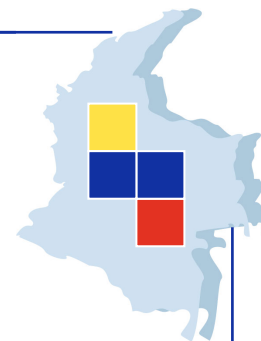


Colombia's Royalties Reform: Fueling Fairness, Saving and Equitable Growth



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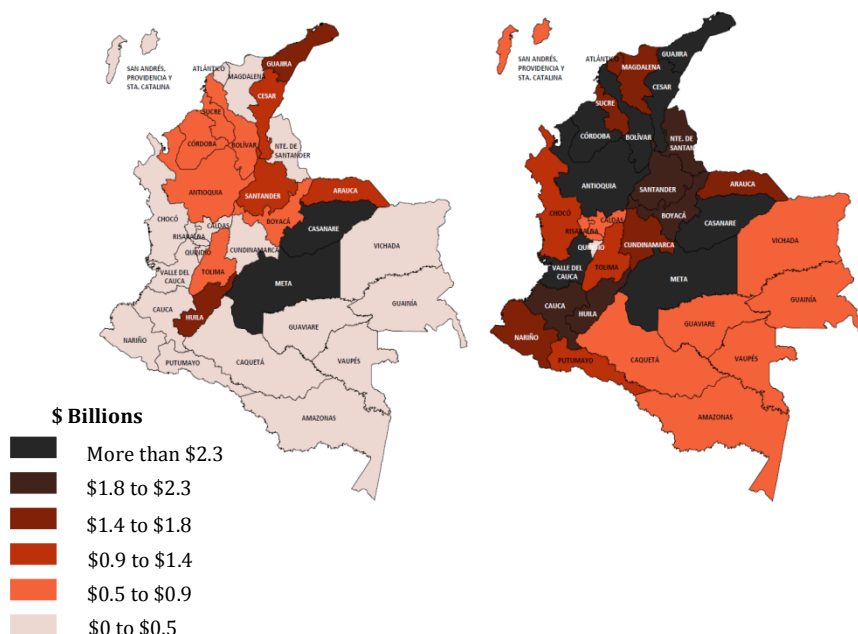
Improved security conditions and favorable international prices have led to an expansion of Colombia's oil and mining industry. As a result, royalty revenues from these activities have increased by nearly 70 percent over the last five years and are expected to double within the next 10 years.

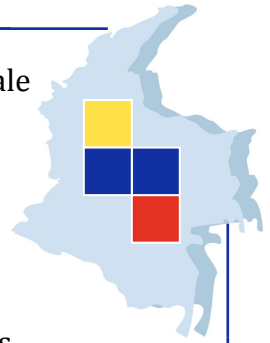
The Colombian government has made it a priority to see that these additional resources are used to advance its social and macroeconomic stability goals. In this context, the government designed a comprehensive constitutional reform to the royalties regime based on four main principles: 1) social and regional fairness; 2) saving for the future; 3) regional competitiveness; and 4) good governance.

The **General System of Royalties**, approved by the Congress on June 9, is a crucial component of President Santos' ambitious agenda of progressive reforms, which include the Fiscal Rule and the Victims and Land Restitution Law. The royalties reform is considered one of the most progressive in recent decades, as it dramatically changes the distribution of nearly \$5 billion that the government expects to receive on an annual basis. Previously, nearly 80 percent of the royalties were allocated only to the few regions and municipalities where non-renewable natural resources were extracted or where ports were located. As part of the reform, royalties will be distributed more equally among all regions, promoting autonomy and investment decentralization. Specifically, revenues will be allocated through six mechanisms:

1. **Saving and Stabilization Fund:** will reduce royalty revenue volatility and foster macroeconomic stability;
2. **Territorial Pension Fund:** will decrease the pension liability of territorial entities;
3. **Participation of Producing Territorial Entities:** targeted toward regions and municipalities where non-renewable resources are extracted and where transport ports are located;

Total Royalties per Department, 2002-2010 vs. 2012-2020





4. **Regional Development Fund:** will finance projects that capitalize on returns to scale and respond to the needs of a specific region. Funds will be allocated using poverty, unemployment and population criteria, benefiting the most vulnerable Colombian populations. Projects will be approved by collegial bodies of local, regional and national authorities;
5. **Regional Compensation Fund:** will finance projects that improve the living conditions in the poorest regions. Funds will be targeted mainly toward populations living in border regions and the coasts, where there are some of the highest levels of poverty and where most of the country's Afro-Colombian and indigenous communities are located. The fund will last for 30 years, after which the resources will be transferred to the Regional Development Fund; and
6. **Science, Technology and Innovation Fund:** increases by nearly 40 percent the country's funding in specific areas and is designed to foster regional economic growth through investments in science, technology and innovation.

Enactment of the royalties reform is a milestone toward President Santos' goal of achieving sustainable economic growth and a significant improvement in the living conditions of vulnerable Colombian populations. For example, between 2002 and 2010, the four departments (states) of the Pacific region – one of the poorest in the country – received an average of \$40 million annually. With the reform, the region will receive on average nearly \$852 million annually, which is more than 20 times the amount of previous resources. As stated by President Santos during the presentation of the reform in Tumaco (Nariño): *"The Royalties Reform is the great fairness reform of Colombia."*