

**IMPLEMENTATION OF THE MANAGEMENT RESPONSE
TO THE
EXTRACTIVE INDUSTRIES REVIEW**

February 2010

Implementation of the Management Response to the Extractive Industries Review

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ABBREVIATIONS AND ACRONYMS

AAA	Analytic and Advisory Activities
ASM	Artisanal and Small-Scale Mining
CAO	Compliance Advisor/Ombudsman
CAS	Country Assistance Strategy
CASM	Communities and Small-Scale Mining
CODE	Committee on Development Effectiveness
CommDev	Oil, Gas and Mining Sustainable Community Development Fund
DFID	Department for International Development
EE	Energy Efficiency
EI	Extractive Industries
EIR	Extractive Industries Review
EITI	Extractive Industries Transparency Initiative
EITAF	Extractive Industries Technical Assistance Facility
EITAG	Extractive Industries Technical Advisory Group
FY	Fiscal Year (ending June 30 th for the WBG)
GGFR	Global Gas Flaring Reduction Partnership
GHG	Greenhouse Gas
GRICS	World Bank Institute Governance Indicators
HGA	Host Government Agreement
HIPC	Heavily Indebted Poor Country
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IBRD	International Bank for Reconstruction and Development
ICMM	International Council on Mining and Metals
IDA	International Development Association
IEA	International Energy Agency
IFC	International Finance Corporation
IGA	Inter-government Agreement
IMF	International Monetary Fund
IUCN	World Conservation Union
LICUS	Low-income Countries Under Stress
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MR	Management Response to the Extractive Industries Review
New-RE	Renewable Energy excluding hydro with capacity more than 10MW
NGO	Nongovernmental Organization
OECD	Organization for Economic Co-operation and Development
OED	Operations Evaluation Department
OEG	Operations Evaluation Group
OEU	Operational Evaluation Unit
PRSP	Poverty Reduction Strategy Paper
RE	Renewable Energy
SPI	Summary of Project Information
SME	Small and Medium Enterprises
TA	Technical Assistance
UJV	Unincorporated Joint Venture
UN	United Nations
UNEP	United Nations Energy Program
WBG	World Bank Group

EXECUTIVE SUMMARY

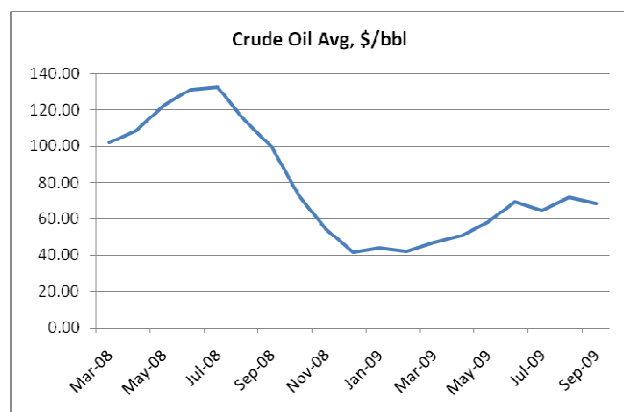
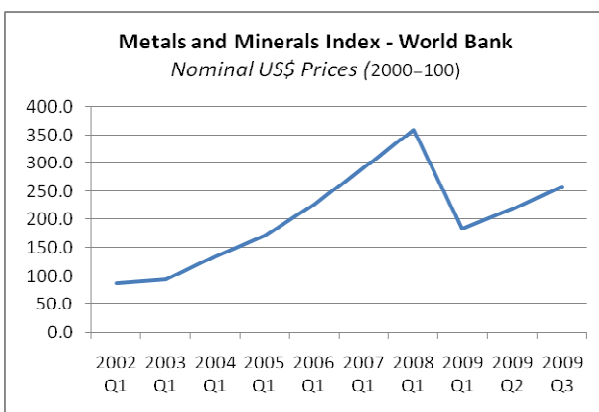
This is the Fifth annual report on the implementation of the Management Response to the Extractive Industries Review. It provides an overview on progress achieved and further information about World Bank Group (WBG) activities related to the extractive industries and projects it supported in the last fiscal year.

Sector Background

After a dramatic fall in commodity prices, precipitated by the financial crisis and subsequent global economic recession, prices began to recover in the spring of 2009. While the recent recovery in prices has provided some relief, lower commodity prices have affected resource producing countries through their impact on revenues.

At the same time, companies have rescheduled or cancelled their planned investments in light of weaker demand, and difficult access to credit has led to defaults and an overall consolidation of the extractives sector globally. Junior companies have faced particular difficulty with raising capital and weathering the effects of price volatility, and a number of them have folded or have been acquired as a result. The private sector is also confronted with additional pressures: state-owned companies and country governments are tightening control over their reserves, pushing the private sector into more difficult projects while new investors from emerging economies, including China and India, are creating more competition, as they are actively seeking resources overseas.

Looking forward, commodity prices are likely to be strong in the medium to long term. Commodity-intensive-growth in China, India and other developing countries as well as returning developed-country demand will put upward pressure on prices. Given the severity of price movements over the past couple of years, both country governments and private companies have a greater awareness that they need to be better prepared to manage such volatility.



Progress in Implementation of the Management Response to the Extractive Industries Review

The WBG continues to implement the Management Response to the Extractive Industries Review (EIR, Annex A). It continues to carefully assess the expected benefits of its engagement in specific investments in the sector and the capacity to mitigate risks to these benefits. A consistent focus is on the issues of governance in a number of our client countries. The WBG continues to show leadership in this area by providing strong support to the Extractives

Industries Transparency Initiative (EITI), and IFC has further refined its requirement for client reporting of payments made to governments in the light of the experience. In addition, work continues with a number of select countries along the EI value chain (EITI++) where diagnostic work has led to increased interest by governments for technical assistance to address issues that had been identified. A fast-disbursing facility that can provide technical assistance to governments in urgent need of advice with respect to prospective EI developments and short-term capacity building has been set up. The Extractive Industries Technical Advisory Facility (EI-TAF) is operational and funded for fiscal years 2010 to 2012.

Global Initiatives

As a part of its approach to helping ensure sustainable EI development, the WBG leads or supports a number of global initiatives addressed at specific EI issues:

Extractive Industries Transparency Initiative (EITI). With WBG support the Extractive Industries Transparency Initiative (EITI) continues to have a positive impact in the area of transparency about oil, gas and mining sector payments to governments. To date, thirty countries have formally adopted EITI. The World Bank supports the initiative through: (a) administration of the EITI Multi-Donor Trust Fund that provides support to governments to implement EITI; (b) support to civil society to enable them to participate effectively in the multi-stakeholder process; and, (c) assisting the EITI Secretariat in its coordination function and by serving as an observer on the EITI Board. Two countries, Azerbaijan and Liberia, have completed validation to date, and an additional nine countries are expected to be validated within their deadlines by March 2010.

Petroleum Governance Initiative (PGI). The WBG collaborates with the Norwegian Government on a joint Petroleum Governance Initiative (PGI). The PGI is based upon the thematic pillars of Governance, Environment, and Community Development, and works at both the global and country-specific levels. A growing body of work is being coordinated in various countries, including: Ghana, Uganda, Rwanda, Cambodia, Vietnam, and Yemen.

Global Gas Flaring Reduction Partnership (GGFR). The GGFR brings together industry, government and other stakeholders with the objective of reducing gas flaring globally. Given continuing challenges, GGFR's Steering Committee met in September 2009 and agreed to extend the work program of the partnership for three more years, starting a third phase in 2010. In FY2009, more progress in increasing awareness of gas flaring was made as additional countries and companies joined the partnership. In Nigeria, a country with significant gas flaring, the work program continued to focus on supporting the Nigerian government, the oil & gas operators and other stakeholders in developing a rational approach to flare reduction through the "Nigeria Flare Reduction Committee" (NFRC).

Communities and Small Scale Mining (CASM). Artisanal and small-scale mining (ASM) involves very large numbers of people globally, and often raises complex social and environmental issues. ASM is a focus of Bank mining activities, especially in Africa. To this end, the 9th Annual CASM Conference was held in Mozambique September 8-14, 2009 with the theme, "ASM: An Opportunity for Rural Development". During FY2009, as part of an external review of the Global Programs and Partnerships housed in the Oil, Gas and Mining Policy and Operations Division, evaluators concluded that CASM has been successful in accomplishing its mission despite limited resources.

Engagement with Stakeholders

In addition to its formal initiatives, the WBG continued to actively reach out to stakeholders in FY2009 in a number of ways. The WBG EI Advisory Group met in November 2009, and the WBG has an active program of engagement with civil society and others about extractive industries issues. In March 2009, the WBG hosted ‘Extractive Industries Week’ bringing together staff and outside stakeholders to discuss how to improve extractive industries’ benefits for the poor, particularly given the unfolding financial crisis and commodity price volatility.

Support for Renewable Energy

The WBG increased its funding for renewable energy (RE) and energy efficiency (EE) projects and programs in developing countries in FY2009 by 24 per cent on the previous year¹. Total RE and EE commitments for the year ending June 30, 2009 reached US\$3.3 billion - the highest ever. The WBG far surpassed its commitment made at the Bonn International Renewable Energies Conference in 2004 to increase support for new renewable energy and energy efficiency to reach \$1.9 billion over the period 2005-2009, reaching \$7.0 billion during that period. Over the last five years, investments in the renewable and energy efficiency sectors have grown from US\$313 million to US\$3.3 billion².

Demand for WBG Extractive Industries Financing

The overall volume of WBG EI financing in FY2009 was US\$915 million, a decrease over FY2008 of 11%³. IFC investments accounted for 47% of the total financing volume, with the other half split between IBRD (37%) and IDA (16%). The two largest portions of total WBG financing in FY2009 were in Sub Saharan Africa and in East Asia and Pacific (31% each). A big part of financing in Sub Saharan Africa was due to two big investments in Ghana to help fund the Jubilee oil and gas field development – Kosmos Energy and Tullow Oil. In the East Asia and Pacific region most of its share of total WBG financing concentrated in Indonesia through the EI component of a much larger loan. A part of this loan will help finance the introduction of revenue transparency in the extractive industries sector. The majority of IFC’s financing in terms of both project numbers and US\$ volumes was with smaller international and local companies. In line with IFC’s equity strategy for the extractives sector, the number of early equity investments, usually with relatively small companies, is increasing. The objective is to support junior companies in the exploration or early development stage, to help them manage potential environmental and social impacts early on and to continue the relationship as projects transition through the development cycle.

IFC systematically tracks the benefits generated by its EI portfolio through IFC’s Development Outcome Tracking System (DOTS). During the reporting cycle in FY 2009, IFC’s oil, gas and mining client companies contributed approximately US\$10 billion to government revenues and created or sustained about 70,000 direct jobs. The vast majority of IFC’s client companies were engaged in the development of local communities, spending in total about

¹ For further information see www.WorldBank.org/energy

²For an exact breakdown of WBG energy lending please see Annex B.

³ Details provided in Annex C.

US\$132 million on activities in this area. Total spending by these companies on goods and services from local and national suppliers approached US\$6 billion, demonstrating both significant linkages to local businesses and contribution to local economies.

Challenges Looking Forward

Looking forward, the WBG is likely to face demands to help address EI sector challenges arising from the changed market environment. Countries facing sharp falls in EI revenues and a drop in interest by companies in new investments may look to the World Bank for assistance in managing this and in responding as appropriate. Even investors with good long-term development projects may find appropriate financing, especially with long tenor, more difficult to obtain given developments in financial markets and increased uncertainty about commodity prices. IFC/MIGA will have a substantial countercyclical role to play in this respect.

The WBG's new approach to helping countries address issues along the whole of the EI value chain, referred to as "EITI++", has the promise to help countries make better use of their natural resources, but will require strong country ownership and partnerships between the WBG, governments and other stakeholders to successfully implement and make a difference for countries and their citizens. The approach is now being put into action in a number of countries such as Mozambique and Ghana. The World Bank is working with governments to identify issues that could be addressed across the extractive industry value chain in order to enhance the sustainable impact of extractive industries development in these countries. The World Bank Institute (WBI) held a consultation meeting in Africa in late 2009 to consider how the approach could be developed further with the engagement of a broad range of interested stakeholders.

Implementation of the Management Response to the Extractive Industries Review

I. INTRODUCTION

1.01 This is the Fifth report⁴ to the Board on progress in implementing the Management Response (MR) to the reports of the Extractive Industries Review (EIR) and the World Bank Group's (WBG) own evaluations⁵. The report summarizes WBG activities in the extractive industries (oil, gas and mining – EI) in FY2009, and reviews progress in the MR implementation.

II. KEY DEVELOPMENTS IN THE EXTRACTIVE INDUSTRIES SECTOR

COMMODITY PRICES RECOVER – BUT GLOBAL ECONOMIC OUTLOOK REMAINS UNCLEAR

2.01 After a dramatic fall in commodity prices precipitated by the financial crisis and subsequent global economic recession, prices began to recover in the spring of 2009. Even though demand has remained subdued in OECD countries emerging economies in Asia, particularly China and India, have posted continued economic growth. China and India are aggressively pursuing resource acquisitions to meet their demand for natural resources. On the back of this demand, the price of crude oil has recovered to a level higher than its average price over the last decade. Metal prices have also rebounded substantially.

2.02 While the recent recovery in prices has provided relief for governments, lower commodity prices negatively affected the resource producing countries through their impact on revenues. Faced with less interest in investment by private companies, some countries that had started to toughen the conditions under which they granted access to their resources during the boom years have put on hold the implementation of terms more favorable to government. Some governments have even considered reductions in taxes to help encourage continued investment despite the fall in prices.

2.03 The industry is further consolidating, as investment projects have continued to be delayed or cancelled, as companies re-evaluated planned activities in the context of lower demand and prices, more limited access to credit and uncertainty about the timing and strength of the upturn. Particularly junior companies were badly hit and only some have re-entered the market. As State-owned companies and country governments are tightening their control over their reserves, the private sector is being pushed into more difficult projects and environments. Given significant price volatility both country governments and private companies are aware that they need to be better prepared to manage the fluctuation.

⁴ The fourth update was SecM2009-0079 ; IDA/SecM2009-0084 ; IFC/SecM2009-0006 ; MIGA/SecM2009-0006

⁵ The WBG Management Response to the Reports of: The Extractive Industries Review; The Independent Evaluations by OED/OEG/OEU; The CAO Review. (R2004-0165/1, IFC/R2004-0180/1, MIGA/R2004-0053/1)

2.04 Looking forward, commodity prices are likely to continue to be relatively strong in the short to medium term as the commodity-intensive growth of emerging economies such as China continues to be significant, driven by urbanization, infrastructure development, and increased local consumption. As developed country demand rebounds, as now seems to be underway, demand pressures may increase prices further. In the case of oil, while there is some capacity in OPEC to increase production, sustained demand growth may put real pressure on markets.

2.05 Junior companies, which are a key focus for IFC, continue to face significant challenges in raising capital. Given the volatility of commodity prices and the lack of access to credit market for junior companies, a number of them have folded or have been acquired.

III. IMPLEMENTATION OF THE MANAGEMENT RESPONSE

3.01 Continued progress has been made in the implementation of commitments made in the Management Response. Annex A summarizes progress on specific objectives.

RENEWABLE ENERGY

3.02 The WBG increased its funding for renewable energy (RE) and energy efficiency (EE) projects and programs in developing countries in FY2009 by 24 per cent on the previous year⁶. Total RE and EE commitments for the year ending June 30, 2009 reached US\$3.3 billion - the highest ever. The commitments by the WBG, including Carbon Finance operations and co-financing support from the Global Environment Facility (GEF), were made up of the following:

Table 3.1 WBG Commitments for Renewable Energy and Energy Efficiency in FY 2009

Source of funds	Commitments in FY2009 (millions of US dollars)			
	New Renewable Energy	Hydro > 10MW	Energy Efficiency	Total
World Bank	840	43	1,386	2,269
- IBRD/IDA	804	43	1,311	2,157
- GEF	15	n.a.	68	83
- Carbon Finance	21	n.a.	8	29
IFC				
- Own Funds	587	135	315	1,036
Total	1,427	177	1,701	3,305

Note: Some columns may not add up exactly due to rounding; CTF financing is not included in this table

3.03 Renewable energy and energy efficiency investments made up 40 percent of total WBG energy lending for the year (up from 13 percent on average in the early 1990s) with 99 projects in 48 countries, including two cross-border projects with the remaining 60% of energy investments supporting transmission and distribution, capacity building and technical assistance, upstream oil and gas development as well as thermal generation.

⁶ For further information see "Beyond Bonn: World Bank Group Progress on Renewable Energy and Energy Efficiency in Fiscal 2005-2009" at www.WorldBank.org/energy

"Coal" categorized projects accounted for only 5% of the total lending envelope of which the majority (73%) went towards rehabilitation, policy advice and a coal bed methane project. Almost two out of every three dollars spent on energy projects financed by the International Finance Corporation were in the renewable energy or energy efficiency sectors in FY09. The World Bank Group surpassed its commitment made at the Bonn International Renewable Energies Conference in 2004 to increase support for new renewable energy and energy efficiency by nearly \$1.9 billion over the period 2005-2009. During that period Bank Group financing for new renewable energy and energy efficiency in fact amounted to more than \$7.0 billion.

3.04 The WBG's Development and Climate Change Strategic Framework (DCCSF), endorsed by the Development Committee in October 2008⁷ provides an overall framework for the WBG activities with respect to climate change. Specifically with respect to coal fired power generation projects, the DCCSF outlines six criteria under which the WBG could support its partner countries. The World Bank has decided to institute external expert panels to review and advise on the application of these criteria, including a review of the analysis of alternatives during the Bank's project preparation process.

3.05 An IFC-led pilot measured greenhouse gas emissions of selected real sector IFC projects, including EI investments, during FY09. As part of this pilot, project economic analysis has included the shadow cost of carbon emissions in the economic analysis of these project-finance type investments in the EI sector for informational purposes only. The World Bank Group energy related EI activities will be further considered as part of a proposed new WBG Energy Strategy. A concept note in this respect reviewed by the Committee on Development Effectiveness (CODE) of the WBG's Board, and an Energy Strategy Approach Paper has been made available on the WB website (www.worldbank.org/energy). Stakeholder face-to-face and web-based consultations are now underway, and the new strategy is expected to be finalized in 2011.

GLOBAL INITIATIVES

3.06 The WBG is leading or actively involved with the implementation of four global initiatives. An independent review was conducted in FY 2009 to help guide management increase the effectiveness of these programs in future. The global initiatives (EITI, GGFR, CASM – described in more detail below) were commended for their substantial contributions to the development agenda but in some cases it was recommended that more strategic choices should be made about areas of engagement given existing resource limitations.

Extractive Industries Transparency Initiative

3.07 The WBG continues to strongly support the implementation of the *Extractive Industries Transparency Initiative (EITI)*⁸ through (a) administration of the EITI Multi-Donor Trust Fund and USA trust fund for EITI, which supports technical assistance and grant funding to EITI countries, (b) support to civil society, and (c) assistance to the EITI Secretariat in its coordination function. The WBG also serves as an observer on the EITI Board.

⁷ Development and Climate Change: A Strategic Framework for the World Bank Group (SecM2008-0375)

⁸ For more information on the EITI see www.eiti.org

3.08 Since inception, the EITI principles have become a well-established and recognized standard for resource revenue transparency. There are currently 30 EITI-implementing countries (including Norway) of which two (Azerbaijan and Liberia) have completed validation and have been declared EITI-compliant (see Annex G for an analysis of EITI countries by geographic region and implementation progress to date). An additional 9 countries are expected to be validated within their deadlines by March 2010. In addition, a number of countries have announced their intent to adopt EITI (Ethiopia, Iraq, Indonesia, Afghanistan, Togo etc) and have sought assistance from the WBG to help them reach consensus on EITI and take the next steps to become EITI candidates. The WBG is now working with these countries and is in dialogue with others interested in adopting EITI, together with the EITI Secretariat Oslo and other donors.

3.09 When the Multi-Donor Trust Fund (MDTF) work program began in 2005, the initial focus of the EITI team and the MDTF was on outreach to help the initial set of countries to implement EITI as national processes. As the take-up of EITI grew, the EITI portfolio of countries expanded substantially. The global EITI architecture has solidified (EITI Board) and so has the focus of the EITI team, and MDTF work evolved accordingly. The current emphasis of the World Bank / MDTF is on validation to help ensure countries meet deadlines (early 2010 in most cases) but the work program also includes: (i) active support to EITI- implementing countries; (ii) outreach to new countries; and (iii) a continued, proactive effort to expand global knowledge and learning.

3.10 The key challenges the EITI team expects to address over the coming 12-18 months relate to the upcoming validation of several countries in early 2010. These challenges include: (i) urgent technical assistance to ready countries for the validation process within the two-year deadline, and (ii) for validated countries; ongoing work to help embed EITI into their national systems. In this respect, the World Bank Group is working actively with the EITI Secretariat Oslo and other international institutions such as Africa Development Bank and Asia Development Bank to ensure effective EITI implementation in their regions.

3.11 From January 1st, 2007, IFC required all EI investors it supports to make public payments to government from their operations. As of January 2009, IFC required the disclosure of material payments to follow a standard template to ensure consistency in reporting. Disclosure is required in both English and any applicable local language. IFC has set up a website to facilitate ready access to the information. In recent years, other institutions, such as OPIC and EBRD, have followed IFC's lead and IFC has provided advice to them in this respect.

Petroleum Governance Initiative (PGI)

3.12 A Memorandum of Understanding (MOU) between the World Bank and the Government of Norway, initiating the Petroleum Governance Initiative (PGI), was first agreed to in October 2006. As envisioned by the MOU, PGI is a bilateral collaboration between the Government of Norway and the World Bank designed to achieve structured cooperation on petroleum sector governance issues. This collaboration is important as Norway and the World Bank are both significant contributors to petroleum-related cooperation with developing countries, actively assisting them with petroleum resource and revenue management and related environmental and community issues. There are thus potential synergies to be realized from closer cooperation.

3.13 The PGI is based upon the thematic pillars of Governance, Environment, and Community Development, and works at both the global and country-specific levels. The total level of support from Norway is around US \$6 million equivalent (in NOK)⁹. As agreed in the MOU, the PGI should be a medium- to long-term commitment, in the range of a minimum of 3-5 years.

3.14 Activities being supported under the **Governance pillar** aim to foster the conditions necessary for robust petroleum sector governance, particularly in the areas of petroleum licensing and negotiations, institutional structures and capacity, fiscal regimes, and management of exploration and production operations. Projects are both global and country-specific in scope, providing support diversity of countries such as Cambodia, Ghana, Rwanda, Vietnam, and Yemen. The objective of the **Environment pillar** is to build the capacity for environmental management in petroleum producing countries or in countries where significant petroleum reserves have been discovered but sector development is still at its nascent stages. Work under the Environment pillar has included (i) a survey of environmental management systems to identify best practices for environmental management of the oil and gas sector; (ii) preparation of a toolkit on decommissioning policy adapted to the extractives sector in developing countries; (iii) and a Social and Environmental Strategic Assessment (SESA) in Mauritania.

3.15 Managed through the Oil, Gas and Mining Sustainable Community Development Fund (CommDev), the aim of the **Community Development Pillar** is to “raise the bar” on how investors in the petroleum sector embark on community development, by providing funding and expertise to support innovative projects designed to ensure that communities in the vicinity of oil and gas operations derive sustainable benefits from them. More details on CommDev can be found on page 13 of this report.

Global Gas Flaring Reduction Partnership (GGFR)

3.16 Given the remaining challenges on global gas flaring reduction, GGFR’s Steering Committee met in September 2009 and agreed to extend the work program of the partnership for three more years, starting a third phase in 2010. As part of this process, partners have also approved a new Charter, work plan, and an indicative budget for 2010.

3.17 In the midst of the current financial crisis, GGFR’s work in different countries, from Russia to Azerbaijan and from Nigeria to Qatar, illustrates a common effort of preparing for potential opportunities to reduce waste of a valuable resource, expand access to energy, and contribute to climate change mitigation - hence promoting sustainable development.

3.18 The work program in Nigeria has continued to focus on supporting the Nigerian government, the oil & gas operators and other stakeholders in developing a rational approach to flare reduction in Nigeria through the “Nigeria Flare Reduction Committee” (NFRC), which was set up in October 2007 and is chaired by the State Minister of Petroleum. The NFRC has developed a number of options to achieve and accelerate flare reduction.

3.19 More companies and countries continue to join the GGFR partnership. Maersk Oil & Gas joined the initiative in January 2009, and later in the year the United Arab Emirates also

⁹ As a result of exchange rate movements, the original agreed to allocation – an estimated US \$6 million equivalent in Norwegian Kroner – is now slightly higher in US \$ terms at \$6.7million.

joined GGFR, represented by the Masdar initiative. Furthermore, Secretaria de Energia of Mexico and Pemex are also in process of officially joining the partnership. GGFR is also expected to continue to increase its presence in the Middle East, with Oman and Kuwait expected to join the GGFR sometime in 2010.

3.20 Latest satellite data for 2008, which is a joint effort between GGFR and the US National Oceanic & Atmospheric Administration (NOAA), show that gas flaring reduction efforts are paying off. Global gas flaring has declined by a total of 22 billion cubic meters (bcm) over the past three years despite a 5% rise in crude oil production over the same period. The satellite estimates indicate that gas flaring peaked at about 162 bcm in 2005 and declined to 140 bcm in 2008. The decrease in gas flaring corresponds to a reduction of some 60 million tons of CO₂ emissions between 2005 and 2008 (See table below for data on top 20 countries). Countries, which are members of GGFR have been relatively more effective in reducing their gas flaring intensity and GHGs when adjusted for oil production volumes than non-members.

3.21 GGFR has established a working group to look into improving methodological aspects that will allow for more oil and gas projects to be registered under the Kyoto Protocol's Clean Development Mechanisms (CDM). The methodology group brings together representatives from the oil and gas industry, CDM project developers and international organizations such as the United Nations Environment Program (UNEP).

Estimated flared volume from satellite data

Volumes in bcm	2005	2006	2007	2008	Change from 2007 to 2008
Russia	55.2	48.8	50.0	40.2	-9.8
Nigeria	21.3	19.3	16.8	14.9	-1.9
Iran	11.3	12.1	10.6	10.3	-0.3
Iraq	7.1	7.4	7.0	7.0	0.0
Algeria	5.2	6.2	5.2	5.5	0.3
Kazakhstan	5.8	6.0	5.3	5.2	-0.1
Libya	4.4	4.3	3.7	3.7	0.0
Saudi Arabia	3.0	3.3	3.4	3.5	0.1
Angola	4.6	4.0	3.5	3.1	-0.4
Qatar	2.7	2.8	2.9	3.0	0.1
Uzbekistan	2.5	2.8	2.0	2.7	0.7
Mexico	0.9	1.2	1.7	2.6	0.9
Venezuela	2.1	2.0	2.1	2.6	0.5
Indonesia	2.7	3.0	2.4	2.3	-0.1
USA	2.0	1.9	1.9	2.3	0.4
China	2.8	2.8	2.5	2.3	-0.2
Oman	2.5	2.2	1.9	1.9	0.0
Malaysia	1.7	1.8	1.7	1.9	0.2
Canada	1.2	1.6	1.8	1.8	0.0
Kuwait	2.5	2.5	2.1	1.8	-0.3
Total top 20	142	136	129	119	-10
Rest of the world	20	21	19	22	3
Global flaring level	162	157	148	140	-7

Communities and Small Scale Mining (CASM)

3.22 The financial crisis and decline in commodity prices has also had devastating effects on artisanal and small-scale mining, an important area of World Bank engagement. Established in 2001, CASM works to promote viable livelihoods within communities where artisanal and small-scale mining (ASM) is an important source of income. As such CASM hopes to contribute to poverty reduction and further the achievement of the Millennium Development Goals.

3.23 CASM's major themes for FY2009 included (a) large-scale mining and ASM conflicts; (b) gender; and (c) certification and fair trade. Good progress on these themes has been made as demonstrated by the production/dissemination of different knowledge products and feedback from stakeholders. CASM continued to receive strong support from existing donors, including the UK's Department for International Development (with additional funds committed GBP300, 000); the Government of Denmark (annual allocation of US\$100,000); and, the WBG (annual allocation of US\$200,000). However, broader donor support remains one of CASM's challenges.

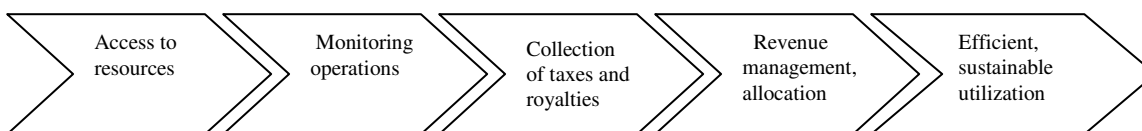
3.24 In FY2010, CASM will pursue mercury as a new theme and will continue to work on the connection between mineral trade and conflicts. Interest in mercury-related issues increased significantly following the UNEP Governing Council's decision to begin negotiations on a legally binding international agreement to control global mercury pollution. The Artisanal and Small-scale Gold Mining sector represents one of the largest uses of mercury in the world, therefore CASM together with others partners from the UNEP Mercury Partnership for Artisanal and Small Scale Gold Mining began facilitating meetings to explore new technological and financial ways to reduce the use of mercury in artisanal gold mining. CASM contributes to the global debate on the relationship between mineral trade and conflicts. CASM published a report to this effect to explore the extent to which artisanally mined minerals, traded by illicit armed groups, can fuel violence and conflicts. To inform the United Nations Conference on Sustainable Development (UNCSD) 2010 and 2011, CASM has been asked to write the report and to organize various learning sessions during the conference.

3.25 ASM remains a focus of Bank mining activities, especially in Africa. To this end, the 9th Annual CASM Conference was held in Mozambique September 8-14, 2009. The theme of this year's conference was, "ASM: An Opportunity for Rural Development". The well-attended conference underscored the importance of CASM as a platform. It is the only one of its kind, which brings together a broad spectrum of stakeholders, including representatives of mining ministries, NGOs, donors, and small-scale miners and offers an opportunity to discuss key issues many mining countries face with respect to the ASM sector (environmental degradation, security, local development etc).

GOVERNANCE

Managing Issues Across the EI Value Chain

3.26 The World Bank Group has continued to use the approach set out in the "EI Value Chain" as a way to encourage governments and others to consider all of the issues that are relevant to ensuring that EI contribute to sustainable development: from the allocation of resources; how they are developed; the collection of taxes; how revenues are accounted for and distributed among various levels of government; and, to their sound management and use.

Figure 3.2: EI Value Chain

3.27 The World Bank is currently focusing on three countries, Mozambique, Ghana and the Democratic Republic of Congo (DRC) to identify priority areas and possible support programs to address issues identified in reviews across the EI value chain. In addition, the World Bank Institute has begun a program to engage with stakeholders on the ground in resource rich countries to identify appropriate local approaches and ways to sharing experience and best practice. A technical advisory group consisting of academics and civil society active in areas relevant to EI governance has been established to discuss and advise the Bank in the general area of EI and governance and development.

Extractive Industries Technical Advisory Facility

3.28 To address developing countries' demands for real-time advisory assistance around extractive industry developments, the WBG's Oil, Gas, and Mining Policy and Operations Unit has established the Extractive Industries Technical Advisory Facility (EI-TAF). The EI-TAF facilitates advisory services to country governments to address urgent needs for assistance in connection with prospective EI developments and for short term capacity building related to extractive industry transactions and associated policy reforms and frameworks. The ultimate objective of the EI-TAF is to assist countries in the sustainable development of the extractives sector, to facilitate private investment that is positive for country development including to help as needed level the playing field between resource-rich, developing countries and resource companies and ensure that the countries—and ultimately their citizens—benefit from the exploitation of their extractive resources.

3.29 The EI-TAF supports the World Bank's work on the extractive industries value chain and is in line with relevant World Bank Country Assistance/Partnership Strategies, and in collaboration with other development partner interventions in this area (e.g., AfDB's African Legal Support Facility, IMF's Topical Trust Fund on Managing Natural Resource Wealth, UNDP's Africa Regional Project for Capacity Development for Negotiating and Regulating Investment Contracts).

3.30 The EI-TAF is expected to operate for an initial period from July 1, 2009 through June 30, 2012 (i.e., WBG fiscal years 2010-2012). To date, EI-TAF has received contributions from the International Finance Corporation, Norway's Oil for Development Program, and the World Bank; a future contribution from Switzerland has also been confirmed.

3.31 Rapid-response advisory service activities under the EI-TAF primarily focus on: (i) third party advisory assistance for contract negotiation for extractive industry transactions; (ii) short-term capacity building for the members of the beneficiary country's negotiation teams; (iii) technical assistance proximate to a specific extractive industry transaction under review, including assistance to update the relevant policy, institutional, fiscal, legal and regulatory frameworks of the country concerned; (iv) technical assistance on structuring extractive industry licensing rounds, public offerings (tender/auction), and competitive and transparent tender packages to help resource-rich countries optimize the value of national extractive industry

resources. A roster of international, regional, and national experts (in mining and petroleum economics, law, policy, taxation, mineral or petroleum rights administration, contracts, negotiations, engineering, geology, environmental and social, and health and safety) is being assembled to facilitate advisory services by third parties under the EI-TAF.

3.32 The EI-TAF also supports the production and dissemination of global knowledge products on extractive industry sector issues to help address the lack of an integrated body of good practice for sound extractive industry sector governance and management. In the first instance, EI-TAF is supporting the production of a good practice Extractive Industries Source Book, which will inform advisory assistance provided under EI-TAF and will serve as a resource for resource-rich countries and other stakeholders. The Source Book will be guided by the value chain framework and draw on existing information.

Box 3.1. EI-TAF Support to Liberia

Liberia is the first country to receive EI-TAF support, in the form of a US\$1 million grant for immediate assistance with proposed iron ore transactions and related policy framework reforms. In the process of concessioning several large deposits, with a potential cumulative investment value of over US\$10 billion, it is critical that future iron ore investments (25-35 year horizon, including exploration and construction) are configured and negotiated to optimize direct and indirect contributions to Liberia's growth and development. EI-TAF support will be coordinated closely with LIBAM-financed advisers in the Ministry of Lands, Mines and Energy, experts in the Bureau of Concessions, the World Bank project assisting strengthening of the Public Procurement and Concessions Commission, and ISLP lawyers assisting the President's Office.

ENSURING COMMUNITIES BENEFIT FROM EI

The Oil, Gas and Mining Sustainable Community Development Fund (CommDev)

3.33 CommDev is a source of knowledge and funding for community development efforts linked to extractive industry projects. It enables capacity building, training, technical assistance, implementation support, awareness-raising, and tool development. CommDev serves as an integral component of an extractive industry project, enhancing and accelerating the value-added support given to communities beyond the compliance requirements of IFC investment projects and World Bank loans.

3.34 CommDev has raised \$13 million from IFC and the Government of Norway's Oil for Development Program to date. As of November 2009, CommDev has disbursed nearly \$5 million for 17 technical assistance projects, leveraging about \$11.5 million from private sector companies. There are 8 projects in the pipeline valued at \$3 million.

3.35 The Fund has built awareness of the importance of a strategic approach to community development, as opposed to one-off interventions, and has supported the development of a Handbook about this process. It has also supported important revenue management and social accountability programs in Peru and Colombia, training 68 institutions to track extractive industry royalty flows to local governments. Through direct technical assistance and through its on-line platform, IFC has in one form or another helped increase capacity in over 840 municipalities to improve the investment of royalties in basic services and to deliver tangible benefits for nearby communities. In addition, it has increased the use of both quantitative and

qualitative indicators by companies in measuring the impact of their community investment (see Box 3.2).

Box 3.2 Planning and Financial Valuation Tool for Sustainability Investments

There is a growing expectation globally that large scale investments by oil, gas and mining industries will bring broad-based benefits to local communities through sustainability investments in areas such as health, education and biodiversity. More specifically, managers within the extractive industries have known that investments in sustainability are key to protecting a company's license to operate. Moreover, specific interventions, whether in health care, skills training, or some other area bring direct value to companies that make them.

Quantifying the value of these investments and planning accordingly, however, has long posed a challenge for extractive industries and community development practitioners. Existing cost-benefit analyses were unsatisfactory as they did not have the same rigor as other, more traditional, investments considered by the industry. Establishing the value of the risk mitigated through such actions was essentially a shot in the dark. This inability to articulate its true value has kept sustainability investments outside the core of the project planning process and has impeded cross-functional integration.

In response, a partnership comprised of the International Finance Corporation, Rio Tinto Alcan and Deloitte with additional support from the Government of Norway and the Multilateral Investment Guarantee Agency has sought to address this gap. For the past two years, they have worked to develop an innovative financial model that makes use of the collective experience of the extractive industries and focuses upon specific operating sites or projects, rather than the company as a whole. This model calculates a range for the NPV of a portfolio of sustainability investments, including both the direct value creation and the indirect value protection of these investments. By highlighting the relative value of specific investments, the *Tool* will help to align the company's core business objectives with the sustainability investments it makes.

3.36 CommDev continues to build CommDev.org - an information clearing house about community development in EI industries that has been in operation for two years (see Box 3.3).

Box 3.3 CommDev.org

In response to growing demand for community development guidance, CommDev has developed a web-based information clearinghouse, CommDev.org, as a resource for global good practices, tool kits, case studies, training programs and methodologies for supporting community development in mineral extractive environments. It has increased the access of companies, communities, field practitioners, and local and regional governments to practical knowledge and tools for navigating complicated, community-focused, social, environmental, and economic development issues.

To date, nearly 1,200 users visit the site every day, over 50% of whom are from developing countries. With over 2,000 resources available, this knowledge has contributed to "raising the bar" on how community development is implemented and has aided the establishment a more sustainable, technically-grounded foundation for long-term socio-economic development in communities impacted by EI. It offers a Resource Center organized into 22 key topic areas, a set of tool kits that give users the guidance to practically implement projects, and numerous links and case studies, all chosen to respond to the requests for assistance from stakeholders.

Gender Issues

3.37 The Extractive Industries and Gender Program developed by the World Bank's Oil, Gas and Mining Policy Division (COCPD) is progressing well. Several new publications in the past year include case studies that highlight both the development and business case for improving the involvement of women in the extractives sector. They focus primarily on improving development impacts for women in communities near extractive industries operations rather than

simply increasing women in the company workforce. In addition, they provide clear practical suggestions about what companies can do to improve their practices and mainstream gender through their operations. For example, a publication “Gender Dimensions of the Extractive Industries” demonstrates the benefits of mainstreaming gender into EI projects and the associated “Guidance Note for TTLs” provides step-by-step technical guidance for TTLs on how to incorporate gender into the structuring of EI projects. A report and guide providing an in-depth look at the extractive industries in Peru is also currently being published, and will be disseminated in the private sector in Peru to support implementation of key recommendations. Funds have recently been identified to replicate a similar study on the gender dimensions of the oil and gas sectors.

3.38 The EI and Gender program also sponsors a number of learning activities. A two day International Workshop on Mining, Gender and Sustainable Livelihoods was held jointly with the Australian National University (ANU). The main objective of the workshop was to explore and analyze a range of complex and interconnected questions and issues relating to mining, gender and sustainable livelihoods. Workshops on gender and EI have also been incorporated into the yearly Community and Small Scale Mining (CASM) conference; a gender and EI session was organized during the Extractive Industries week in March, 2009. A re-vamped website on ‘Gender and the Extractive Industries’ seeks to make information and activities related to the topic more readily accessible.

MITIGATING ENVIRONMENTAL AND SOCIAL RISK

3.39 IFC’s Policy and Performance Standards on Social and Environmental Sustainability, which came into effect in April 2006, reflected several key recommendations in the Management Response. The Performance Standards have already been adopted by more than 70 “Equator Banks” (including institutions such as export credit agencies) as the basis for their financing activities including activities in the extractive industries. IFC committed to a formal review three years after the adoption of the Performance Standards and the ‘Policy on Disclosure of Information’. The objective of this review and subsequent revision of the framework is to improve its coverage, enhance its implementation and clarify its language. The process is expected to last until October 2010 with the updated framework to be released in early 2011. The outcomes of the ongoing IEG review of use/implementation of the pre-2006 Safeguard Policies and the post-2006 IFC Performance Standards will contribute in this respect.

3.40 Three phases are envisioned with stakeholder consultations beginning each one. Face-to-face meetings as well as online consultations are planned. The first round of consultations has already been concluded but continuous engagement is possible through Prolog, a blog where Environmental and Social specialists will discuss topics related to the review and update process.

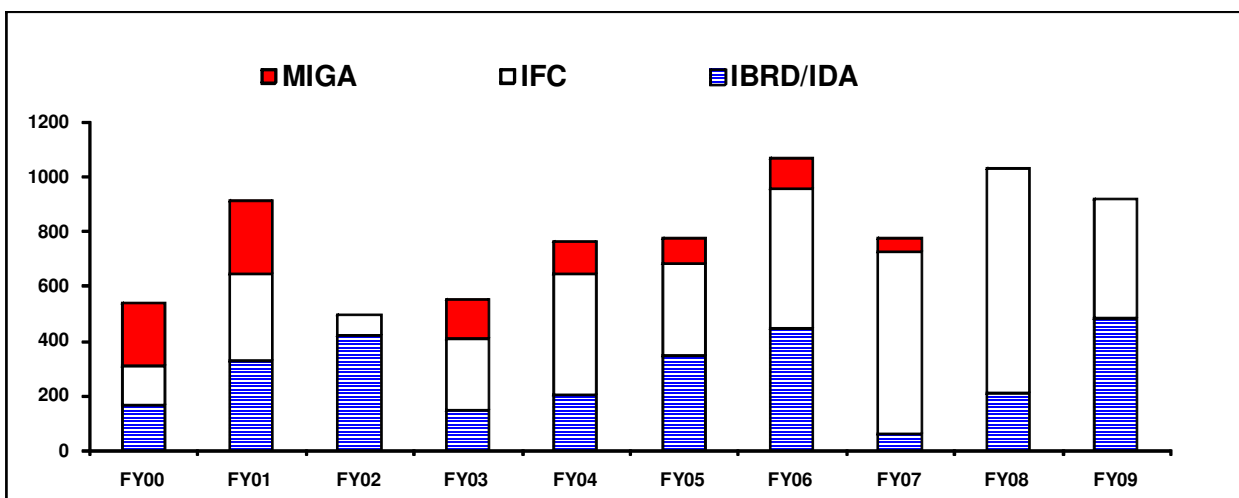
IV. WBG EI FINANCING FY2009

4.01 The overall volume of WBG EI financing in FY2009 was US\$915 million, a decrease over FY2008 of 11%¹⁰. IFC investments accounted for 47% of the total financing volume, with

¹⁰ Details provided in Annex C.

the other half split between IBRD (37%) and IDA (16%). The two largest portions of total WBG financing in FY2009 were in Sub Saharan Africa and in East Asia and Pacific (31% each). A big part of financing in Sub Saharan Africa was primarily due to two big investments in Ghana to help fund the Jubilee oil and gas field development – Kosmos Energy and Tullow Oil. In the East Asia and Pacific region most of its share of total WBG financing concentrated in Indonesia through the EI component of a much larger loan. A part of this loan will help finance the introduction of revenue transparency in the extractive industries sector. The remaining 38% of EI financings in FY09 were spread amongst other regions.

Graph 4.1 WBG EI Financing By Institution FY2000-09



4.02 The total dollar volume of WBG EI financing decreased in FY2009 although financings for IBRD/IDA policy related work increased. By sub-sector, new capacity investments were concentrated in the oil and gas area, primarily due to the US\$215 million financing for the development of the Jubilee oil and gas field in Ghana. As there is substantial amount of associated gas, which will be used to fund the power sector and other industries in Ghana, the WBG is now engaged in discussions with the Government on how best to monetize the gas resources for the benefit of the country in future.

Table 4.1 WBG FY2009 Financing by Sub-Sector

New Capacity Investments (US\$ Millions)			Other
Institution	Mining	Oil & Gas	E&S and Policy Capacity Bldg ¹¹
IDA ¹²	--	77.00	66.96
IBRD	--	80.00	259.60
IFC	62.89	368.9	--
MIGA	--	--	--
Total	62.89	525.9	326.56

¹¹ Also includes limited amount of environmental remediation work.

¹² Includes Blend countries – See Annex C

IBRD/IDA

4.03 IBRD/IDA financed 17 programs in FY2009 and has more than doubled its US\$ volume financing to a total of US\$483.5 million. The number of projects increased from 10 in FY2008 to 17 in FY2009, mostly due to an increase in the number of IDA projects. These programs were often part of larger projects with multiple objectives. Almost none of these investments were to increase new extractive capacity, although US\$77 million were intended to finance a gas pipeline in Bangladesh to help increase the supply of power during periods of peak demand, and US\$80 million have been allocated to support production and utilization of Coal Bed Methane (CBM) and Coal Mine Methane (CMM) in China. Objectives of the other financings included government capacity building and policy support, environmental remediation and energy distribution across a number of countries in Africa, Middle East and North Africa, East Asia and Pacific, and South Asia.

IFC

4.04 In FY2009, IFC committed 21 EI financings for a total of US\$431.8 million for its own account, the majority of which in terms of volume were in the oil/gas subsector, while by project count, investments were roughly balanced between the oil/gas and mining sectors. The majority of IFC's financing in terms of both project numbers and US\$ volumes was with smaller international and local companies. IFC's largest single financing was its financing of the Kosmos Energy/Tullow Projects. In line with IFC's equity strategy for the extractives sector, the number of early equity investments usually with relatively small companies is increasing. The objective is to support junior companies in the exploration or early development stage, to help them manage potential environmental and social impacts early on and to continue the relationship as projects transition through the development cycle.

4.05 IFC systematically tracks the benefits generated by its EI portfolio through IFC's Development Outcome Tracking System (DOTS), which allows the corporation to aggregate and report on development results. During the last reporting period FY2009, IFC's oil, gas and mining client companies contributed approximately US\$10 billion to government revenues and created or sustained about 70,000 direct jobs. The vast majority of IFC's client companies were engaged in the development of local communities, spending about US\$132 million on activities in this area in the same time period. Total spending by these companies on goods and services from local and national suppliers approached US\$6 billion, demonstrating both significant linkages to local businesses and contribution to local economies¹³. Box 4.1 provides examples of projects being supported by IFC where it is working with investors to enhance the local development impact of their projects.

¹³ For further information see IFC's Annual Report for the year ended June 30th 2009 (FY2009). Data can also be accessed on the external website of the IFC Oil, Gas, Mining and Chemicals Department: www.ifc.org/ifcext/coc.nsf/content/Disclosure

Box 4.1 Examples of Projects where Investors, with IFC's Assistance are Working to Broaden Local Development Impacts

Lonmin Plc Platinum Mining, South Africa

Since 2006, IFC and platinum producer Lonmin Plc have partnered on local economic development programs that support communities surrounding Lonmin's mining operations in South Africa. IFC has provided equity financing and a credit line to the company. IFC is working to coordinate the community development efforts of Lonmin, local municipalities, and the local Traditional Authority on a wide variety of projects, including the installation of new water storage tanks and the upgrading of school buildings and equipment. Since 2008, Lonmin has spent \$7.3 million on community development programs. Through a program where IFC helps identify and train local entrepreneurs Lonmin has awarded 165 contracts worth over \$29 million to local firms that supply the company with goods and services such as ore transportation, construction, and training.

One important focus of IFC's partnership with Lonmin is to help the company meet its 'Women in Mining' Target as required by the South African Mining Charter. Since the start of the program two years ago, Lonmin has increased its female workforce. The various initiatives for which IFC is providing support include building female change house, rolling out a sexual harassment training program, and implementing an alternative job placement system for pregnant women who work underground. As a result of these initiatives the number of women employed at Lonmin's operations has increased by over 40%.

Peru LNG, Peru

In FY08, IFC supported the Peru LNG export project with a \$300 million loan. IFC continues to partner with the company in the provision of advisory services to enhance its contribution to poverty reduction and sustainable development in Peru. Drawing on IFC's experiences with the Yanacocha gold mine in Peru and Ahafo gold mine in Ghana, IFC is helping small and medium companies to become suppliers of goods and services to Peru LNG. The companies receive training on how to meet Peru LNG's quality, safety and delivery standards with the aim that they will not only become suppliers to Peru LNG but will be able to supply other large companies in the future. The goal is to ramp up the program to reach 100 local companies and identify an additional \$1.5 million worth of contracts for smaller firms. IFC is also helping support local governments in PERU LNG's direct area of influence to efficiently plan, manage and invest the royalties they receive from the project. This is being done by helping municipal officials improve their capacity to manage revenues so that their investments will have a long-term, positive impact on their populations. For example, projects that IFC is helping municipal governments implement will help decrease child malnutrition, increase access to potable water and sanitation, and improve solid waste management. In addition, agreements with municipalities have been reached to provide local civil society organizations with information on municipal investment, budget and execution so as to increase transparency, promote community participation and social accountability.

Ahafo Mine, Newmont Mining Corporation, Ghana

In 2006, IFC approved a US\$125-million loan towards the Ahafo gold mine, Newmont's first project in Ghana. IFC's support for the project was intended to help promote environmental and social standards designed to benefit the local communities. The IFC partnered with Newmont to establish the Ahafo Linkages Program to increase the role of small local businesses in the Ahafo supply chain. The design of the Ahafo Linkages Program was particularly informed by lessons learnt from the IFC/Newmont linkages program in Minera Yanacocha, Peru. The program aimed to achieve three primary goals: i) support the development of local businesses and suppliers to the Ahafo mine; ii) improve the competitiveness of local non-mining related businesses and thereby help diversify the local economy; iii) build and enhance capacity of local business associations. In 2009, Newmont and IFC evaluated the program to better understand the benefits for local communities, using an analytical framework that the World Business Council for Sustainable Development (WBCSD) had developed. The program was shown to have had a positive impact on MSME growth and local economic development, both in terms of number of local MSMEs engaged in business with Newmont and value of contracts, moving from 25 MSMEs and US\$1.7 million in 2006 to 125 and US\$4.7 million, respectively in 2008. However, the review also highlighted some areas of improvement, including greater sensitization of local MSMEs to maximize their local procurement and management of expectations of the local businesses vis-à-vis the role of the local business association.

CHAD CAMEROON PIPELINE PROJECT – ENVIRONMENTAL AND SOCIAL MONITORING

4.06 IFC has continued to supervise the environmental and social impacts of the Chad-Cameroon Oil and Pipeline Project in both countries, including most recently through a supervision visit in December 2009 to the Oilfield Development Area (OFDA) in Kome. An early visit was completed April 26-May6, 2009 to both Cameroon and Chad with the External Compliance and Monitoring Group (ECMP) as part of the ongoing supervision plans.

4.07 The purpose of the latest supervision trip was focused on the continuing infill drilling program, which was initiated to maintain production levels, in May 2008. During the first half of 2009, there were 44 new wells drilled, bringing the total number of wells to 521, not including injection wells. IFC monitors this ongoing infill program closely, as it continues to significantly affect previously impacted villages and individual households currently undergoing additional mitigation measures through the Land Use Management Action Plan (LUMAP). The Cumulative Environmental and Social Impact Assessment (CESIA) for the Infill Program will be disclosed by the end of the first quarter of 2010. There was a delay in the completion of this study because the full data collection exercise for the LUMAP's 10 most significantly impacted villages was not completed until November 2009. Now that the data set has been collected and analyzed by the Exxon socio-economic and land use teams and passed on to the consultants, they will be able to finalize the CESIA by February 2010.

4.08 For the Cameroon portion of the project the main issue is the long-term, financial situation of FEDEC (Foundation for Environment and Development). The Foundation was set up as a mechanism to mitigate pipeline impacts along the pipeline corridor. FEDEC provides funding, from the initial seed money provided by COTCO, to the three implementing agencies for programs for the indigenous people in the Lolodorf – Kribi corridor and the two offset parks, Campo Ma'an and M'Bam D'Jerem. FEDEC's capital has depleted significantly and COTCO has committed to providing (and provided funding for this year's (2009) programs) 1.5 million USD to fund the ongoing EMP requirement for the next 3-5 years. IFC continues to work with the World Bank, COTCO, and FEDEC to try and arrive at a sustainable solution to this problem.

4.09 Agreement was reached between COTCO and IFC to jointly fund a Community Investment Strategy for FEDEC, which would include the development of the Long Term Indigenous Peoples Plan as well as institutional strengthening and capacity building evaluation which would include a fundraising strategy for FEDEC. The objective would be to improve FEDEC's capacity to deliver on its long-term role regarding the environmental and social compliance of the project, as well as the larger role FEDEC aspires to play as a potential National Environmental Foundation.

V. OTHER ISSUES

ADDRESSING STAKEHOLDER CONCERNS/EVALUATION

5.01 During FY2009, the CAO's office received one new complaint about IFC Extractive Industries investments, closed two complaints (one regarding BTC and the other Lukoil Overseas/Karachaganak), and continued working on two outstanding complaints that had been

carried over from previous years (one regarding BTC and the other Lukoil Overseas/Karachaganak).

5.02 The new complaint concerned the Baku-Tbilisi-Ceyhan (BTC) oil and gas pipeline. An agreement was reached between the company and the complainants in July of 2009, and CAO is now monitoring its implementation. Of the closed complaints regarding BTC pipeline: one was closed after an appraisal by CAO Compliance, while the other one was resolved through agreements reached between the company and the complainant and the CAO is monitoring its implementation.

5.03 Two complaints concerning the Lukoil Overseas/Karachaganak project were carried over into FY2009 from previous years. While the company ended its contractual obligation to IFC by prepaying its outstanding balance in January 2009, CAO has continued to work on both cases. IFC was found out of compliance in one case. CAO Compliance conducted a site visit in FY09, followed by the issue of a monitoring report and a proposed Action Plan, which IFC has adopted. As a result, this case is now closed. The second case has been transferred to CAO Compliance for appraisal upon request of the complainant since no agreement to enter mediation between the complainant and the company could be reached.

5.04 In FY2009, the Inspection Panel did not receive any new requests for review in relation to World Bank projects in the extractive sector. One outstanding case, the West Africa Gas Pipeline (#40), opened in FY2006 was closed after Management proposed an Action Plan and presented a progress report. For more information see Annex F.

5.05 In November 2009, the World Bank Group's Independent Evaluation Group (IEG) completed a review of the WBG's support for the development of the Chad Cameroon pipeline and associated programs intended to help the Governments of Chad and Cameroon manage the pipeline and associated oil field development. A copy of the final IEG report¹⁴ and a World Bank Group Management Response can be accessed at www.worldbank.org/ieg. In the case of IFC, a general analysis of its development results including EI projects is incorporated into its Independent Evaluation of IFC's Development Results 2009¹⁵.

WBG EI ADVISORY GROUP

5.06 The fifth meeting of the WBG Extractive Industries Advisory Group was held in Washington in November 2009. The record note of the meeting is accessible at <http://www.worldbank.org/ogmc>. Issues discussed at the meeting included amongst others the ongoing review of IFC's Performance Standards and Disclosure Policy, EITI and the WBG's enhanced approach to EI issues along the value chain, contract transparency and WBG activities in FY2009.

¹⁴ The World Bank Group Program of Support for the Chad-Cameroon Petroleum Development and Pipeline Construction – Program Performance Assessment Report; Report Number: 50315

¹⁵ Accessible at: [http://www.ifc.org/ifcext/ieg.nsf/AttachmentsByTitle/IEDR2009_FullReport/\\$FILE/2009+IEDR+FINAL.pdf](http://www.ifc.org/ifcext/ieg.nsf/AttachmentsByTitle/IEDR2009_FullReport/$FILE/2009+IEDR+FINAL.pdf)

PUBLICATIONS

5.07 In FY 2009, Bank staff produced various types of policy research on EI related issues. Some selected recent publications available at www.worldbank.org/ogmc include:

- Mining Cadastres: Promoting Transparent Access to Mineral Resources (WP 48609)
- Emerging Players in Global Mining (WP 48882)
- Extractive Industries Value Chain: A Comprehensive Integrated Approach to Developing Extractive Industries (WP 48424)

5.08 Select publications funded by CommDev (available on www.commddev.org) include:

- Managing Risk and Maintaining License to Operate: Participatory Planning and Monitoring in the Extractive Industries
- Community Development and Local Conflict: A Resource Document for Practitioners in the Extractives Sector

VI. CONCLUSIONS AND CHALLENGES

6.01 In FY2009, the WBG continued the implementation of the Management Response to the Extractive Industries Review (Annex A), and to focus on sustainable outcomes for its activities with government and at the community and project levels. For each investment it finances, it continues to carefully assess the expected benefits and assess particularly the risks to these benefits and the capacity to mitigate them. In addition, in its work with governments, the World Bank continues to help countries manage their extractives sectors to help ensure that they contribute to national development to the greatest extent possible.

6.02 For many of its member countries, EI continue to be a major source of government revenues, exports and inward investment. The financial crisis and the global recession, hit a number of countries as prices fell and tax revenues and investments fell. As global markets are recovering and commodity-intensive growth in emerging countries continues, prices have recovered to a large extent and may continue to stay relatively high or even rise further. This will present opportunities and challenges for countries to ensure that EI development is carried out in a sustainable manner and long term benefits are realized for the country and its people.

6.03 After five years of reporting on the Implementation of the Management Response to the Extractive Industries Review, from the report on FY10's activities forward, this report will be refocused. In future, it will provide a description of the WBG's activities in EI rather than specifically reporting on the Implementation of the Management Response.

ANNEXES

ANNEX A - Summary of Commitments in EIR MR

Summary of Commitments in EIR MR	
Commitment	Process/Actions
<p>Renewable Energy:</p> <ul style="list-style-type: none"> • 20% pa growth in investment for new-RE and EE • Enhance international cooperation in RE and EE • Enhancement of reporting 	<ul style="list-style-type: none"> • New-RE and EE commitments in FY2009 were US\$3,305 million. From 2005 through 2009, such commitments totaled US\$7 billion compared with the Bonn goal of US\$1.3 billion • Continuing active engagement with international community. • Annual Reports on RE/EE and Bonn Commitment at worldbank.org/energy
<p>Governance:</p> <ul style="list-style-type: none"> • Address relevant EI issues in CASs for resource rich countries • Review of governance risks in projects & review of use of governance indicators • Mitigation in significant new projects • Disclosure of assessment of governance 	<ul style="list-style-type: none"> • LICUS and CAS guidance notes operational. EI issues covered in FY2007 CASs/CPSs/ISNs. EITI++ approach to assessment of whole value chain • Governance issues being considered in project appraisal and design • New EI TAF has become operational in CY2009 • Applied as needed • Governance assessment referenced in IFC Summary of Project Information
<p>Transparency:</p> <ul style="list-style-type: none"> • Requirement for significant new projects & for all new projects within two years • Support country led transparency work 	<ul style="list-style-type: none"> • From January 1 2007, all new EI investments have disclosed payments to government. Compliance reviewed, web site set up to help review. Since January 1, 2009, IFC requirements further refined through standard template that clients have to use • Continued strong IBRD/IDA support for and momentum of EITI
<p>Benefiting the Poor:</p> <ul style="list-style-type: none"> • Require projects to benefit local people and have broad community support • Work with sponsors to broaden development impact, SME programs • Application of poverty indicators • Support for capacity building • Sustainable development facility • Support for ASM program 	<ul style="list-style-type: none"> • Careful assessments and judgments being applied; Advisory services brought in to maximize local community benefit • Done routinely • Development impact indicators routinely tracked and reported on • IFC Development Tracking Systems (DOTS) – simplifies results aggregation by sector which are presented in IFC Annual Report and on IFC departmental website • Applied as appropriate • Sustainable Community Development Fund operational and successfully delivering knowledge products, capacity building and technical advice • Ongoing CASM initiative supported by DFID and other donors
<p>Mitigating Social and Environmental Risk:</p> <ul style="list-style-type: none"> • Revision of IFC guidelines addressing EI issues (submarine and river tailings disposal, cyanide etc) • Review of no-go issues • IBRD/IDA guidance on new project categorization 	<ul style="list-style-type: none"> • New EHS guidelines for EI now operational • Issue reviewed on revision of IFC safeguards. Performance Standard 6 addresses issue – not no-go zones but “no-go circumstances” • Guidance note issued in December 2005 • Ongoing review and consultations on the IFC Performance Standards and Disclosure Policy
<p>Disclosure:</p> <ul style="list-style-type: none"> • Disclosure of expected project benefits • Annual disclosure of project impacts by investors. 	<ul style="list-style-type: none"> • Addressed in revised IFC Disclosure policy review – EI project expected development impacts now being disclosed in SPIs & tracked. Series of SPIs updated and results published on IFC external website. Pilot completed in FY09 to test disclosure of more detailed project evaluations and lessons will be applied in review of IFC Disclosure Policy ongoing. • Investors being encouraged to disclose in appropriate form.
<p>Protecting Rights of People:</p> <ul style="list-style-type: none"> • Prior informed consultation • Broad community support for projects • Requirements about use of security forces • Review core labor standards • Broader human rights issues 	<ul style="list-style-type: none"> • Requirement in Sustainable Policy & Performance Standard – with additional guidance in Guidance Notes. New IFC good practice guide on stakeholder engagement issued May 2007 • As above • Requirements in IFC Performance Standard 4 • Requirements in IFC Performance Standard 2 – IFC Q&A on ILO 169 for private sector issued March 2007 • WBG emphasis on understanding link with development. IFC toolkit to carry out human rights impact assessment is being trialed with finalization in March 2010.
<p>Ongoing Learning and Review:</p> <ul style="list-style-type: none"> • Establishment of Advisory Group • Annual review of progress • Lessons of review of joint IFC/Bank Department 	<ul style="list-style-type: none"> • Fifth meeting held November 5-6th, 2009. Record note published. • This is the fifth report • WBG activities in EI continue to be focused in joint IFC/Bank Department for Oil, Gas, Mining and Chemicals

ANNEX B - WBG Energy Lending FY2003-FY2009

Table 1: WBG Energy Lending by Sector (US\$ million)

Sector	FY03	FY04	FY05	FY06	FY07	FY08	FY09
Energy Efficiency	177	92	217	761	262	1,192	1,701
Large Hydro*	23	83	538	250	751	1,007	177
New Renewable Energy**	206	138	246	344	421	473	1,427
Oil, Gas and Coal***	333	496	578	1,074	627	981	1,032
Other Energy****	816	370	278	248	375	903	1,752
Thermal Generation*****	599	272	100	511	360	957	936
Transmission & Distribution	216	248	906	1,465	809	2,031	1,204
WBG Energy Lending	2,370	1,699	2,864	4,653	3,604	7,545	8,228

*Large Hydropower refers to hydropower projects larger than 10MWs

**New Renewable Energy refers to all renewable energy, excluding hydropower projects larger than 10MWs

***Investments categorized as 'coal projects' have focused on carbon finance, coal bed methane development, coal to DME conversion and sector reform. There were no "coal" categorized projects in FY03-04. Commitments were US\$(million) 40, 33, 50, 19 and 80 for FY05 to FY09, respectively.

****Other Energy includes energy policy support projects

*****Thermals Generation includes all new fossil-fuel power plants, including high efficiency fossil-fuel power plants (super- and ultra-critical power plants)

For more information go to: www.worldbank.org/energy

ANNEX C - WBG Extractive Industries Financing – FY2009

Table 1: IFC Extractive Industries Financing – FY2009

Project	Country	Sector	US\$m	Description
Antares Minerals	Peru	Mining	5.45	Pre-feasibility study and continued exploration of the Haquira copper project
BankersPetroleum	Albania	Oil/Gas	40.40	Re-development of the onshore Patos Marinza oilfield in southern Albania by a junior Canadian company
Baobab Resources	Mozambique	Mining	5.00	On-going exploration of mineral resources properties and future feasibility study work
Block Z1	Peru	Oil/Gas	7.50	Gas development, transportation, processing and conversion to power
BPZ RI II	Peru	Oil/Gas	4.36	Take up by IFC of rights issue for additional financing for ongoing offshore oil exploration and development
CAPE III	Western Africa	Oil/Gas	12.00	The Fund will make equity investments of between US\$10-75 million in 12-15 enterprises with above average potential for revenue growth and job creation
Escondida RI II	Chile	Mining	25.00	Rights Issue to support expansion of an existing copper mine
GeoPark RI	Latin America	Oil/Gas	1.00	Rights Issue to support exploration/appraisal of oil/gas
Greystar	Colombia	Mining	9.61	Feasibility study, Environmental and Social Impact Assessment for prospective goldmine development
Gryphon	Burkina Faso	Mining	1.60	Minerals exploration, pre-feasibility study and initial Environmental and Social Impact Assessment studies
Guyana Gold RI	Guyana	Mining	4.14	Rights Issue to fund completion of exploration and feasibility
Kiwara Plc	Zambia	Mining	6.00	Exploration and feasibility studies of base metals deposits and environmental and social sustainability
Kosmos Energy	Ghana	Oil/Gas	100.00	Development of the Jubilee oil & gas field offshore Ghana
Lonmin RI	South Africa	Mining	5.00	Rights Issue to fund expansion, and mechanization of platinum mines and community development
Lydian Intl 3	Southern Europe	Mining	1.09	Continued exploration and feasibility study of mineral properties in Armenia
ROCH	Argentina	Oil/Gas	20.00	Oil and gas production and exploration
Salamander (2 investments)	East Asia & Pacific	Oil/Gas	49.70	Continued oil and gas production and exploration and acquisition of new assets in East Asia and Pacific
Supp Fin Facility	Azerbaijan	Oil/Gas	1.94	Financing of small and medium enterprises that are suppliers to BP and its partners in Azerbaijan
Topic Tunisia	Tunisia	Oil/Gas	17.00	Offshore oil concession development , acquisition of seismic data and drilling of exploration wells in Tunisia
Tullow Oil	Ghana	Oil/Gas	115.00	Development of the Jubilee oil & gas field offshore Ghana
TOTAL IFC			431.79	

Table 2: IBRD/IDA Extractive Industries Financing – FY2009

	Project	Country	Sector	US\$m	Description
IBRD	Mining Environmental Restoration Project	Argentina	Mining	17.10	To remediate the closed uranium processing site in Malargüe, Mendoza
	Shanxi Coal Bed Methane Development and Utilization	China	Oil/Gas	80.00	Coal bed methane development
	Public Expenditure Support Facility (DPL-DDO)	Indonesia	Mining	160.00	As part of a larger macro operation to introduce revenue transparency in EI (EITI)
	First Programmatic Environmental Development Policy Loan /DDO	Peru	Mining	82.50	To improve and mainstream sustainable environmental development in mining
IDA	Sustainable Development of Natural Resources – Additional Financing	Afghanistan	Mining	7.50	To assist the Ministry of Mines to effectively regulate minerals and hydrocarbon sectors
	Strengthening Institutions DPG	Afghanistan	Mining	4.55	To increase transparency of revenues from EI
	Rural Enterprise & Small-Scale Commercial Agriculture Development Additional Financing	Armenia	Oil/Gas	0.66	To improve the socioeconomic conditions of the rural populations including extension of gas network.
	Siddhirganj Peaking Power Project	Bangladesh	Oil/Gas	77.00	To finance gas pipeline to increase the power supply during periods of peak demand
	Poverty Reduction Support Credit (8)	Burkina Faso	Mining	8.00	To support EITI facilitate land, labor market effectiveness and the adoption of a key law on energy regulation
	Economic Governance and Reform Grant 2	Central African Republic	Mining	0.25	To establish a legal and regulatory framework for the development of a competitive mining sector
	Economic Governance and Recovery Grant (EGRG) II	Cote d'Ivoire	Mining	15.00	To help strengthen governance to manage the potential social and environmental impact of petroleum operation
	Natural Resource and Environmental Governance – DPO	Ghana	Mining	3.30	To improve mining revenue collection, management, and transparency and address social issues in mining communities
	Development Policy Credit	Mongolia	Mining	9.60	To improve management of mining revenues and to clarify the policy framework
	Second Government Reform & Growth Credit	Sierra Leone	Mining	2.00	To improve the fiscal regime and services for mining activities
	Sustainable Management of Mineral Resources	Tanzania	Mining	13.00	To strengthen the Government's capacity to manage the mineral sector
	Economic Recovery & Governance Grant 2	Togo	Mining	2.00	To strengthen governance and transparency (EITI) in the key sectors of the economy, including energy
	Sustainable Management of Mineral Resources Additional Financing	Uganda	Mining	1.10	To enable more efficient and socially and environmentally sustainable mining
	TOTAL IDA*			143.96	
	TOTAL IBRD/IDA			483.56	<i>(IBRD: \$339.60)</i>

* Including Blend countries

Note: Many IBRD/IDA financings are multi sector and financing allocation to specific sub sectors in some cases maybe nominal. Only financing with identifiable extractive industry components are included above.

ANNEX D - Summary Expected Development Impacts of IFC Projects FY2009**Antares Minerals**

Antares Minerals Inc. is a listed, Canadian junior mining exploration company focused on the Haquira copper exploration project in Peru. IFC will assist the company in funding the pre-feasibility study and continued exploration of the Haquira mineralization and to provide environmental and social technical assistance. The project is expected to generate direct employment, and the company is already trying to implement a program to improve local livelihoods through training and provision of materials for fish farming, greenhouse cultivation of vegetables, farming of fodder, sowing and occupational training. It is expected to have potentially significant economic development impacts during the construction and production phases, including tax revenues and foreign exchange contributions to the national economy and local government budgets. Mine development is also expected to contribute to the development of vital transportation and energy infrastructure.

Bankers Petroleum

Bankers Petroleum Ltd., is a Canadian publicly traded company with its oil and gas assets focused in Albania. The project involves the redevelopment of the onshore Patos Marinza oilfield in southern Albania. The proposed investment will help promote and integrate cleaner and more sustainable environmental practices in oil production in Albania. The numerous environmental benefits from the project include clean-up of existing wells taken over by Bankers from Albpetrol Sh. A., the national oil and gas company, application of good international practices in project operations, reduction in overall oilfield contamination risks, as Bankers takes up additional well areas. Potential benefits will arise from Bankers' participation in targeted initiatives by the Government authorities towards wider environmental remediation of the oilfield. The project will help improve recovery rates and accelerate domestic oil production from Patos Marinza. It will also help develop local skills and transfer know-how and technology for heavy oil extraction in Albania.

Baobab Resources

Baobab Resources Plc is a London-based, junior exploration company focused on exploring and developing mineral deposits in Mozambique. IFC's investment will support ongoing exploration and future feasibility study work. This is an early stage investment preceding a commercial resource discovery. The anticipated developmental impacts of this project, should it move to production, will include taxes, dividends and royalties paid to the government, foreign currency flows, increased local employment and sourcing, transfer of best practice in management skills, technology and know-how with respect to environmental and social compliance and community development. IFC's involvement complements WBG's policy work with the Mozambique government to develop the mining sector in a sustainable and transparent manner.

Block Z1

Block Z1 is an integrated gas-to-power project in northwest Peru, near the border with Ecuador. The project will produce gas from off-shore gas reserves and generate electricity to meet the growing demand in northern Peru. It will support the monetization of stranded natural gas reserves in Peru and will create regional markets for natural gas. The production and sale of gas will provide an important source of revenue to the country through royalties and taxes and create direct, new employment opportunities. It will also substitute for more expensive and polluting imports of diesel and fuel oil, help reduce transmission constraints by reversing the flow of electricity from South to North, and in addition make sizeable annual contributions to local community development.

BPZ RI II

BPZ Resources, Inc., headquartered in Houston, Texas, is an independent oil and gas company with operations primarily concentrated in northwest Peru. The project is a take up by IFC of a rights issue for additional financing for ongoing offshore oil exploration and development.

CAPE III

Capital Alliance Private Equity III Ltd. Fund, managed by Africa Capital Alliance Manager Ltd., is a follow on fund to CAPE I and CAPE II launched in 2005. The Fund will make equity investments of between US\$10-75 million in 12-15 enterprises with above- average potential for revenue growth and job creation. IFC's objective in supporting this Fund is to provide equity capital, industry expertise, and management advice to support private sector development in a region where the private sector is needed to drive economic growth.

Escondida RI II

The Escondida mine, which is managed by BHB Billiton Ltd through Minera Escondida Limitada, exploits one of the largest copper deposits in the world. The project is an exercise by IFC of a rights issue to support the expansion of an existing copper mine. The project helps in the generation of fiscal revenues to the Government of Chile through paid taxes and royalties and of large portion of local employment and sourcing. In addition, the company's Minera Escondida Foundation supports community development through projects that focus on the improvement of municipal schools, the training of women, the extension of micro loans for the development of youth and social organizations, and on indigenous peoples.

GeoPark RI II

GeoPark is a small, independent exploration and production company focused on Latin America with producing assets in Argentina and Chile. The project is a proposed exercise of subscription rights by IFC in GeoPark to support oil and gas exploration and appraisal. The project is expected to help meet domestic oil and gas demand, support the continuing development and growth of a small E&P company focused on Latin America, increase the use of local and regional contractors, and the free provision of gas from the Del Mosquito block to local communities.

Greystar

Greystar Resources Ltd is a Canadian-based, junior mining company. Greystar is focused on gold and silver exploration in Colombia. The Company is seeking IFC funding to complete the pre-development stage of the project. Expected development impact is limited initially at the pre-development stage but the company has established the Greystar Foundation in the Municipality of California, and initiatives include entrepreneurship development, health and education as well as agricultural activities. In the event of mine development, expected key impacts include notable payments (taxes and royalties) to local and regional governments and the creation of jobs during construction phase and production phase.

Gryphon

Gryphon is an Australian-listed, publicly traded company with a focus in Burkina Faso where it has been engaged in minerals exploration since 2005. IFC's financing is expected to help with minerals exploration, pre-feasibility study, and initial Environmental and Social Impact Assessment studies. The project is expected to have impact on employment in the local community by providing non- farm employment opportunities. Should the exploration lead to a commercial discovery, the company will pay taxes, dividends and royalties to the host government, and the project would also generate foreign currency flows.

Guyana Gold RI

Guyana Goldfields is a TSX-listed, junior mining company that has been active in Guyana for 13 years. The company's main focus is its 100% owned Aurora gold project in Guyana. The proposed IFC investment is an exercise of a rights issue to provide equity for the completion of ongoing exploration and feasibility study work.

Kiwara Plc

Kiwara Plc is a London-based, junior exploration company focused on exploring and developing mineral deposits in Zambia. IFC will help finance the company's exploration activities and associated feasibility studies in line with industry best practice in environmental and social sustainability and also provide more general corporate advice to this junior company, as it progresses towards mine development. Should the company's prospects be developed, the project would have notable economic impact through generation of employment, tax revenues and foreign exchange and supply chain development.

Kosmos Energy

The project involves the first phase of development of the recently discovered offshore Jubilee oil and gas field in Ghana. IFC has been requested to separately provide financing to each of the borrowing companies, Kosmos Energy Holdings and Tullow Oil Plc. Kosmos is a small, privately-held, US-based oil exploration and production company. Tullow is a growing, independent oil and gas exploration and production company, headquartered in London. The project will generate substantial revenues for Government, promote foreign direct investments in the country, stimulate demand for local goods and services, and have the capability to produce quantities of gas equivalent to over 50% of power consumed in Ghana today.

Lonmin RI

Lonmin Plc., headquartered in London, United Kingdom, is a publicly traded company, which through its subsidiaries explores, mines, smelts and refines Platinum Group Metals (PGM). It is the world's third largest primary platinum producer with mines in South Africa. The project is an exercise of IFC's subscriptions rights which will be used to reduce company's net debt and annual interest charges, providing the company with the leeway to continue to take advantage of investment and growth opportunities at the appropriate time.

Lydian Intl 3

Lydian International Limited is a TSX-listed, junior mining exploration company with a gold project in Armenia and a zinc project in Kosovo. IFC is financing continued exploration and feasibility study work with respect to mineral resource properties in Armenia. In the event of mine development, the expected development benefits of the project would include setting an example for other foreign mining companies to follow Lydian's lead, thereby expanding the country's mining potential. Lydian is also a pioneer in addressing environmental and social issues and is likely to set industry benchmarks in this regard. Specifically, the Armsular project would produce notable taxes and royalties and generate positive foreign currency flows for Armenia. It would also help to revitalize the depressed area, formerly a center of mining and industry, bringing skilled jobs to workers trained in the sector.

ROCH

ROCH is a small Argentinean oil and gas exploration and production company with hydrocarbon assets in central and southern Argentina. IFC will provide financing to the company for further exploration and development in its existing hydrocarbon assets and for the potential acquisition of new ones. It will contribute to the alleviation of a tight gas market in Argentina by increasing local supply. The project will also benefit the local economy through local purchasing, the creation and preservation of local employment, and through increased payments of taxes and royalties to the Federal and Provincial Governments.

Salamander (*Two investments*)

Salamander is a rapidly-growing independent oil and gas company founded in 2005 and is exclusively focused on production, development, appraisal and exploration activities in Southeast Asia. The financing will support the development of natural gas reserves, which will promote the use of a cleaner fuel in the region. The Project will have a sustaining impact on existing employment levels, contribute to the creation of new jobs, generate payments for Central and Local Governments and is expected to have a positive impact on national and regional economic activity through the purchasing of equipment, products and services. It is also expected to promote competition and attract FDI in frontier countries.

Supplier Finance Facility

IFC provides financing for a supplier finance facility to finance small and medium enterprises (SMEs) that supply to BP and its partners in Azerbaijan. The project is expected to expand the benefits from the oil and gas sector to the local economy by addressing one of the key constraints (i.e. financing) for local SMEs. It will encourage the development of new skills in the banking sector, introduce new products and develop local technical expertise and increase employment by strengthening SMEs.

Topic Tunisia

Topic, S.A. is an independent exploration and production company, headquartered in Tunis, and holding interests in three oil and gas blocks in Tunisia. The project consists of IFC's financing of development of an offshore oil concession, acquisition of seismic data and drilling of exploration wells in Tunisia. The project will support the growth of a local, independent, private company in Tunisia, operating in marginal oil and gas fields. It will also help reduce the continued decline in Tunisia's oil production and its dependency on oil imports. The project is also expected to increase government revenues, bring direct and indirect local employment and training, and benefit local communities by way of purchases of local goods and services.

Tullow Oil

The project involves the first phase of development of the recently discovered Jubilee oil and gas field offshore Ghana. IFC has been requested to separately provide financing to each of the borrowing companies, Kosmos Energy Holdings and Tullow Oil Plc. Kosmos is a small, privately-held US-based oil exploration and production company. Tullow is a growing, independent oil and gas exploration and production company headquartered in London. The project will generate substantial revenues for government, promote foreign direct investments in the country, stimulate demand for local goods and services, and eventually have the capability to produce quantities of gas equivalent to over 50% of power in Ghana today.

ANNEX E - Summary of Objectives of IBRD-IDA EI Projects FY2009

IBRD

Argentina

The development objectives of the *Mining Environmental Restoration Project* are to: (i) strengthen the Government of Argentina's capacity to assess and mitigate environmental risks associated with closed uranium mines, processing sites, and related mining sector investments in accordance with international good practice; and (ii) reduce potential economic and health damages associated with a closed uranium mining site in Malargue, Mendoza.

China

The development objective of the *Shanxi Coal Bed Methane Development and Utilization Project* is to increase the production and utilization of coal bed methane/coal seam methane (CBM/CMM) to replace coal as a fuel for thermal use and thereby reduce GHGs and local air pollutants associated with coal combustion. The project development objective will be achieved by (a) enhancing the subsector's policy framework and institutional capacity, and (b) supporting the exploration and production of CBM and potentially its liquefaction to increase market access.

Indonesia

The *Public Expenditure Support Facility Development Policy Operation* has been set up in response to the Government of Indonesia's request for contingent budget support to help Indonesia meet its financing needs. The objective of this Facility is to minimize the possibility of a sudden-stop type financial crisis, to alleviate financing constraints in 2009, and to protect critical public expenditures in the face of a likely growth slowdown. As part of this larger macro operation the Facility is also intended to introduce revenue transparency in the extractive industries sector (EITI).

Peru

The developmental objective of the *First Programmatic Environmental Development Policy Loan /DDO Project* aims at supporting the government's efforts to (i) strengthen environmental governance and institutions in Peru; (ii) mainstream environmental sustainability into the development agenda of key sectors (mining, fisheries, and urban transport and fuels), and (iii) promote improvements in the health conditions particularly of the poor who are exposed to the highest risks from environmental degradation.

Afghanistan

The development objective of the *Sustainable Development of Natural Resources Project* is to assist the Ministry of Mines in improving its capacity to effectively regulate Afghanistan's minerals and hydrocarbon resources sector in a transparent manner and foster private development in this sector. The key, additional activities that have necessitated the request for additional funding are: (i) support to the Government of Afghanistan (GoA) to complete the Aynak copper deposit transaction; (ii) support to the GoA to undertake the Hajigak iron ore deposit transaction; (iii) the development of a program to provide relevant sector knowledge to other government agencies, particularly the Ministry of Finance, for sector taxation and revenue management related matters, and planning for structured training in geo-sciences and mining at an educational institution in Afghanistan; and (iv) provision of additional laboratory and field research equipment to the Afghanistan Geological Survey (AGS).

The *Strengthening Institutions Development Policy Grant (DPG) Program* supports the implementation of the Government of Afghanistan (GoA) medium-term development strategy within the context of a satisfactory macroeconomic framework. The development objectives are to: (i) improve fiscal policy and planning as well as public financial management, (ii) strengthen public administration reform, including sub-national administration, and (iii) increase transparency and accountability in the management of public finances, including transparency of revenues from the extractive industry. This objective contributes to the Government's efforts to address weak governance and corruption. The purpose of the DPG is to secure sound macroeconomic management and

fiduciary standards for all resources channeled through the Afghan core budget including funds from the World Bank and the Afghanistan Reconstruction Trust Fund (ARTF).

IDA – Blend

Armenia

The development objective of the *Rural Enterprise & Small-Scale Commercial Agriculture Development Additional Financing* is to improve the socioeconomic conditions of the rural populations and contribute to reducing rural poverty, part of which will be renovation of village infrastructure, specifically the repair and extension of the gas network.

Bangladesh

The *Siddhirganj Peaking Power Project* in Bangladesh has the objectives to increase the supply of power during periods of peak demand in Bangladesh, and to strengthen the three implementing agencies: Gas Transmission Company Limited (GTCL), Electricity Generation Company of Bangladesh (EGCB), and Power Grid Company of Bangladesh (PGCB). The project includes the financing of a 60 km natural gas pipeline from the gas processing center at Bakhrabad to the power generation site at Siddhirganj.

Burkina Faso

The development objectives of *Poverty Reduction Support Credit (8)* are to support the acceleration of real growth and the reduction of the poverty in Burkina Faso through actions that will: (i) improve the investment climate and promote exports by consolidating the cotton sector beyond the current crisis, supporting the Extractive Industries Transparency Initiative, and facilitating land titles and construction permit delivery, labor market effectiveness and the adoption of a key law on energy regulation; (ii) improve access to basic services by operationalizing decentralization in basic education, health, water and sanitation and developing municipal investments; and (iii) promote efficiency, transparency and accountability in the use of public resources through enhanced public financial management.

Central African Republic

The development objective of the *Second Economic Management and Governance Reform Grant Project (EMGRG II)* is to promote good governance and the rule of law through efforts to improve public sector and economic governance through enhanced accountability of the executive and transparent management of public resources. Structural reforms directed at rebuilding the economy aim to establish a legal and regulatory framework conducive to the development of competitive mining and forestry sectors, two main sources of foreign exchange earnings and growth for CAR.

Cote d'Ivoire

The *Second Economic Governance and Recovery Grant (EGRG II) Project* for the Republic of Cote d'Ivoire contributes to the government's capacity to: (1) improve public financial management and control; and (2) help enhance governance, transparency, and efficiency in the energy, cocoa, and financial sectors. Outcomes that are expected upon Project completion include: (i) improved rate of transposition of West African Economic and Monetary Union (WAEMU) guidelines and international standards in the national procurement regulatory framework and extension of the Integrated Public Finance Management System (SIGFP) to the remaining 10 departments; (ii) reduced operating costs of the four cocoa sector entities, and a roadmap for the preparation of a new strategy for cocoa sector reform implemented; (iii) completion of the Extractive Industry Transparency Initiative (EITI) draft annual report; and (iv) decrease in the ratio of insider lending to National Investment bank (NIB) net worth.

Ghana

The development objectives of the *Natural Resource and Environment Governance Development Policy Operation (DPO) Program* are to (i) improve mining sector revenue collection, management, and transparency; (ii) address social issues in forest and mining communities; and (iii) mainstream environment into economic

growth through Strategic Environmental Assessment (SEA), Environmental Impact Assessment (EIA), and development of a climate change strategy.

Mongolia

The development objectives of the *Development Policy Credit (DPC) Program* for Mongolia is to: (i) improve the management of mining revenues, improve capital budget planning and protect the maintenance of basic infrastructure; (ii) protect the poor during the downturn by retargeting existing social policies to the poor; (iii) strengthen confidence in the financial sector; and (iv) clarify the mining policy framework.

Sierra Leone

The proposed *Second Governance Reform and Growth Credit* is the second in a series of development policy operations in support of Sierra Leone's transition from post-conflict recovery to sustainable development in the context of its Poverty Reduction Strategy (PRS). The development objectives of the operation include reform measures to improve the fiscal regime and services for mining activities.

Tanzania

The development objective of the *Sustainable Management of Mineral Resources Project* is to strengthen the Government of Tanzania's capacity to manage the mineral sector and to improve the socioeconomic impacts of mining for Tanzania and Tanzanians and enhance private local and foreign investment. It has three main aspects: (i) socioeconomic impacts; (ii) Government capacity; and (iii) stimulating mineral sector investment.

Togo

The *Economic Recovery and Governance Grant Program* for Togo supports government-owned reforms to improve governance, transparency and efficiency in public financial management as well as advance structural reforms aimed at strengthening governance and transparency in the key sectors of the economy, including energy sector. These reforms would lead over time to strengthened fiscal sustainability, improved economic governance and enhanced transparency of State institutions and processes that are critical for the country's economic and social recovery.

Uganda

The development objective of the *Sustainable Management of Mineral Resources Project (SMMRP)* for the Republic of Uganda is to strengthen the government's capacity to develop a sound minerals sector based on private investments and improvements in selected artisanal and small scale mining areas. The additional credit will support the completion of planned activities under the existing *SMMRP* to develop Uganda's mineral sector.

ANNEX F - Summary EI Project Complaints/Requests for Audit/Inspection in FY2009

A. Summary EI Project Related Complaints/Requests for Audit Handled by CAO

The CAO received one new complaint concerning Extractive Industries in FY2009 (BTC Pipeline-32/Vale (5)), closed two complaints that were unresolved in the previous fiscal year (BTC Pipeline-31/Naokhrebi and Lukoil Overseas-01/Berezovka) and continues to monitor IFC's response on two other complaints that have been carried over from FY2008 (BTC Pipeline-30/Vale (4) and Lukoil Overseas-03/Berezovka):

Cases concerning the BTC Pipeline

1. **Baku-Tbilisi-Ceyhan (BTC) Pipeline-30/Vale (4).** *Open.* In August of 2007, the CAO received a complaint from residents of Vale, who claimed that following the completion of the pipeline project BTC Co. did not meet previously agreed land restoration commitments. Following an assessment and facilitated meetings by CAO Ombudsman, the parties reached several agreements toward resolution of the case. The second of those, signed in June 2008, states that the complainant will carry out a spring planting, and in the fall of 2009, the parties will jointly monitor the crop yield. At that time, they will work with the CAO to determine whether compensation should be paid to the complainant. The CAO is monitoring implementation of this agreement.
2. **Baku-Tbilisi-Ceyhan (BTC) Pipeline-31/Naokhrebi - Closed.** In February 2008, the CAO received a complaint filed on behalf of villagers in Naokhrebi, Akhalsikhe District, regarding the residents' land rights. In April, the CAO Specialist Ombudsman traveled to Naokhrebi to discuss options for resolution. During this visit both parties presented documents which contradicted the opposing party's assertions regarding ownership of the land in dispute. The case is now being considered in the Georgian courts. Although, the complainant offered an out-of-court settlement, BTC Co declined the offer on grounds that it would set a precedent for other claims. The complaint has been transferred to CAO Compliance for appraisal to determine whether an audit is warranted. CAO Compliance concluded that the case did not merit an audit. The case is closed.
3. **Baku-Tbilisi-Ceyhan (BTC) Pipeline-32/Vale (5) - Open.** In August 2008, the CAO received a complaint from a representative of the Georgian Young Lawyers Association (GYLA) signed by 31 residents of Vale regarding reinstatement of privately owned land following completion of the BTC pipeline. The complainants say BTC Co. has not fulfilled the terms of its "Guide to Land Acquisition and Compensation," which commits it to undertaking a final inspection of the whole pipeline territory together with the primary owners/users of the land. The complainant questions why BTC's compensation calculations for certain plots are based on 2002 market prices, and not commensurate with 2007-8 prices. While a number of the complainants had already signed servitude agreements with the company and had received compensation, several others remained unresolved. A CAO Ombudsman team began working with those parties and with BTC to help resolve the issues. In early July 2009, BTC and the complainants reported that the parties had reached final agreements. These included joint monitoring of crop yields in the fall of 2009, and possible compensation based on the monitoring results. The CAO is monitoring implementation of those agreements.

Cases concerning the Lukoil Overseas Project

4. **Lukoil Overseas-01/Berezovka** (Karachaganak gas/oil development). *Closed.* In September 2004, CAO received the first complaint in regards to the Lukoil Overseas project from Crude Accountability, an NGO based in the United States, which was submitted on behalf of residents of Berezovka. The complainants, who are seeking relocation of the village, raised concerns about air emissions and quality of drinking water and effects on the health and well-being of Berezovka residents. In April 2008, CAO disclosed the audit report where it found IFC to be out of compliance on how IFC had assured itself that air emissions from the Karachaganak Project were in line with IFC requirements. In January 2009, Lukoil ended its contractual obligations to IFC by prepaying its outstanding balance and therefore ending IFC's obligations to assure itself of project performance. Nevertheless, IFC continued to verify its compliance, and CAO performed a site visit. CAO followed up with a monitoring report and proposed Action Plan, which IFC has adopted.

5. **Lukoil Overseas-03/Berezovka** (Karachaganak gas/oil development). *Open*. In May 2008, the CAO received a third complaint filed by Crude Accountability, the same NGO as in the first two cases, on behalf of a local community with concerns about health and safety and a request of relocating the village. The complainant met the criteria for eligibility, and an ombudsman assessment had been going on for eight months, including meeting and discussions with the key stakeholders. In January 2009, Lukoil Overseas ended its contractual obligation to IFC by prepaying its outstanding balance. In the meantime CAO Ombudsman remained engaged with the parties to help them resolve the complaint and proposed a multi-stakeholder meeting, facilitated by an independent, neutral facilitator, contracted through the CAO. However, the NGO requested a third CAO compliance appraisal to determine whether an audit was merited. Because the parties were unable to agree on a process for jointly resolving the complaint, the CAO Ombudsman concluded its involvement and transferred the complaint to CAO Compliance

B. Requests for Investigation of IBRD/IDA projects received by the Inspection Panel

The Inspection Panel did not receive any new requests for inspection in respect of extractive industries in FY2009. At the end of the fiscal year, an outstanding case, the West Africa Gas Pipeline (#40) from FY 2006 was closed after Management had proposed an Action Plan and presented a progress report in the second half of FY2009.

Further information about complaints can be accessed at <http://www.cao-ombudsman.org/> and

<http://web.worldbank.org/WBSITE/EXTERNAL/EXTINSPECTIONPANEL/0,,menuPK:64132057~pagePK:64130364~piPK:64132056~theSitePK:380794,00.html>

Attachment for information: Resource-Rich countries ^{1/} not yet part of EITI (May 31, 2009)

	GNI / capita \$US	IBRD/IDA	HIPC	Hydrocarbon- Rich country ^{1/}	Mineral- Rich country ^{1/}
High income countries					
Bahrain	19,350			X	
Brunei Darussalam	26,930			X	
Kuwait	31,640			X	
Qatar				X	
Saudi Arabia	15,440			X	
United Arab Emirates	26,210			X	
Upper Middle income					
Chile	8,350	IBRD			X
Libya	9,010	IBRD		X	
Mexico	8,340	IBRD		X	
Oman	11,120	non-OECD		X	
Russia	7,560	IBRD		X	
South Africa	5,760	IBRD			X
Venezuela	7,320	IBRD		X	
Lower Middle income countries					
Algeria	3,620	IBRD		X	
Ecuador	3,080	IBRD		X	
Iran	2,680	IBRD		X	
Syria	1,760	IBRD		X	
Bolivia	1,260	Blend	X	X	
Jordan	2,850	IBRD			X
Namibia	3,360	IBRD			X
Low-income countries					
Turkmenistan	650	IBRD		X	
Uzbekistan	730	Blend		X	X

Income classification

High Income countries, per capita income between US\$11,456 and more

Upper Middle-income countries, per capita income between US\$3,706 and US\$11,455

Lower Middle-income countries, per capita income between US\$936 and US\$3,705.

Low-income countries, per capita income of less than \$935

^{1/} Source: IMF 2007 "Guide on Resource Revenue Transparency" as an indication of the "universe" of resource-rich countries. Countries are considered rich in hydrocarbons and/or minerals if have an average share of fiscal revenues from those sectors of at least 25% during the period 2000-2005 or an average share of sector export proceeds of at least 25% of total exports.