

## **SUMMARY OF THE WORLD BANK GROUP EXTRACTIVE INDUSTRIES ADVISORY GROUP MEETING: JUNE 20/21, 2006**

The 2<sup>nd</sup> meeting of the World Bank Group (WBG) Extractive Industries (EI) Advisory Group was held in Washington DC on June 20<sup>th</sup> and 21<sup>st</sup>, 2006.

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

Dr. Bonnie Campbell, Professor of Political Economy, University of Quebec at Montreal, attended the first day of the meeting as an external discussant. Ms. Nikki Reisch, Africa Program Manager, Bank Information Center, Washington DC, attended the discussion on the Chad Cameroon project. A list of WBG staff attending in support (part or full time) of the meeting is given at the end of this summary.

### ***Introduction, housekeeping and agenda review***

Members were welcomed to the meeting and introductions made. It was announced that the process of Group membership expansion was relatively advanced, and that 2/3 new members would be inducted in the near future.

In preparing the agenda for this meeting, the WBG had considered suggestions made by advisors at the last meeting in October 2005, and also consulted with them over the past few months. Case studies on Chad and Guinea, and the sessions on multi-stakeholder partnerships, community development, and national oil companies, were included in the agenda following suggestions from advisors.

No facilitator was engaged for this meeting, and members of the Group were invited to moderate sessions on a rotating basis. It was also confirmed that a summary of the meeting would be prepared and, after comment by members, made public with all views and comments quoted on a not-for-attribution basis.

A request to allow 2 representatives from civil society to attend the session on Chad was made, which was granted by the Group. It was decided, following discussion by the Group, to allow selective external participation in future meetings in cases where sufficient advance notice would be provided, such participants could contribute substantively to a particular agenda item in the Group's discussion and where an advisor proposed such participation. Any external participation in Group meetings would be governed by the same rules and procedures that apply to Group members.

### ***Session 1: Update on WBG EI Activities***

Staff presented an update of WBG EI activities. Major trends impacting WBG activities in these sectors included continued high and volatile prices, concerns about climate change and sustainable local development, and continued growth of cross border investment by developing country firms. Progress made in the implementation of the Management Response (MR) to the Extractive Industries Review (EIR) was highlighted. The Group was informed about the 2005 update to the WBG Board of Directors, and advancements in the areas of governance,

transparency, community development, environment and renewable energy were highlighted, as were continuing global partnerships. A brief overview of WBG EI financing during FY2006 was also provided, and examples of recent high profile projects were presented. The Group was informed about the WBG's contributions to the discussion on energy security during the forthcoming G8 summit in Russia, and the expected contribution to the G20 meeting in Australia in November.

Following the presentation, the Group discussed the major issues emerging from it.

An advisor quoted the example of an NGO partnering with the National Geological Bureau to implement a small-scale mining program, and urged the WBG to invest directly in small-scale mining. WBG staff explained the difficulties surrounding direct investments in small scale mining enterprises, where attempts had been made and were largely unsuccessful. Staff noted informality as the major challenge in small scale mining, and informed the Group that the Bank's assistance to small-scale mining had been mainly through the CASM partnership, although more recently the Bank had approved a significant financing in Nigeria that had an important small scale mining component.

An inquiry about progress on transparency in WBG EI investments was made by another advisor, who also expressed some concern about the monitoring of poverty alleviation impacts resulting from these investments. Staff explained that (i) all IFC EI investments undertaken following the EIR MR have required client companies to undertake to publicly disclose payments made to the government; (ii) monitoring of poverty alleviation impacts can present difficulties in cases where good baseline data does not exist because IFC entry into the project is at a relatively advanced stage; and (iii) there is good progress on the standardization and aggregation of indicators to monitor the development impact of IFC investments.

One advisor asked the WBG to clarify the consent vs. consultation issue. Staff explained the WBG approach to community consultation within the framework of Broad Community Support (BCS) as proposed in the EIR MR, and subsequently endorsed in the World Bank's Indigenous Peoples (IP) Policy and IFC safeguard revisions. Under this approach, the WBG, in deciding whether to support a particular EI project, makes an assessment of whether the project is broadly supported by the impacted community. How this assessment is made would depend on the specifics of a particular project. In cases where the project does not appear to be broadly supported by the local community, the WBG may engage with the local communities, investors and governments to establish whether and how project design and/or implementation can be adjusted to engender support. Another advisor suggested that greater elaboration on the process and experience of obtaining BCS would be helpful as it became available. Later in the meeting, the complexity of assessing community support was noted in an environment when the populations of local communities could change significantly within the project life and views about projects could also change over time. The importance of early and appropriate engagement including consultation in local languages, appropriate processes and even capacity building for local communities was stressed by a number of Advisors.

The WBG was urged by another advisor to focus on the development of local content. Staff agreed that this was an important way of broadening development impact of extractive industry projects and provided examples of current and proposed projects where it was working to help ensure this, including investment in the downstream sector, promoting Liquefied Petroleum Gas (LPG) use, and providing training to local oil service companies to certify them to international standards.

It was noted by an advisor that the extension of the Global Gas Flaring Reduction Partnership (GGFR) mandate would send the wrong signal to industry players committed to phasing out flaring by the earlier stipulated deadline. Staff explained that the rationale for the extension was not to extend a deadline for ceasing gas flaring, but to recognize the reality on the ground and allow the initiative to continue to engage with countries where flaring continues to be an issue.

The importance of decentralization and small-scale, localized solutions for maximizing development benefits was noted by one advisor. Staff informed the Group that IFC had already commenced relocating Oil, Gas & Mining investment staff to field offices, and aims to increase the proportion of field-based staff to at least 20% over the next 2 years. In IFC generally including the field office staff, the proportion was already above this.

The criticality of adequate governance at the local level, as well as the importance of intra-government systems and coordination, was highlighted by one advisor, noting that transparency by itself was not a sufficient condition for high quality investment and that the WBG should keep in mind the balance of activities in this area compared to other aspects of governance. The importance of enhancing government capacity at the local level was reiterated by other members of the Group, and a suggestion was made to place a discussion of the WBG activities in this area on the agenda for the next meeting. One advisor acknowledged the Bank's efforts in this area, and highlighted the achievements to date.

Concerning governance at the national level, staff explained that governance is integral to a variety of programs undertaken by the WBG, and accounts for a significant share of Bank programs. In so far as the extractive industries are concerned, the EIR MR proposed that Country Assistance Strategies (CASs) should consider relevant EI issues in the case of resource rich countries. In this respect, appropriate guidance notes for staff were prepared and are being applied. In so far as programs with governments are concerned, staff noted the reluctance of certain countries to engage on the governance agenda in extractive industries, especially where large revenue flows meant little or no need for Bank financing. Staff noted that, while transparency was only one aspect of governance, EITI did offer an important opportunity to engage with member countries in this area. An Advisor noted that there was no overall coherent governance program for the 35 or so resource rich countries who were highly dependent on EI and who shared a number of characteristics and issues.

An advisor inquired about the engagement of the WBG with the oil industry in Iraq. Staff explained that, while the legal and regulatory framework for the industry certainly was in need of modernization, it was presently unclear as to whether the recently established government considered WBG assistance in this area a priority. In the event that the WBG was called on for assistance then this something it would clearly consider.

Another advisor raised the issue of the WBG's role in periods of high commodity prices, stressing the importance of fairness in sharing of the financial benefits of high prices during such periods. Staff noted that the issue of benefit sharing had become more prominent recently. In some ways, taxation in the mining sector appeared less flexible in dealing with unexpectedly high prices than that usually in place in the oil sector. However, there were substantial differences between the sectors that needed to be accounted for, and any assessment of benefit sharing needed to take a longer term perspective. However, the WBG is about to issue a study of some aspects of mining taxation and proposes to hold a workshop on the issues in the autumn. In a later discussion, it was suggested that the WBG needed to play a pro-active role in ensuring that countries did negotiate and receive fair deals in their EI sector.

### ***Session 2: Human Rights Impact Assessment***

An overview of IFC's emerging approach to human rights impact assessment was presented by staff. It was noted that the approach was still evolving and could be considered a work-in-progress. It was intended to cover all sectors, and was not intended to be a compliance tool.

One advisor, while commending the initiative, inquired why the IFC was not requiring its client to carry out such assessments, whether the initiative captured the economic, social and cultural aspects of human rights, and if such assessments could be carried out on a collaborative basis by industries across a whole sector as opposed to one client at a time. The importance of early engagement in this respect was stressed.

Other advisors urged the WBG more generally to place human rights high on its agenda with at least an equal importance to, say, corruption. In this respect they noted that the WBG's Executive Directors could play a role. Some of the issues inherent in the implementation of such an initiative, including the respective roles of governments, investors and others (e.g. in the supply chain), and costs, especially for small local companies, were noted. Staff highlighted the contentious nature of this issue, noting that human rights were not addressed in the EIR MR because it was not considered the WBG's area of expertise and because many of the issues were not EI specific.

### ***Session 3: Chad-Cameroon Pipeline Project***

The session commenced with a short, recently produced BBC documentary on the project. Following the documentary, one of the advisors made a short presentation on lessons learned from the project. The presentation acknowledged some innovative arrangements in the project, while at the same time pointing out loopholes in these arrangements. Greater disclosure and more support for the oversight committee were needed. Noting the absence of democratic accountability in the country, the presentation emphasized the importance of external pressure and reiterated the point that transparency alone was not a sufficient condition for accountability. Drawing on lessons learned from recent developments in Chad was important especially given the emergence of more new oil producers in Africa the presentation concluded by urging the WBG to make appropriate adjustments to its approach to the assessment of EI projects, including the use of moratorium on engagement when governance and other conditions were not appropriate.

WBG staff participated at the meeting and from the Chad country office by video conference link. The Group was informed that an interim agreement had been reached between the WBG and the Chadian government, and that a revised budget, under which 70% of revenues from oil would be spent on priority sectors, had been approved by the government. The WBG hoped to effect a partial, phased release of the government's funds placed in the overseas escrow account based on this agreement. Staff explained that the government did recognize shortcomings in the public financial management system, and had agreed to short-term measures to impose fiduciary safeguards. The WBG plans to work closely with the government to guide resource allocation in a way consistent with the Poverty Reduction Strategy, particularly at the time of the 2007 budget when large petroleum revenues are expected.

Commenting on the presentation, staff highlighted the intricacies surrounding governance assessments, noting the relative merits of perception-based indicators vs. more "objective" reviews of institutional arrangements. Slow progress in government capacity-building in Chad was discussed as a possible outcome of broader weaknesses in governance. Staff asserted that the

Chad model, while not to be recommended in its exact form for other countries, could find application in other countries at the level of principles, notably the establishment of “exceptional” transparency and accountability arrangements.

Following the presentation and introductory remarks by staff, the session was opened up for discussion.

One advisor inquired if the oil industry had played a role in promoting good governance in Chad. Staff informed the Group that at the time of project inception, the industry had viewed the role of the WBG as critical, and was reluctant to proceed without WBG. It was noted by an advisor that in an environment of high competition for access to resources, there were many examples where developments were proceeding without the sorts of considerations that drove the Chad arrangements. It was not clear that a WBG imposed moratorium in weak governance conditions would lead to better. The need to broaden the incentive to consider governance and broader development issues to other IFIs and commercial banks was noted. An advisor considered that the effort in bringing the Chad Cameroon project to fruition in difficult circumstances was commendable.

Another advisor stressed the importance of extra effort to make novel approaches work in difficult circumstances, and opined that the benchmark for success should be an assessment of the likely situation under a scenario where the WBG was not involved, i.e. the “counterfactual” approach. Another advisor noted that this may not be the appropriate standard and the WBG should always be able to justify its engagement on the basis of the impact on reducing poverty – its core objective. The dangers inherent in urging the WBG to continue taking risks were noted as it was not the bank who was the ultimate bearer of these risks.

The critical role of the parliament in the overall governance agenda was highlighted by one advisor, who also inquired about the role of the Chadian parliament during the project. Staff explained that parliament’s contribution had been relatively small, although the WBG had provided an IDF grant for a capacity building program for the Chadian parliament in 2002 and 2003.

Another advisor asked why the WBG had agreed to the interim agreement, and the rationale to limit the original law to 3 fields and direct revenues. Staff explained that the interim agreement provided an opportunity for unblocking things while work on a more definitive resolution continued. The original law was drafted at a time when oil prices were significantly lower than present levels, and therefore covered only direct revenues.

One advisor inquired as to whether there was any consultation with civil society at the time of project inception, and whether a holistic approach had been taken while developing the project. Staff informed the Group that there were extensive discussions/consultations with civil society, and that civil society organizations continue to be involved with new project development in Chad. The important role of civil society had played over a period of time in providing oversight of the project was noted by advisors.

One advisor reemphasized the importance of including measures of “political will” in governance assessments. Another urged the development of clear transparent indicators of governance capacity generally.

Staff noted that it was too early to term Chad a success or failure, acknowledged that certain aspects of the project could be improved upon, and that certain events impacting the project could

not have been foreseen at the time it was designed. Staff also reiterated the fundamental changes in IFC's approach to the evaluation of EI projects that have come about in the last few years.

#### ***Session 4: Developing Resources in Guinea***

Staff presented an overview of the WBG's current engagement in the natural resources sector in Guinea. The presentation highlighted the sluggish economic growth in Guinea over the past 5 years, as well as the poor level of social indicators compared with neighboring countries. Noting the critical importance of the natural resource sector to the economy, it stressed the critical and urgent need for governance and transparency improvements in the mining sector. The World Bank Group's multifaceted approach to mining sector development in Guinea, which aims to build government capacity for mining sector governance, ensure maximum community benefits around mining operations, and selectively support new private sector mining operations in the country was described.

Following the presentation by Bank staff of their approach and recent engagement, an historical perspective was provided that illustrated the changing contribution of the mining sector to the economy over time. Revenues from mining, for example, had declined substantially as a share of government revenues in the face of weak new investment and prices. A brief overview of the history of mining legislation changes was given and the apparent relative weakness of government in negotiating contracts with mining companies was noted. Issues seemed to be a weakness in capacity and an overall lack of transparency and consistency in governance generally. The full terms of contracts were not known and a recent study by a well known international mining expert had noted apparent flaws in particular contracts that had recently been signed. Over time, investors in Guinea had become responsible for the provision of a range of services to quite large communities that were the proper responsibility of government, but who not been able or prepared to assume responsibility for these.

A feature of mining investment in Guinea was the relatively little value added and limited engagement of local business enterprises. A deeper contribution to development from mining would require that these links be enhanced. One advisor noted the importance of trying to establish mining clusters where there was sufficient critical mass to promote broader development and linkages.

While acknowledging the progress made by Guinea on the Extractive Industries Transparency Initiative (EITI), some advisors highlighted recent unfavorable developments in the country such as the change in government, and also expressed concern about the very limited presence of multilateral development agencies and the extent of non-disbursed grants and loans. Advisors also highlighted investor concerns about the prevailing investment climate which meant that despite considerable potential, large scale investment had not taken place in Guinea in recent years.

Responding to these comments, staff acknowledged the frequent changes in senior government officials was a problem, but emphasized the continuation of the reform process in Guinea notwithstanding this. The Group was apprised of the WBG's ongoing capacity building program in the country, and informed that a substantial part of the limited IDA resources would be directed towards the broader governance agenda.

One advisor drew the Group's attention to the tremendous opportunities before the WBG to make a positive contribution in Guinea, and termed the identification of the major inadequacies as the

first step in this direction, whereas another placed Guinea in the category of countries that had expressed the willingness to reform.

The capacity of Civil Society Organizations (CSO) in Guinea was raised as an issue by one advisor as was the quality and depth of engagement by civil society in the EITI process. In this respect, Staff advised that they considered the CSO engagement in EITI to be substantial and, to help ensure this; the WBG had financed a training workshop for CSO.

Staff explained in detail the evolution of WBG's current approach in the extractives sector in Guinea. Against the backdrop of very little multilateral development assistance to Guinea and negative perceptions regarding the country, the WBG spearheaded the reengagement process through the natural resource sector, employing a multi-pronged approach that involved working across institutions in the Bank Group, as well as close collaboration with the IMF in the context of a Staff Monitored Program. Despite changes at the political level, progress in a number of initiatives, such as EITI, had been promising.

#### ***Session 5: Enhancing EI Benefits to Communities***

Staff reported back on the one-day workshop titled "Sharing Experience: Enhancing the Benefits to Communities from Extractive Industry Projects" held on June 19, and attended by some members of the Group. An introduction of CommDev, the WBG's recently established facility to promote community benefits from extractive industries, was also presented.

Major issues discussed during the course of the workshop included community driven development, governance, capacity building at the local government level, local economic development, and the importance of information sharing among local communities, government and donors/investors.

One advisor stressed the importance of addressing the gender issue in mining, quoting an example where overall productivity levels had gone up considerably once women were employed at the mine site.

An advisor asked if CommDev's involvement was restricted to projects that were financed by the WBG. Staff responded in that this would generally be the case during this phase of the facility's life. Projects with no WBG involvement would eventually be supported once the facility has scaled up.

The approach to the enhancement of local community benefits in a major developed economy was outlined by an advisor. This included, *inter alia*, (i) establishment of an advisory committee comprising representatives from the local community; (ii) requirement for companies to publish an annual socioeconomic report; and (iii) information sessions to better inform local communities about the potential benefits from mining developments.

Responding to a question by one advisor regarding the vision for CommDev, staff outlined the three objectives of results on the ground, building up of networks, and raising of awareness on issues surrounding community development.

An advisor inquired about the fit between CommDev and IFC's overall activities, noting that community development should be an integral part of every IFC financing in the extractive industries sector. Staff noted the rationale for CommDev as reduction in fragmentation of

community development initiatives, as well as the requirement for projects to go beyond what is needed purely from a compliance perspective.

Some advisors, while complimenting the initiative, highlighted the importance of making small, targeted interventions initially and scaling up as necessary, and of addressing organizational issues such as a strong presence in the field. Advisors cautioned against the initiative becoming a catalyst for “raw capitalism”. Staff reiterated CommDev’s focus on implementation, and the reliance on existing networks within the WBG to facilitate it.

### ***Session 6: National Oil Companies***

Staff presented an overview of the very limited engagement to date of the WBG with National Oil Companies (NOCs). Staff explained that the major focus of WBG involvement with developing country public sector entities in the oil sector has been on advisory services, with the objective of creating a better operating environment in the sector. Furthermore, WBG interactions with NOCs have been restricted by limited host government interest, and are usually a component of a broader IMF or WBG program in a country. The WBG, however, is planning a workshop on NOCs later in the year and seeking to work with governments to further the separation of regulatory and ownership functions.

Some advisors agreed on the need to maintain contact with NOCs, and for the WBG to play an ongoing role in the introduction and maintenance of international best practices at such companies. The WBG would need to recognize that for many countries the ownership structure of national oil companies was not negotiable, and indeed, was often a part of constitutions. Staff noted that efforts such as these have typically met with resistance in the past. Initiatives such as EITI and the GGFR were one vehicle to engage with national oil companies. An advisor stressed the importance of having international NOCs and producer NOCs more as participants, rather than observers, on responsible development issues related to exploration and production. The growth and expansion of NOCs can have profound implications for a host country’s governance and development performance in the long-term, and the Bank was encouraged to actively find creative and appropriate ways to engage NOCs on these issues.

A number of Advisors stressed the role of the WBG in engaging with national companies when they invested in developing countries and in helping encourage such investors to take an appropriate approach to environmental, social and other issues that are important for sustainable development. One advisor considered that the WBG should make its views in the issues this respect known.

### ***Session 7: Multistakeholder Partnerships for Environmental & Social Standards***

An advisor shared the experiences of his government with initiatives involving international standards and multistakeholder dialogues. Reference was made to four specific initiatives, namely (i) the common code for the coffee community; (ii) the sector model to introduce social standards in the textile, clothing, footwear and toy industries; (iii) the Forestry Stewardship Council; and (iv) the World Commission on Dams. Important ingredients of multi-stakeholder dialogue platforms were noted, and credibility and legitimacy of a standards initiative were highlighted as key factors for acceptance and success. Some lessons to consider in the implementation of such initiatives, such as the careful management of multi-stakeholder processes, avoiding the risk of neglecting governments, rewarding commitments, integrating standards into the wider sustainability agenda, bridging the gap between current practice and perfect compliance, and the harmonization of standards and benchmarking systems, were also discussed. The advisor

informed the Group about a project currently under preparation that will examine multistakeholder partnerships in the Extractive Industries.

One advisor complimented the initiative, and inquired as to whether there was a database where information on such initiatives could be found. The advisor also drew a parallel to the Equator Principles, where a major challenge was getting slow starters to sign up to the initiative. The issue of “principles fatigue”, and its implications for costs incurred and time spent on such initiatives was raised by one advisor. It was important that those who participated in such initiatives saw benefits from doing so, as this would encourage others to join and spread the impact of it. Conversely, it was important that the issue of “free riders” also be addressed.

An advisor asked if there were examples of successful migrations from voluntary principles to global standards, and another inquired if the social standards exceeded national regulations. The Kimberly process was quoted as an example of a successful migration, which although voluntary, resulted in the passage of legislation in the US.

Another advisor noted that global issues could not be resolved by international legislation, and that solutions grounded in self-discipline were urgently required, with market and regulatory discipline as alternatives. IFC was asked to take the lead in promoting such solutions.

#### ***Lunch with World Bank Group Executive Directors***

At the conclusion of the meeting, advisors had lunch with a group of WBG Executive Directors (EDs) during which time they had an opportunity to give comments to the Directors on the meeting, and the issues raised.

#### ***Meeting Review and Next Steps***

A review of the foregoing discussion was presented, and the favorable experience of discussing specific cases was highlighted. The suggestion to include local governance as one of the agenda items for the next meeting was accepted, as was the proposal to hear a case study on developments in the mining sector in Zambia.

Advisory Group members acknowledged the richness of the discussion, and thanked the WBG staff involved in the organization of the meeting. Some advisors requested electronic versions of the background material prepared for the meeting. Staff were requested to ensure the distribution of materials for future meetings early enough for advisors to fully consider.

It was agreed to hold the next meeting in approximately 9 months. The merits of holding the meeting at a location that would permit a site visit were discussed and the WBG is open to the further views of advisors, in this respect, although a number expressed concerns about the time involved.

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

Declan Duff, Vice President Industries, IFC  
Rashad Kaldany, Director, Oil, Gas, Mining & Chemicals, IFC/World Bank  
Ali Khadr, Country Director, Chad/Cameroon, World Bank  
Jamal Saghir, Director, Energy & Water, World Bank  
Somit Varma, Associate Director, Oil & Gas, IFC  
Kalada Harry, Senior Manager, Portfolio, Oil, Gas, Mining & Chemicals, IFC  
Peter van der Veen, Manager, Policy Division, Oil, Gas & Mining, World Bank  
John Strongman, Adviser, Mining, World Bank  
Clive Armstrong, Lead Economist, Oil, Gas, Mining & Chemicals, IFC/World Bank  
Omar Chaudry, Senior Economist, Oil, Gas, Mining & Chemicals, IFC/World Bank  
Nico Christos Halkas, Operations Team Manager - MIGA  
Deniz Baharoglu, Senior Social Sector Specialist, MIGA  
Tjaarda P. Storm Van Leeuwen, Lead Financial Analyst, MENA, World Bank  
Marie Françoise Marie-Nelly, Senior Program Manager, Africa Region, World Bank  
Natalie Munzberg, Counsel, World Bank, Africa  
Emmanuel Noubissie, Senior Country Officer, World Bank, Africa  
Houria Sammari, Senior Program Manager, Environment & Social Department, IFC  
Dafna Tapiero, Manager, CommDev, IFC/World Bank  
Boubacar Bocoum, Mining Specialist, Policy Division, Oil, Gas & Mining, World Bank  
Richard Arkutu, Senior Investment Office, Mining Division, IFC