

**Summary of the World Bank Group Extractive Industries Advisory Group Meeting:
October 5th and 6th 2005**

The inaugural meeting of the WBG EI Advisory Group took place in Washington, DC on October 5th and 6th, 2005.

The following members of the Advisory Group participated: Hon. Mercy Almona-Isei, Dr. Cholpon Dyiakanova, Mr. Ian Gary, Mr. Paul Mitchell, Mr. Herman Mulder, Dr. Sixtus Mulenga, Mr. Gary Nash, Dr. Hans Peter Schipulle, and Mr. Yin Wu. Apologies were received from Dr. Shihab-Eldin, Mr. Patricio Cartagena Diaz, Ms. Patricia Yarrington, Mr. Mario Calafell and Mr. Samuel Nguiffo.

Mr. Dennis Anderson, Professor, Energy and Environment Studies, ICEPZT, Imperial College, London, attended as a special consultant on renewable energy. A list of WBG staff attending in support (part or full time) of the meeting is given at the end of this summary. The meeting was facilitated by Matt Minahan.

Introduction, Meeting Procedures and Agenda

After welcome and introductions, members discussed the objectives of the Group and procedural issues. It was agreed that Chatham House rules would apply and a summary of the meeting's proceedings would be prepared, and after comment by members, would be made public with all views and comments quoted on a non-attributable basis. Members agreed that all their references to the Group's meeting would be made on this basis. Members considered a number of other procedural issues that are summarized in the section on Meeting Review and Next Steps at the end of this summary.

Update on Extractive Industries Review Management Response Implementation

WBG staff provided a brief update of progress in implementing the WBG Management Response to the reports of the Extractive Industries Review and its own internal evaluations. It was expected that a report would be sent to the WBG Board in December with the recommendation that it be made public following Board approval.

Session 1: The Resource Price Boom

Following a short introductory presentation, Advisors discussed the implications of current high commodity prices. While opinions varied about the path of future prices, there was some agreement that we were in the midst of a longer than usual commodity price cycle and prices would likely remain higher than trend for some time. An Advisor noted a number of factors had contributed to the recent run up in prices. During discussion members emphasized the importance of gas, and coal (and its potential as a "clean energy", gasification and liquefaction). At the same time, one Advisor stressed the likelihood that for some time, oil, with low production costs in many countries, would remain a major and even growing source of energy. A number of Advisors felt it was important that the WBG should help the push for the development of alternative sources of energy. In this respect, in the light of high and uncertain oil prices, the issue of subsidies for alternatives might require a more nuanced approach than the WBG had typically used in the past. It was emphasized that there was a need for an integrated approach to tax and energy policy. In addition, there should also be an emphasis on

energy demand that took account of very different levels of user prices worldwide because of differing consumer tax and pricing policies.

An Advisor considered that the WBG should help ensure that countries could develop industries downstream of production. Countries (and communities) also needed to plan for a shift in focus to develop non EI economy.

In discussing the implications of high prices and perceived energy security concerns that might trigger a scramble for resources, at least one Advisor saw the increased interest in EI development as an opportunity for the WBG to become more deeply engaged with some countries. High prices, also, it was argued, offered an opportunity to “raise the bar” in terms of ensuring sustainable EI development.

Although in some cases, high prices and therefore large revenue inflows may reduce the need for WBG financing, it was felt that the WBG should actively promote its engagement in “resource rich” countries in other ways – for example through Country Assistance Strategies, technical assistance (including the development of pro-poor mining codes and other EI legal frameworks), and through WBG “stamp of approval”, monitoring of standards and outcomes. In this respect, it was seen as important by some Advisors that the WBG actively strengthen external partnerships and leverage as much as possible its impact through its influence on others including other development institutions – although it was recognized that it had no mandate to impose this. Some advisors emphasized the importance of seeking to work with national oil companies, who controlled a very large share of world oil production.

Lunch Meeting With Executive Directors

During a lunch time discussion session with a number of WBG Executive Directors, two main issues were discussed: (i) working with civil society; and, (ii) oversight by executive directors of WBG activities in extractive industries. There was broad agreement that engagement with civil society was important but there was some feeling that more cost effective ways to do this needed to be explored. Other sectors and processes might provide good examples of more structured approaches in this respect. Concern was expressed by one ED office that efforts to engage meaningfully in consultations did not imply recognizing a power of veto. Some speakers cautioned about the need to differentiate between different groups and also to help build capacity.

Executive Directors saw the oversight of the WBG activities in the implementation of the WBG Management Response to the EIR as important. In general, it was emphasized, the approach of Executive Directors to oversight evolves over time given the issues and concerns of member countries. From an Advisory Group member, there was a call to ensure that the forthcoming report by staff on the implementation of the Management Response was comprehensive. Executive Directors were called upon to help leverage the impact of the WBG in EI by ensuring that the approach being adopted was taken up by other multilateral and bilateral development institutions.

Session 2: Governance and Transparency

Following a short introductory presentation, Advisors discussed the issues of governance and transparency in relation to EI. There was a general consensus about the importance of effective governance, but a number of advisors stressed that

governance was more than just transparency of revenues and should encompass considerations of planning and implementation capacity, expenditure, human rights, government capacity to enforce regulations as well as other aspects. In general, a broad based approach that included local governance was needed.

Advisors agreed that efforts to promote transparency were important both at the local project level and at the national level. WBG support for the Extractive Industries Transparency Initiative was generally strongly supported, but a number of Advisors cautioned that it was necessary to be mindful of the “free-rider” problem, whereby some countries could receive reputational benefit from joining EITI without making real progress in the transparency of EI revenues. Some form of validation was essential. One advisor warned that focus on EITI should not be at the expense of other activities that the WBG could undertake in the mining policy area, including the mandatory disclosure of revenues for WBG financed projects as already agreed upon in the EIR management response, where gaps were still seen. It was suggested that the WBG could take the lead in developing source reference materials for policy making in the sector.

It was felt by a few Advisors that, eventually, the WBG will need to focus scarce EITI resources on countries where tangible results were most likely and where the disclosure of information could be used by the media and civil society for accountability purposes. One Advisor was of the view that EITI implementation did not make sense in some countries where the activities of the independent media and civil society were severely restricted or prohibited. Others considered the initiative had developed such momentum that the window of opportunity for government commitment should be seized. The WBG should make adequate resources available to ensure its continued effective engagement in the initiative. Impacts were likely to be much greater than the resources invested in it.

The EITI was seen as an important entry point for engagement with Governments (and with country units within the Bank) about a key issue in the management of EI. An Advisor felt it was important to try and broaden the EITI beyond the point where it was seen as driven by one country. Looking beyond the immediate current objectives of the EITI, one Advisor called for the WBG to encourage the transparency of key EI contracts. In this respect it was noted that disclosure of the key terms of EI contracts is an EIR management under some circumstances. While some emphasized that this needed to be subject to appropriate commercial confidentiality, others felt that contracts involving governments and public resources should be held to a higher standard of disclosure. Another Advisor considered that in the case of countries with a broad regional spread, greater transparency at the local level is equally important to the national level. Local governments may not be particularly interested in greater transparency and regulations are likely to be needed to ensure this.

A number of advisors emphasized the benefits of explaining and demonstrating decision making processes by institutions such as the WBG and investors generally. One Advisor emphasized the importance of continuing to take a broader approach - while greater revenue transparency was an advance, strengthening the capacity of national parliaments to oversee EI revenue spending, for example, should remain a priority.

Session 3: Ensuring Community Benefits

Following an introductory presentation, Advisors discussed the issue of ensuring communities benefit from EI activities. One advisor emphasized that the WBG objective

should be to go beyond ensuring that communities are “on balance” better off to ensuring that the project has contributed to broad-based and measurable poverty reduction. Members emphasized the importance of meaningful engagement with communities and the need to ensure that benefits generated were sustainable in the longer run. Institutions such as the WBG were seen as having a role in this respect, although one Advisor felt that this would be more effective if they decentralized and developed their own capacity on the ground. While there was already a number of guides, it was felt that there was still a need to collect together best practice guidelines (and case histories) to help provide a road map or an international set of standards that investors and communities could use. In this respect it was stressed that any approach would need to differentiate between large and small projects and be practical for business investors. It would also need to account for cultural differences between communities, especially concerning land ownership and usage.

The potential benefits of a common approach by all development agencies that would enable best practice to be leveraged, was stressed. In this respect, one Advisor gave the example of his country which was attempting to leverage aid impacts through better coordination with its private business investors in the countries concerned. Another Advisor drew attention to the potential for learning from many existing successful efforts to voluntarily coordinate and harmonize international approaches in other areas.

The importance of appropriate consultation with properly defined communities and the need for the WBG to develop experience and guidance on how it would ascertain “broad community support” was stressed. A complication in this respect was communities whose size and composition changed over the project development process. The need to manage expectations was discussed along with the difficulty of doing so when, in some cases, different entities may explore for a resource, carry out construction and operate a project. When it came to programs for benefiting communities, there was general agreement that these needed to be developed through a process of engagement with communities, that was culturally appropriate, that was based on an assessment of needs and wants, and focused on delivering sustainable benefits/increases in capacity (not just charitable activities). An advisor stressed the importance of effectively measuring impacts using baseline studies, measuring the impact on poverty and the use of independent monitoring.

Advisors discussed the issue of sharing of government tax and other revenue receipts from developments. In this respect, it was clear that there were no clear cut rules that should be proposed. Some governments believed that an EI development itself generated benefits such as jobs and as a result no further allocation of benefits was needed. Even where revenues were allocated down from the central government, it was not clear whether these should best flow to the regional and local government level, or more directly to communities. One Advisor felt that although there was no magic percentage in terms of revenue sharing, some sort of needs assessment based approach using an appropriate baseline survey could be employed.

A number of Advisors stressed the importance of EI development being carried out in the context of an overall regional community development plan that engaged the government and community. In some cases, EI developments were seen by governments as growth hubs that could facilitate the broader development of a region. In the case of large, broadly spread EI sectors with many small entities, the role of

government in coordinating and taking the lead in developing an appropriate approach to community and overall development was crucial.

An Advisor cautioned about being too dogmatic and prescriptive about methodology about how communities should benefit. One possible approach was for investors to prepare “community benefit plans” with suggestions within it as to how outcomes should be monitored. Authorities could review these in the context of the specific development. It was later suggested by another Advisor that such investor community benefit plans needed to be integrated into the overall regional community development plan. One Advisor stressed the importance of sequencing activities to ensure the development of needed government capacity prior to project investments. Another Advisor emphasized the need to take realistic account of the capacity of local governments in designing and implementing community programs. In this general respect, Advisors cautioned about the different responsibilities of investors and governments and also noted that effective community development required a partnership of investor, community and government. A number of Advisors raised the potential for special government vehicles to help capitalize and optimize development based on EI projects. These may be especially important for large projects or groups of projects in regions where governance was weak and coordinating across levels of government and with other stakeholders was difficult.

In response to questions in a discussion about broad community support, WBG staff explained that it is not possible to be too prescriptive about how the WBG will ascertain this. It would not require investors to demonstrate it, but would make a judgment based on a range of information available to it at different times in its appraisal process, including the investors consultation process, base line studies/surveys, expected project outcomes, the national interests and its own engagement with stakeholders and so on. It was felt that the early engagement that the WBG had with investors and community, the better. In some cases it would need to help build capacity and in general it would need to learn from experience and build on what works well. An Advisor noted that consultation and engaging with communities to establish their views was not a one time event but was needed throughout the project cycle. In this respect, appropriate, independent monitoring of development impacts would be important. The WBG’s ultimate objective in so far as its engagement was concerned should be poverty reduction.

Meeting with Katherine Sierra, Vice President, Infrastructure, IBRD/IDA

Katherine Sierra provided Advisors with a brief overview of the WBG’s approach to increasing its infrastructure business after a number of years of decline. The WBG in this respect was responding in particular to demands from its member countries. Lessons of past activities would be taken into account with increased focus on ensuring the absence of corruption in projects and activities financed by the WBG. In this respect, the infrastructure sector could learn from experiences and initiatives in the EI sector such as the EITI that was seen as having a significant impact.

In response to questions from Advisors, she advised that the approach of WB Country teams for EI projects varied by country. In some cases EI activities were seen as more difficult and expensive to execute. When the Bank is engaged it will aim to do projects right. It was also important for partnerships such as the EITI to be “mainstreamed” to country units who should take it up as an integral part of their country activities. When the Bank had no active EI projects it needed to use other ways to signal to and influence governments. The EIR process had engaged the Board of the WBG significantly and

there was great interest in the WBG's continued engagement in the sector and in delivering sustainable EI development.

Meeting Review and Next Steps

Overall Assessment: Advisors concluded that the meeting had been a productive inaugural meeting, that had been well prepared, and that the Group was a potentially valuable mechanism for engagement by the WBG on EI issues. There was general agreement that future meetings should be more narrowly focused and go into subject matter in more depth. Case studies may be one way to help do this. Engagement with senior WBG staff and EDs was seen as valuable and in future meetings the engagement of a broader range of WBG staff may be appropriate by topic.

Future membership: It was recommended that the WBG consider expanding membership of the Group to include additional CSO representatives. Members should be capable and interested in discussing the broad range of EI issues the Group was likely to address. One Advisor felt that membership should have been based on a self selection basis by sector. The WBG explained that this had never been the intention. In the case of members who were unable to attend this meeting and who offered substitutes, the WBG had already advised that this was not appropriate. While members were chosen from a range of stakeholder backgrounds and experience, they were selected in their individual capacities. The WBG would, however, welcome and carefully consider specific suggestions for new members along the lines suggested by Advisors. In response to questions and comments from Advisors, the WBG felt that the term of members should be around two to three years but turn over should be staggered to allow continuity through a mixture of old and new members. The life of the Group would be subject to review based on experience.

Frequency and location of meetings: Many of the Advisors felt that if possible, meetings should be held more frequently than once a year, with every 6 months being suggested by several advisors. Given travel times involved, most members felt that the length of meetings should be one to two days. Meetings need not always be held in Washington but location should take account of ease of access and potential subject interest, as well as the benefits of greater WBG staff engagement possible in Washington. Alternating Washington with other locations was seen as a potentially attractive option. When appropriate, it was felt that local government officials or others from outside of the Advisory Group and the WBG, could be invited to particular sessions. Where feasible, site visits should be considered as a part of the meeting where these were seen as relevant and practical. The WBG agreed to consider more frequent meetings but was concerned about the resources required to have two meetings per year, and in addition wondered if every 6 months was sustainable given members schedules. It would develop with members proposals for the next meeting of Advisors to take place in about 9 months time and would evaluate locations outside of Washington.

Potential topics for future discussion: Advisors made a number of suggestions for future topics of discussion including: Governance and EI management; Indigenous Peoples and human rights issues; Investment climate; Experiences in voluntary standard setting; Private/public partnerships and EI, Establishment of Mining Ministries; Downstream EI developments; Identification of case studies of good and bad practices and outcomes in relevant areas; and, the issue of whether the Group should be developed into a higher

level international group along the lines of those in other sectors. The WBG will develop the agenda for the next meeting in consultation with Advisors.

Members thanked the WBG staff involved in organizing the meeting and the facilitator.

WBG staff attending in support of the meeting (part or full time).

Katherine Sierra, Vice President, Infrastructure, IBRD/IDA, Rashad Kaldany, Director, Somit Varma, Associate Director, Peter Van der Veen, Manager, Policy group, Kent Lupberger, Manager, Mining Division, Charles McPherson, Senior Policy Advisor, Oil and Gas, John Strongman, Policy Advisor Mining, Clive Armstrong, Lead Economist, Omar Chaudry, Senior Economist, of the Oil, Gas, Mining and Chemicals Department. Other WBG staff: Rachel Kyte, Director, Social and Environment Department, IFC, Shane Streifel, Senior Economist, Development Prospects Group, Jonathon Walters, Sector Manager, Middle East and North Africa Vice Presidency, IBRD/IDA