction and benefiting communities in oil-producing areas.

This study used a tool developed by the Natural Resource Governance Institute (NRGI) for diagnosing corruption in the extractive industries and applied it to the oil industry in the municipalities of Tauramena and Maní in Colombia's department of Casanare. The tool provides a way to identify corruption risks with the highest probability of occurring and the greatest potential to cause damage and then to develop an action plan aimed at reducing those risks. Casanare was chosen for the study because it is the second-largest oil-producing department in the country. Tauramena is the top-producing municipality in the department, while Maní has a medium-low level of production. Collecting information from contrasting contexts yielded a diagnosis of potential risks of corruption in the oil industry in Casanare more generally.

This study and the resulting action plan take a regional perspective because solutions dictated from Bogotá do not always consider the needs of the country's outer regions and can lead to conflicts between those regions. The inclusion of the regional perspective allows for a more comprehensive approach to addressing the risks of corruption in Colombia's oil industry.

The study began with a desk review to identify the most significant risks of corruption in the industry—specifically, in each of the four stages of the value chain (environmental licensing, staff recruitment, procurement of goods and services, and royalty management) as well as in two general topic areas proposed by the NRGI tool. This information was presented in a workshop attended by oil industry stakeholders from both municipalities.

The next phase of the study involved interviews with representatives of groups with close connections to the hydrocarbon industry, to identify the most concerning forms of corruption, their main causes, and possible strategies for mitigating the risks. Those findings were communicated in a second workshop, where the participants categorized the forms of corruption by likelihood of occurring, potential impact, and feasibility of positive change.

The information collected in the interviews and the two workshops informed the resulting action plan, which will require all the stakeholder groups to work together to strengthen governance of natural resources in Colombia.

Note that this study focuses on risks of corruption and building inclusive strategies to reduce those risks. It does not seek to accuse any actor or institution of corruption.

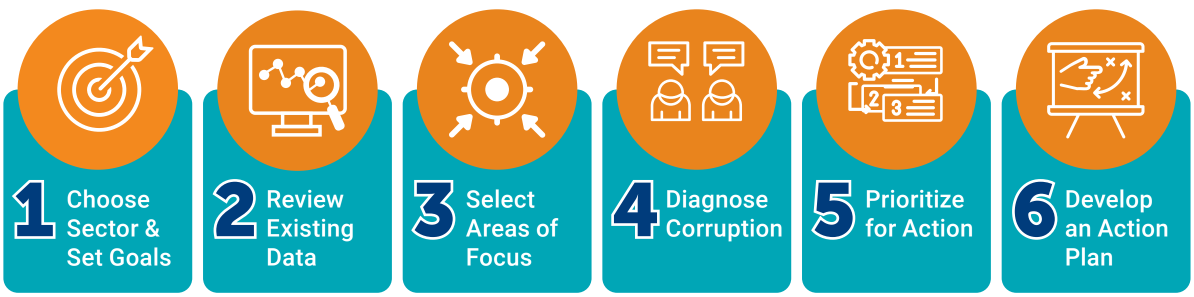
Methodology

The study adapted the corruption diagnosis tool created by NRGI for a regional rather than national focus. Casanare was selected for the study because it is the second-largest oil-producing department in the country, at 128,000 barrels per day (BPD), and because of its economy's dependence on oil-related activities. Tauramena is the largest oil-producing municipality in the department; Maní has a medium-low level of production. The contrasting characteristics of these municipalities allowed for important comparative analysis.

The NRGI tool lays out a six-step process to diagnose corruption risks and develop an action plan, as shown in Figure 1.

FIGURE 1. **The NRGI Tool's Six-Step Process**[2]

The study followed the six steps as described below.



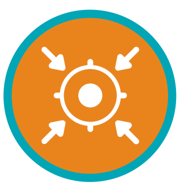
1. **Select an industry sector and define the goals of the analysis.** The study chose the oil sector from among the options of oil, gas, and mining.

2. **Analyze existing data.** Using guiding questions from the workbook for the NRGI tool, information was compiled from NRGI's *2021 Resource Governance Index, Colombia*,[3] the *Corruption Perceptions Index* from Transparencia por Colombia,[4] Ecopetrol's *2021 Integrated Sustainable Management Report*,[5] the Extractive Industries Transparency Initiative's (EITI's) *Colombia EITI Report for 2019*,[6] and media reports on oil industry corruption. The most relevant risks within the sector were identified and categorized by their stage in the value chain or general topic area. (See Table 1.)

Table 1. Four Phases of the Value Chain and Two Topic Areas

PHASE OR TOPIC AREA	DESCRIPTION
Decision-making, approvals, and contracting	This phase includes decision-making about approving oil exploration/exploitation, including licensing, assigning exploitation/exploration rights, and environmental approvals.
Operations	This phase includes activities related to oil exploration/exploitation, including managing socioeconomic and environmental impacts, procuring goods and services, and recruiting staff.
Revenue collection	This phase includes state revenue collection through taxes, royalties, fees, dividends, prime material commercialization, and so forth.
Income management	This phase involves managing and dispersing income from oil production, including transferring royalties, hydrocarbon-backed loans, and so forth.
Management of state oil companies	This topic area includes managing bidding and regulation, collecting and managing income, and commercial functions such as production, refining, distribution, and commercialization.
Energy transition	This topic area includes analysis of how the energy transition could be impeded by corruption in the oil industry.

Source: Adapted from Gillies et al.[2]



3. Select the areas of interest. A workshop was held to communicate the findings from step 2 to stakeholders from both municipalities and identify stages in the chain value with the most significant risks of corruption.

4. Diagnose corruption risks. Building on the results of step 3, interviews were conducted with oil industry stakeholders to delve further into the main forms of corruption in the industry, the possible causes, and strategies to reduce risks. The orientation of the research was informed by an internal NRGI document that discusses forms of corruption and aggregates some news reports and corruption indexes.

5. Prioritize forms of corruption for action. A second workshop was held to prioritize the forms of corruption identified in the previous steps and consider their likelihood, their potential impact, and the feasibility of positive change.

6. Develop an action plan. Based on the second workshop, a series of strategies was developed, leading to the creation of a plan with actions and goals for the short, medium, and long terms.

Geographic Context

Casanare is located on Colombia's Eastern Plains (*Llanos Orientales*), which are in the Orinoco River basin and extend across the Eastern Range (*Cordillera Oriental*) of the Andes (see Figure 2). Tauramena is located on the spurs of the Eastern Range in the southwestern part of the department, 65 kilometers from Yopal, Casanare's capital. Maní is located in the southern part of the department, within the plain savanna, and is 80 kilometers from Yopal.

FIGURE 2. **The municipalities of Tauramena and Maní in the Casanare Department**

Source: EcuRed website: https://www.ecured.cu/Departamento_de_Casanare_(Colombia)

According to the National Hydrocarbons Agency (*Agencia Nacional de Hidrocarburos*, or ANH), in fiscal year 2021 Tauramena had 14 oil fields producing a total of 33,900 BPD and four operating companies, while Maní had 12 oil fields producing 3,000 BPD and six companies. Table 2 lists the companies operating in each municipality and their production levels.

TABLE 2. **Oil Companies Operating in Tauramena and Maní and Their Production Levels**

TAURAMENA	PRODUCTION (BPD)	MANÍ	PRODUCTION (BPD)
Verano Energy Limited	1,250	Emerald Energy PLC Sucursal Colombia	915
Frontera Energy Colombia Corp.	173	Petróleos Sudamericanos Sucursal Colombia	273
GeoPark Colombia S.A.S.	31,225	Colombia Energy Development Company	100
Ecopetrol	1,252	Perenco Colombia Limited	140
		Hocol S.A.	332
		Frontera Energy Colombia Corp.	1,240
TOTAL	**33,900**	**TOTAL**	**3,000**

Source: ANH data (2021)

Initial Considerations

Corruption is defined as the abuse of power for personal gain and includes actions such as bribery, embezzlement, nepotism, influence peddling, and cronyism.[2] Some of these acts are illegal, and some are legal, due to loopholes in national regulations, but still corrupt. Delegated power can be abused by public officials, private companies, organizations, or social leaders, which is why it is important to include all interest groups in the diagnosis and analysis of corruption risks.

This study took a regional focus in order to spark dialogue with communities, which are most affected by corruption in Colombia's oil industry, and to take into account firsthand perspectives and regional needs. Anti-corruption proposals that come from the national level can be enriched by these local perspectives, which have rarely been considered by the central government.

The results presented in this document are specific to Tauramena and Maní. Other regions may have some similar features, but the results should not be generalized to other oil-active departments in the country. Each region has particular risks of corruption that should be taken into account.

Crudo Transparente, which commissioned this report, has spent more than eight years monitoring and overseeing the hydrocarbon industry in Colombia. The knowledge it has gained and its commitment to making a positive impact on the national agenda have motivated it to promote transparency in an industry that is strategically valuable for the country's economy. The results of this study, including the action plan, are intended to inform efforts to reduce the risks of corruption in Colombia's oil industry.

STEP 1. Select an Industry Sector and Define the Goals of the Analysis

The goals of the study were:

- To identify the most persistent risks of corruption in the oil industry in Tauramena and Maní
- To strengthen communication among oil industry stakeholders to promote greater transparency through their active participation

STEP 2. Analyze Existing Data

Key findings from the secondary research are summarized in the following sections.

Decision-Making, Approvals, and Contracting

The country has proven reserves of 1.816 billion barrels,[7] which translates to a 6.3-year supply of crude oil for Colombia. However, according to the 2019 Colombia EITI Report,[6] the country has the potential for 37 billion barrels from across 18 sedimentary basins. During the current government administration, 69 contracts for exploration and perforation have been signed, leading to more than US$4.3 billion in investments in the industry.[8]

According to the 2021 NRGI Resource Governance Index, the country has made significant improvements in licensing and contracting, from weak performance (59 out of 199 points) in 2017 to good performance (74 points) in 2021.[3] This was mainly due to improvements in the allocation rounds, which clarified both the process and who should participate. The contracts were registered with the ANH, and the georeferenced oil blocks are available for online review, with their location and exploitation status noted.

Operations

The area designated for oil operations stretches over 8 million hectares. Total production in 2020 was 731,375 BPD,[9] and the ANH reported 46 oil companies with 456 extractive projects for that year, which shows the importance of the oil industry to the country's economy. The industry generates more than 64,000 jobs in Colombia, of which 30% are direct and 70% are indirect;[6] this represents 0.77% of the total national workforce,[10] which is low considering the importance of oil to the national GDP. Unión Sindical Obrera, the industry's most important trade union, has reported workplace violations that include unauthorized subcontracting, reduced wages, and prohibitions on freedom of association.[11]

A 2013 study by Transparencia por Colombia and Universidad Externado found that 60% of oil companies operating in Colombia verify contractor information and 37% of contractors and vendors have an anti-bribery policy.[12] Only 22% of oil companies have a mechanism to ensure appropriate procurement processes. The study recommends that oil companies strengthen their transparency practices in doing business with all interest groups.[12]

The 2021 NRGI Resource Governance Index mentions progress that the country has made in its licensing procedures and mitigation plans through the National Authority of Environmental Licenses (*Autoridad Nacional de Licencias Ambientales*, or ANLA).[3] This includes an online platform for facilitating the introduction of several official processes and environmental impact studies. However, the report also notes a significant number of environmental liabilities related to attacks against oil pipelines and past violations of environmental regulations by oil companies.

Revenue Collection

Oil activity is critical to the nation's public finances because it allows for fiscal sustainability. The royalty budget for the 2021–2022 biennium reached COP 17.3 trillion, which represents 4% to 4.5% of the government's general budget for 2022. Royalties are a source of financing for investment projects and are crucial for regional entities, which receive most of these resources. In some cases, royalties may represent as much as 30% of a department's budget. The International Energy Agency estimates that Colombia's oil production will decrease to 700,000 BPD in the coming years,[13] which would represent a drop of up to COP 8 trillion—to 2.5% to 3% of the general budget. The actual numbers may vary, however, due to the volatility of crude oil prices driven by the war in Ukraine, which affects the amount of royalties collected.

Oil companies that operate within Colombia have traditionally complied with royalty requirements, with no reported corruption or serious malfeasance, and the responsible state agencies (the ANH and the National Planning Department) have always guaranteed transparency in collections.

The establishment of the General System of Royalties (*Sistema General de Regalías*, or SGR) in 2021 and the resulting creation of the Collegiate Bodies of Management and Decision (*Órganos Colegiados de Administración y Decisión*, or OCADs), which were put in charge of selecting the investment projects that would receive financing from the SGR, were expected to mitigate the risks of corruption and improve how resources were invested. But in 2020, with the reform of the SGR, the OCADs were eliminated, and no transparency processes were created. The regional entities regained autonomy to carry out the investments they deemed suitable. The situation remained much the same as in the early 21st century, when royalty-related corruption was common.

Income Management

The SGR is in charge of distributing income to every corner of the country, guided by the principle of equity beyond whether a region produces hydrocarbons. Oil-producing areas have received a slightly larger allocation as of the 2020 SGR reform, but allocation criteria also include unmet basic needs, differential analysis, production incentives, and investments to promote peace or support science. The royalties may represent as much as 30% of a subnational entity's budget; the proportion may be less for those with stronger institutional capacity, but in either case the resources are crucial to government planning and investment management. Other oil-related sources of income for subnational entities, while much smaller, are income taxes, capital investments, and industrial and commercial taxes.

Across the country, corruption has been detected in the investment of royalties by subnational entities, including documented instances of embezzlement, unnecessary projects, and waste;[14] several governors and mayors from different parts of Colombia have been convicted of crimes including conspiracy, embezzlement of public funds, irregularities in contracting, unlawful enrichment, and cost overruns in contracts.[15] This has led communities to oppose the oil industry because their quality of life has not improved significantly, especially in terms of health care, despite the royalty income paid to departments and municipalities.[16] It is important to stress that oil companies pay royalties according to the law and that government officials are in charge of distributing the resources from those payments.

The NRGI Resource Governance Index assessed some indicators related to income management, finding a slight decrease in score (from 85 points in 2017 to 83 in 2021), but the score nevertheless remains within the range of good governance.[3] NRGI has attributed the drop to the lack of annual reports from the Savings and Stabilization Fund, which would provide insights into financial movements as well as investments and their returns.

Management of State Oil Companies

In 2021, Ecopetrol had revenues of more than COP 92 trillion and expenses of COP 86 trillion, of which approximately COP 62 trillion went toward operational costs and salaries. It is worth highlighting that this public oil company had a positive balance one year into the COVID-19 pandemic, in contrast with its unprofitable year in 2020. Regarding payments by the company to the government in 2021, the state received COP 16.8 trillion, which included COP 0.6 trillion in dividends, COP 10.6 trillion in taxes, and COP 5.6 trillion in royalty and purchase payments for crude oil and gas to the ANH.[5] As mentioned earlier, Ecopetrol produces, according to 2021 numbers, an estimated 679,000 BPD, accounting for 87% of the nation's total oil production. The company exports between 60% and 65% of its production; the remainder is used for domestic consumption.

According to the NRGI Resource Governance Index, the behavior of this public company has been acceptable, with a slight improvement in score compared with 2017 (73 in 2017 and 74 in 2021).[3] NRGI says the company does not yet publish information regarding the procedures and results of oil sales in the international market or the cost of community development programs; this is an obstacle to achieving greater transparency.

Energy Transition

The oil industry generates large amounts of income in foreign currency, direct foreign investment (DFI), and state income. The regions received COP 5.9 trillion in royalty revenues over the past four years, contributing to economic growth and poverty reduction. In 2019, exports of oil and oil products generated total income of US$15.962 billion.[6] During the same period, DFI continued to be the main source of external resources, increasing to US$14.572 billion—25.6% more than in 2018. About a third of these DFI resources went to the energy and mining industries, with the purpose of maintaining or increasing production levels.

Globally, many governments have embraced the idea of an energy transition and are promoting the use of renewable energy sources over fossil fuels. Colombia is no exception, passing Law 2099 of 2021 to promote the use of unconventional energy sources and more efficient use of energy resources. This law introduced modifications and additions to Law 1715 of 2014, which regulated the integration of renewable and unconventional energy sources into the national power system.

The national government is expediting the construction of 16 wind farms in the department of La Guajira in order to generate clean, renewable energy and provide power to a large portion of the country. However, Indigenous communities there have reported serious violations of their rights to question and participate in the projects and provide free, prior, and informed consent; the Office of the Inspector General of Colombia consequently intervened, warning both the Ministry of Energy and Mines and ANLA about the infringement of the collective rights of Indigenous communities.[17]

Ecopetrol, for its part, recently built the San Fernando Solar Park, with a production capacity of 61 MWp, becoming the largest self-generator of renewable energy in the country. The company's new exploratory strategy strives to prioritize light crude oil and gas projects, with the goal of reducing greenhouse gas emissions.[5] In 2021, natural gas sales increased 3% over 2020, partly due to the discovery of a new field in Casanare and the confirmation of natural gas volumes in the La Guajira and Gibraltar fields.[5] Ecopetrol also created a strategic plan for hydrogen, seeking to contribute to the decarbonization of the Colombian economy. The projected investment was US$6 million to advance studies of green and blue hydrogen.

STEP 3. Select the Areas of Interest

The findings from step 2 were shared in a stakeholder workshop with 33 participants that included representatives of civil society (social organizations, community action committees, and unions), municipal public officials (congress members, government secretaries, and energy and mining liaisons), and companies serving the oil industry (including environmental cleanup, transportation, and food provision).

During the workshop, the various interest groups shared their perspectives on the risks of corruption in the four stages of the value chain and two general topic areas, as shown in Table 3.

TABLE 3. Perspectives on Corruption Risks

PHASE OR TOPIC AREA	*Is the area of interest significant?*	*Is corruption in this area a serious problem?*	*Are there opportunities to act and achieve positive change?*
Decision-making, approvals, and contracting	Yes	Yes	Somewhat
Operations	Yes	Yes	Yes
Revenue collection	Somewhat	Somewhat	No
Income management	Yes	Yes	Somewhat
Management of state oil companies	No	No	No
Energy transition	No	Somewhat	Somewhat

Source: Research team

The stakeholders then identified high-priority areas of concern:

- **Environmental licensing**, due to lack of rigor in environmental impact studies presented by companies to environmental authorities, leading to geographic, demographic, and socioeconomic inaccuracies
- **Staff recruitment**, due to lack of transparency in the recruitment processes of employment agencies
- **Procurement of goods and services**, due to the negotiating power that operating companies have over vendors of goods and services
- **Royalty management**, due to perceptions that the revenue received by oil-active municipalities has not translated into improvements in residents' quality of life

STEP 4. Diagnose Corruption Risks

Interviews with stakeholders on the national level—including academic researchers, guild members, and representatives of operating companies and state control bodies—sought to identify the most persistent types of corruption, their causes, and strategies that could mitigate them.

Several interviewees requested that they not be named in this document, to avoid professional repercussions. This document therefore omits the names and departments of all interviewees.

The perspectives they shared were validated against various publications and research studies, to ensure thoroughness. Table 4 shows the number of participants per type of organization.

TABLE 4. Interviewees and Their Organizations

Academia	Social Organizations	Trade Unions	Industry-Related Organizations	State Bodies
5	4	1	4	5

Source: Research team

Four structural factors that increase the risks of corruption were identified—not only for the oil industry but also for Colombian society in general. Addressing them will require political will from officials, who will need to implement strategies for the short, medium, and long terms to implement structural solutions.

- **State neglect.** The lack of institutional state presence has resulted in negative socioeconomic conditions for communities that inhabit the outer regions of Colombia, particularly oil-producing regions. In response, oil companies have carried out projects to improve the quality of life in communities, as required by law. The subnational entities in these outer regions have, in some ways, been subject to the will of the oil companies, which allocate resources through social investment projects.
- **Intensifying armed conflict.** Armed conflict afflicts the remote regions of Colombia, particularly in oil-producing regions, where disputes over illegal appropriation of resources has intensified. The presence of armed actors is also a decisive factor in alleged corruption in the oil sector, due to intimidation and threats against social leaders in those regions.
- **Tensions between oil companies and communities.** Communication between oil companies and the residents of oil-producing regions is nearly nonexistent. The communities feel excluded, both from decision-making and from the economic benefits of extractive operations. They perceive that the companies are unwilling to establish constructive communication channels that might lead to strategies and actions that contribute to common well-being.

The findings are detailed further in the following sections.

Irregularities in Environmental Licensing and Auditing

Environmental licensing in Colombia is regulated by Decree 1076 of 2015, which established that environmental permits in the oil industry would be issued by ANLA. Licensing occurs following an environmental impact study carried out by external consultants and financed by the company requesting the license; the company then submits the study for ANLA's review. Environmental audits of oil projects are carried out by private consultants, who present a report to ANLA, and the corresponding regional autonomous corporation follows up on the report; in the case of Casanare, Corporinoquia is the state entity responsible for this follow-up.

According to some interviewees, the environmental impact studies do not accurately reflect the socioenvironmental characteristics of the regions where oil operations will take place. In some cases, the contents of such documents have been found to be copied from previous environmental impact studies, without even any adaptation to the study area. According to research, this is due to lack of rigor on the part of the environmental authorities, combined with weak methodologies and inadequate delimitation of the affected area.[18] Corruption is also a risk because the consulting companies are paid by the oil companies that are interested in results of the environmental study. Consultants may modify a document to the satisfaction of the funder, omitting relevant information about potential environmental impacts; this can lead to a conflict of interest.

One of the most remarkable factors behind corruption risk in the industry is the lack of institutional presence of the environmental authority in oil-producing municipalities. According to several interviewees, two ANLA officials in Casanare are responsible for monitoring environmental licenses across the entire department. Considering the size of Casanare and the number of oil projects being approved in the region, two officials cannot be sufficient to provide effective controls.

One consistent source of corruption risk is the economic incentives provided to licensing officials at ANLA and regional autonomous corporations (c*orporaciones autónomas regionales*, or CARs) for approving environmental licenses and audits. This is related to the lack of financing for ANLA and the CARs, which lack the technical resources and appropriate staff to effectively monitor oil operations in the department.

According to Law 99 of 1993, a major source of financing for the CARs is fees paid by entities that generate any environmental impact within the CAR's jurisdiction. In regions with oil production, the operating companies are the largest payers of these fees because they are the heaviest users of the resources.[19] Given that the companies fund the CARs through these fees, the environmental entities have a conflict of interest, even though this is all considered legal.

The way in which CARs are constituted and the mechanisms used to elect their directors and board members have caused disagreement in the regions.[20] Law 99 of 1993 does not establish term limits for the general director or board members of CARs; this has led to the election of executives who are motivated by political or economic interests rather than adequate management of natural resources.[20]

Economic Incentives to Prevent Inclusive Community Participation

Oil companies applying for environmental licenses are required to hold public forums with the affected communities, under ANLA supervision, to communicate the details of the project they seek to have approved. Decree 330 of 2007 regulates these public hearings. The environmental authority must promptly publish an announcement of the hearing that includes the date, place, and time, to invite broad participation.

However, Velásquez[21] claims that this mechanism is not inclusive because the community does not have any influence on decisions related to natural resource management. Mojica[22] notes that the Constitutional Court has recognized that no effective mechanism currently exists to ensure citizen participation. The public hearings only engage community members who have a relationship with the operating companies, and they receive economic incentives from the companies in exchange for their attendance. According to interviewees, this has caused conflicts within communities because the people who attend these forums are perceived as collaborators.

The scant effort made by the companies to involve the community, despite the requirements set out in Decree 330, increases the risk of corruption. The decree says that public hearings are socialization forums where no decisions will be made; this leads them to become a simple formality that does not reflect the perspectives and concerns of community members. The asymmetrical relationship could put community members at a disadvantage.[21]

One initiative that seeks to improve dialogue among communities; national, departmental, and municipal governments; and oil companies is the Territorial Hydrocarbons Strategy (*Estrategia Territorial de Hidrocarburos*, or ETH), which is led by the Ministry of Energy and Mines in coordination with the ANH and with the support of the Ministry of Interior, the United Nations Development Programme, the Ministry of Labor, and the Public Employment Service. Launched in 2013, the ETH aims to reduce tensions and conflicts between the various actors to improve governance, increase transparency, and reduce poverty. However, it does not include an environmental component and therefore does not address issues that emerge in this area or provide effective mediation by public institutions.

Irregularities in Recruitment and Hiring

Decree 1668 of 2016 requires that local workers have priority in hiring for jobs in hydrocarbon exploration or exploitation—that is, people who live in the municipality where the operations will take place. Workers in neighboring municipalities have the next level of priority. The decree also requires that all low-wage roles and at least 30% of skilled labor roles must be filled by workers from the municipality in question or neighboring municipalities.

According to Decree 1668 and Law 136 of 1994, municipal city halls are responsible for certifying the residency of local workers. Such certification is based on the electoral certificate, the System for the Identification of Potential Beneficiaries of Social Programs, or the membership registry of the local community action committee (*junta de acción comunal*, or JAC), a neighborhood organization that works to find collective solutions to common needs.

Job applicants who meet the aforementioned requirements must take several psychotechnical tests administered by an employment agency that assesses applicants and makes the final hiring decision.

Even though oil municipalities have the requisite skilled labor, operating companies continue to hire staff from outside the region,[23] arguing that the local workforce does not have the necessary skills and they are therefore forced to bring in external workers. This situation has caused discontent among community members who feel excluded from the benefits of the operation and are limited to low-wage roles.

City halls commonly issue residency certificates to external workers through the membership registries provided by the presidents of JACs. Interviewees claim that JAC presidents receive economic benefits in exchange. They also suspect that the city halls issue residency certificates at their own discretion, without meeting the legal requirements.[24]

Despite procedures that include psychotechnical tests, medical screenings, and job interviews, the criteria used by employment agencies when recruiting and hiring staff are unclear. Given the lack of transparency, the staff and job candidates have suspicions about why one applicant is hired over another.[24] This situation is further aggravated by the lack of institutional presence in the oil-producing regions of the Ministry of Labor, which is responsible for monitoring staff recruitment processes to ensure transparency in the sector.

Irregularities in Procurement of Goods and Services

Operating companies, in the framework of corporate autonomy, can procure goods and services at their own discretion from vendors that best meet their needs. The ANH and the Superintendency of Industry and Commerce (SIC) created the *Handbook of Best Practices for Procuring Goods and Services*, which provides guidance on promoting development in oil-producing regions, starting with contracting with local vendors, even those that are just starting up. The handbook recommends open calls so community members are informed and can participate in the bidding process.

All companies in Colombia, including oil-producing operators, must comply with the Framework of Free Competition, set out in Law 155 of 1959, Decree 2153 of 1993, Law 1340 of 2009, Decree 4886 of 2011, and the Political Constitution. The framework seeks to promote competition between various actors in the market, to encourage innovation and productivity and to prevent abuses by those with dominant market power. According to Decree 2153 of 1993, violation of free competition calls for a penalty of 100,000 times the current national minimum monthly wage. Despite the regulation, risks of corruption have been detected in this stage of the value chain.

While operating companies have discretion to contract with vendors that best meet their needs, exclusion of local vendors has created tension in communities. Much like with staff recruitment, the companies argue that no local goods and services vendors offer what they require, which forces them to procure services from outsiders. However, interviewees asserted that, over 30 years of oil operations, local companies have emerged to provide the goods and services that operators need. They say that calls to bid are not timely or openly disseminated, which is why only the vendors that have close relationships with the operating companies are informed.

Interviewees perceive that when operating companies do procure goods and services from smaller local vendors, they pay prices that are lower than market value, using their strong negotiating power in violation of the Framework of Free Competition. The vendors have no choice but to accept the situation because contracts with the operators are their main source of income.

Misuse of Royalties

Royalties are the payments made by oil companies to the Colombian government as compensation for exploiting nonrenewable natural resources. The government invests the resources in basic social needs such as education, sewer and water services, transportation, and larger projects that seek to promote progress in these regions.

The SGR is responsible for managing, controlling, and efficiently and equitably distributing income from exploitation of nonrenewable natural resources to all departments in Colombia and promoting investments in social and economic restoration in the areas where oil operations take place. Until 2020, the OCADs were responsible for defining, assessing, approving, and prioritizing the projects to receive funding.

The SGR was reformed through the new Royalties Law (Law 2056 of 2020), to promote a larger share of investment from royalties in oil-producing municipalities and those with the most significant unmet basic needs. Among the changes was the elimination of the OCADs, which has increased the risks of corruption.

It is common to find unnecessary and unfinished projects funded with royalties in oil-producing municipalities. In Tauramena, for example, construction of a bridge over the Cusiana River between Tauramena and the town of Monterralo in the Aguazul municipality ceased construction more than two years ago on account of the national lockdown during the COVID-19 pandemic; there have been no signs of reactivation.[25] In Maní, construction on the auditorium of the Institución Educativa Camilo Torres began more than 13 years ago and remains unfinished.[26]

One factor noted by interviewees is the institutional absence of the offices of the Attorney General and Comptroller in oil-producing municipalities.[27] According to several interviewees, investigations carried out by these controlling entities are formalities that result in no major criminal or disciplinary repercussions. The interviewees reported that officials of the controlling entities focus on finding irregularities with the aim of receiving economic incentives in exchange for their silence.

The companies hired to monitor construction progress are financed by the contractors on the project. This increases the risk of a conflict of interest whereby the monitoring company issues a report that satisfies the interests of the contractor rather than truthfully reflecting the project's progress.[28] Given this situation and the absence of the controlling entities, effective monitoring of projects financed by royalties has not been possible.

In addition, processes for citizen oversight are not effective due to lack of interest from community members. The Royalties Law does not include mechanisms for citizen participation that could achieve greater legitimacy.[29] Several interviewees said that royalty-funded projects start with a set number of citizen overseers, who lose interest in monitoring as time goes by and then resign. At the end of the process, the number of citizen overseers is significantly reduced.

Two factors increase the risks of corruption in the management of royalties. The first is related to the dissolving of the OCADs, which resulted in royalty investments becoming the exclusive purview of the subnational entities, without any process for assessing, prioritizing, or approving such projects.[29] Although the Royalties Law states that mayors and governors must issue an accountability report at least twice a year, they do not do so. Both officials and community members lack knowledge of the requirement.

The second factor is related to the lax penalties for committing crimes related to embezzlement of public resources and through appropriation, improper contracting, and so forth. The punishments are mild compared to the benefits obtained from committing these acts.[30] This leads some officials, both public and private, to be willing to serve house arrest or short prison sentences in exchange for enjoying, once they have served the time, the significant benefits they obtained through unlawful means.

STEP 5. Prioritize Forms of Corruption for Action

Following the corruption diagnosis for Tauramena and Maní, a second workshop was held to share and discuss the findings. The 28 attendees included officials from the municipal city halls, government secretaries, congress members, contractor companies from the hydrocarbon industry, and members of social organizations, JACs, and unions. Much like in the first workshop, the operating companies did not attend the event despite receiving many invitations.

The three criteria for prioritizing the forms of corruption identified in the previous step were:

- Their **likelihood** of occurring
- The **potential damage** they could cause
- The **feasibility of significant progress** in addressing them

A score of 1 to 5 was assigned to each criterion, with 1 as the lowest and 5 the highest. The NRGI tool suggested multiplying the score for potential damage by two, to address the most serious cases of corruption. The total score could thus range from 0 to 20. Appendix A shows the results of this exercise.

STEP 6. Develop an Action Plan

The results of the second workshop informed a number of measures for the action plan; these are detailed in Appendix B. For each proposed action, the plan specifies the actors involved, the time frame, next steps, and indicators of progress. Overall progress can be achieved only through the coordinated action and political will of all industry stakeholders. Given the importance of oil activities for public finances, long-term work to address structural factors should be supplemented with actions in the short and medium terms. The action plan defines short term as up to a year, medium term as one to five years, and long term as five to 10 years.

The plan is specific to Casanare, but the strategies in it can be replicated in other oil-producing regions of the country, given that the evidence suggests that risks of corruption in the industry are consistent across the country.

Giving communities in oil-producing regions a greater role in decision-making and promoting transparency will require outreach and training activities to expand community leadership capacity and strengthen citizen oversight in public resource management. To improve communication and relations with communities, oil companies must conduct outreach through constructive, participatory forums that build trust between parties. Company engineers and technicians must be able to explain clearly and with appropriate language the details of projects, their benefits, and their potential negative impacts.

A general perception exists in communities and among the interviewees that the resources generated from oil operations do not translate into better quality of life in the oil-producing municipalities. One reason is the institutional fragility of subnational entities in those regions. Decentralization would allow for a stronger government presence in those regions, thus strengthening monitoring of corruption risks in the hydrocarbon industry. This would require financially strengthening the monitoring entities so they would have more effective tools for managing resources.

Lastly, it is important to acknowledge the challenge of implementing initiatives to address corruption risks. Plans and processes stated in a document rarely have much practical effect. As several interest groups have suggested, a second phase of the process could help ensure implementation of the action plan and strengthen democratic governance in Colombia's oil industry. This is a unique opportunity to achieve progress in the fight against oil industry corruption in the country and create a role model of transparency for the entire continent.

APPENDIX A. Corruption in Tauramena and Maní

What forms of corruption or corruption risk are of significant concern?	What are the causes?	What measures could help prevent them?	Likelihood	Potential impact	Feasibility of progress	Final score
Lack of rigor in the environmental licensing process	• Laxity in terms of reference for environmental impact studies • Lack of familiarity with the region and its dynamics on the part of environmental authorities • Unclear environmental baseline standards for environmental impact studies • Lack of regional presence of environmental authorities • Unqualified staff in environmental authorities • Financing of environmental authorities by the oil industry, leading to moral risks • Monitoring and controls in environmental licensing being treated as simply a formality	• Better dialogue among communities, companies, and environmental authorities • Effective enforcement of environmental licensing requirements • Establishing ANLA offices in oil-producing regions • Improving the technical and decision-making capacities of environmental authorities	**Score: 5** Despite discontent over these ongoing problems, no improvements have been evident in the short term.	**Score: 5** The low level of rigor in issuing environmental licenses has led to significant environmental impacts.	**Score: 2** While strategies have been created to promote transparency, the road ahead is long and more work needs to be done.	**17**
Economic incentives for environmental officials to approve environmental licenses and audits	• The structure of the CARs, which allows for possible bribery in the approval of reports • Financial fragility of ANLA and Corporinoquia • ANLA not being a part of the ETH	• Reforming the CARs with the purpose of promoting transparency • Expanding the budgets of environmental authorities • Including ANLA in the ETH	**Score: 4** This practice has continued, with no promise of change despite local discontent.	**Score: 5** This practice significantly increases the probability of environmental damage.	**Score: 2** There is no promise of positive change in the short term.	**16**
Economic incentives to community members in exchange for their attendance at public forums	• The tendency of public officials to favor oil companies over communities • Exclusion of the community in decision-making • Invitations to public forums not widely disseminated • Operating companies having only one person responsible for community relations	• Improving communication channels between communities and companies • Empowering communities • Using public forums for consultation as well as socialization • Training operating company officials in citizen outreach	**Score: 4** While this is a common practice, it occurs with less frequency than other acts of corruption.	**Score: 4** Eliminating these acts of corruption would reduce inequality and exclusion of marginalized groups.	**Score: 2** There is no scenario in which socialization forums would better incorporate community opinions.	**14**

Note: The final scores include a doubling of the score for Potential Impact.

What forms of corruption or corruption risk are of significant concern?	What are the causes?	What measures could help prevent them?	Likelihood	Potential impact	Feasibility of progress	Final score
Recruitment of staff who live outside the region, in violation of regulations	• Lack of transparency in staff recruitment processes • Lack of training available to the local workforce • Lack of communication between JAC presidents and communities • The close relationship between the JAC presidents and oil companies • Local workers not being recruited despite having the requisite skills • The Ministry of Labor not monitoring staff recruitment processes • JACs receiving economic incentives in exchange for issuing residency certificates to workers from outside the region • Lack of transparency in staff recruitment criteria	• Consulting with professional associations to learn how they can help with recruitment • Adding a clause to JAC bylaws related to oil operations so the JAC assemblies make the decisions, not the JAC president • Stronger control by the Ministry of Labor • Implementation of staff training strategies in oil-producing municipalities • Greater transparency in staff recruitment processes	**Score: 5** The practice is ongoing, with no promise of change despite initiatives that have emerged.	**Score: 5** Communities have felt excluded from the staff recruitment process due to lack of clarity in the process and other factors.	**Score: 3** Despite regulations, some practices continue to hinder effective enforcement. However, it is possible to improve channels of communication between companies and communities.	**18**
Operating companies use their negotiating leverage to set vendor rates below market value	• Companies not prioritizing local contractors • Bidding calls not being widely disseminated • No communication between companies and communities • No catalogue of vendors of goods and services in oil-producing municipalities	• Better enforcement of the Framework of Free Competition • Procurement of goods and services from local contractors • Better dissemination of bidding calls • Creating spaces for dialogue between operating companies and communities • Creating a catalogue of local vendors	**Score: 5** The practice is ongoing, with no promise of change despite initiatives that have emerged.	**Score: 4** Local companies have felt excluded from the procurement process.	**Score: 3** Current practices hinder enforcement of the Framework of Free Competition. However, it is possible to improve the channels of communication between companies and communities.	**16**

APPENDIX A. Corruption in Tauramena and ManÍ (continued)

What forms of corruption or corruption risk are of significant concern?	What are the causes?	What measures could help prevent them?	Likelihood	Potential impact	Feasibility of progress	Final score
Use of royalty monies for unnecessary and unfinished projects	• Lack of transparency in the contracting process for public works • Mayors and governors lacking familiarity with current regulations • No transparency about royalty-funded projects • Scant oversight processes • Lack of control and oversight by the national government • Elimination of the OCADs	• Greater transparency and accountability on the part of subnational entities • Greater citizen oversight • Stronger institutional presence of the offices of Attorney General and Comptroller • Creation of an interdisciplinary body responsible for assessing and approving royalty-funded projects in oil-producing municipalities	**Score: 5** This practice occurs with high frequency, with no apparent solution in the long term.	**Score: 5** This practice has hurt public finances and has inhibited tangible improvement in the quality of life in communities.	**Score: 2** No strategies have been proposed to reduce the risks of this type of corruption.	**17**

APPENDIX B. Action Plan for Tauramena and Maní

OBJECTIVE 1. Strengthen mechanisms related to environmental impact studies

Proposed action	Actor(s) in charge	Time frame	Next steps	Indicators of progress
1. The Ministry of Environment and Sustainable Development creates strategies to improve ANLA's oversight of environmental licensing.	Ministry of Environment and Sustainable Development	Medium term	The ministry creates a work plan for ANLA to strengthen communication, monitoring, and control in environmental licensing.	Creation of a work plan
2. ANLA issues protocols for environmental impact studies, promoting rigor and strengthening the independence of the consulting company from the operating company.	ANLA	Short term	ANLA creates protocols to strengthen monitoring of environmental impact studies for exploration and exploitation projects.	Creation of a work plan
3. Environmental authorities begin a decentralization process to increase their presence in oil-producing regions.	CARs, ANLA	Medium term	Environmental authorities open offices in oil-producing regions to expand their presence, exercise greater control over environmental projects, and improve communication with communities.	New CAR and ANLA offices in oil-producing regions

OBJECTIVE 2. Increase the institutional presence of environmental authorities in oil-producing municipalities

Proposed action	Actor(s) in charge	Time frame	Next steps	Indicators of progress
1. The national government increases resource allocations to CARs and ANLA in the general budget to strengthen their technical and human capacities.	Ministry of Finance and Public Credit, National Planning Department, Congress of Colombia	Medium term	The national government submits a proposed general budget project to Congress through the Ministry of Finance, increasing the amount allocated to environmental authorities.	Creation of the general budget
2. The Ministry of Mines and Energy and the ANH incorporate environmental authorities into the ETH.	Ministry of Mines and Energy, ANH	Medium term	The ministry and the ANH include environmental authorities in the ETH to improve governance in the industry and address the potential impacts of oil activities.	Inclusion of environmental authorities in the ETH
3. CARs are reformed to ensure greater transparency and accountability.	Congress of Colombia, President of Colombia	Medium term	Congress approves the reform of CARs, including the adoption of a corruption risk map, anticorruption plans, and regulatory mechanisms for the election of CAR board members.	A new law that modifies Law 99 of 1993 in regard to CARs

OBJECTIVE 3. Improve communication between communities and companies

Proposed action	Actor(s) in charge	Time frame	Next steps	Indicators of progress
1. Operating companies train their officials in explaining projects to the community in a clear way, from exploration or extraction processes to the possible impacts.	Operating companies	Medium term	Operating companies conduct training sessions for their engineers and other technical personnel on communicating with the community.	Meeting minutes
2. Operating companies widely publicize public forums that are organized and scheduled with the comfort of communities in mind.	Operating companies	Short term	The companies widely publicize public forums for dialogue with communities, in compliance with Decree 330 of 2007.	Creation of criteria for invitations to the public forums
3. The environmental authority incorporates input from community members who attend public forums.	ANLA	Short term	ANLA disseminates the minutes of public forums to community members for their approval.	Approval of the meeting minutes by community members

OBJECTIVE 4. Improve transparency in staff recruitment

Proposed action	Actor(s) in charge	Time frame	Next steps	Indicators of progress
1. The Ministry of Labor creates recruitment procedures for the oil industry, including selection criteria and conditions set out in the Law of Transparency and Right to Access to Public Information.	Ministry of Labor	Medium term	The ministry creates staff recruitment procedures that are informed by meetings with different interest groups.	Meetings held; creation and dissemination of procedures
2. The operating companies offer training to prospective local workers.	Operating companies	Medium term	Operating companies identify job openings that could be filled in the short and medium terms and offer training to local workers, in compliance with Decree 1668 of 2016.	Training sessions held
3. JAC bylaws are modified so membership registries are overseen by the JAC assembly, not just the JAC president.	JACs	Short term	The JACs involved in the oil industry call for a general assembly to modify their bylaws.	General assembly minutes

APPENDIX B. Action Plan for Tauramena and Maní (continued)

Proposed action	Actor(s) in charge	Time frame	Next steps	Indicators of progress
4. JACs and social organizations in oil-producing regions hold workshops to raise awareness of opportunities for citizen participation and oversight.	JACs and social organizations	Medium term	JACs and social organizations schedule awareness-raising workshops in the community.	Workshops created
5. The municipal and departmental governments of oil-producing regions create a list of associations whose members are qualified to work in administrative positions.	Municipal and departmental governments	Short term	The governments identify the associations, under the supervision of an oversight committee that includes civil society representatives.	A report that lists the associations and their characteristics
6. The Ministry of Labor exercises greater control over staff recruitment processes.	Ministry of Labor	Medium term	The ministry creates monitoring and control protocols and establishes sanctions for violations, in line with the workforce prioritization procedures set out in Law 1668 of 2016.	Creation of monitoring and control protocols
7. Unions and social organizations form an oversight committee for staff recruitment.	Unions and social organizations	Short term	Unions and social organizations in oil-producing municipalities create a committee to oversee staff recruitment by oil companies.	Creation of an oversight committee
8. Employment agencies create and implement recruitment protocols.	Employment agencies	Short term	Employment agencies create and implement recruitment protocols.	Creation of a work plan to develop the protocols
9. The Ecopetrol Integrated Sustainable Management Report includes measures to verify transparency in staff recruitment.	EITI	Medium term	EITI creates a work plan to monitor staff recruitment processes.	Creation of a work plan
10. The Ministry of Labor verifies the residency certifications issued by municipal authorities.	Ministry of Labor	Medium term	The Comptroller creates a handbook for verifying residency certifications.	Creation of a verification manual

OBJECTIVE 5. Improve the negotiation capacity of local vendors of goods and services

Proposed action	Actor(s) in charge	Time frame	Next steps	Indicators of progress
1. Operating companies prioritize local vendors for procurement of goods and services.	Operating companies	Short term	The operating companies adopt the *Handbook of Best Practices for Procuring Goods and Services* from the SIC and the ANH.	Creation of a work plan to focus on contracting with local companies
2. Municipal and departmental governments and chambers of commerce in oil-producing regions create a list of local vendors.	Municipal and departmental governments and chambers of commerce	Short term	The governments and chambers of commerce create the list under the supervision of an oversight committee that includes vendors and members of social organizations.	List of vendors; reports on contracted companies and the goods or services they are providing
3. Operating companies implement open bidding and do not abuse their negotiating advantage.	Operating companies	Medium term	The operating companies establish dialogue with vendors to develop mechanisms that are fair to smaller companies.	Meeting minutes
4. Companies widely disseminate bidding invitations to vendors who provide goods and services.	Operating companies	Short term	The companies broadly disseminate invitations for local vendors to participate in the bidding process, in compliance with SIC and ANH recommendations.	Design of print and radio ads
5. The ANH creates a unit that collects complaints and claims pertaining to the procurement process.	ANH	Medium term	The ANH creates a unit and trains staff in handling complaints and claims from the community.	New unit that handles, in a timely manner, complaints and claims relating to procurement of goods and services
6. The SIC creates a protocol for monitoring and ensuring compliance by operating companies.	SIC	Medium term	The SIC creates a monitoring and compliance protocol that complies with the Framework of Free Competition.	Protocol

OBJECTIVE 6. Increase transparency in royalty management

Proposed action	Actor(s) in charge	Time frame	Next steps	Indicators of progress
1. Subnational entities provide information on ongoing projects and their progress on their websites.	Municipal and departmental governments	Short term	Municipal and departmental governments maintain detailed, up-to-date information on ongoing projects, including their progress.	Reports available on the websites of subnational entities
2. Communities strengthen citizen oversight of royalty-funded projects.	Social organizations	Short term	Social organizations hold awareness workshops to strengthen citizen oversight in oil-producing municipalities.	Minutes from the awareness workshops
3. The Comptroller's office strengthens inspections and controls in oil-producing municipalities to mitigate risks of corruption in royalty management.	Attorney General and Comptroller	Medium term	Controlling bodies open offices in oil-producing regions.	New offices in oil-producing regions
4. The Congress of Colombia approves more serious penalties for crimes related to corruption and creates programs to reward and protect whistleblowers.	Congress of Colombia	Medium term	Congress passes a bill that modifies the Criminal Code to increase penalties for crimes related to public resource embezzlement.	Creation of the bill
5. Subnational entities issue semi-annual reports on royalty investments.	Subnational entities	Short term	Subnational entities issue semi-annual reports on projects funded with royalties, in compliance with Law 2016 of 2020, and post them on their institutional website and at physical locations throughout the municipality and/or region.	Minutes of the meetings where the decisions are reported
6. The Congress of Colombia passes a law to create a multi-actor body to control resource investment.	Congress of Colombia	Medium term	A bill is created to establish a multi-actor body that includes a community representative and representatives of the subnational entities previously involved in departmental OCADs.	Creation of the bill
7. The Comptroller's office monitors results of audits of royalty-funded projects.	Comptroller of Colombia	Medium term	The Comptroller's office creates a work plan with mechanisms for auditing and monitoring in oil-producing municipalities.	Creation of a work plan

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