IMPLEMENTATION OF THE MANAGEMENT RESPONSE TO THE EXTRACTIVE INDUSTRIES REVIEW

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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
FY	Fiscal Year (ending June 30th 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 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 third annual report on progress on implementation of the Management Response to the Extractive Industries Review. It provides an overview of progress achieved and further information about World Bank Group activities related to the extractive industries and projects supported.

Sector Background - Continuing High Commodity Prices and Strong Investment Flows

Oil and metal prices continued at high levels although some metals prices appear to have now come off cyclical peaks. For mineral rich developing countries, high prices are generating substantial increased revenue flows to governments in the form of taxes and profit shares. In some cases, faced with high corporate profits, governments are renegotiating taxation arrangements to recover a larger share of the resource rent. With sustained high prices, development and exploration spending has also increased substantially and in a number of countries, long mooted large scale mining investments which will call for accompanying large infrastructure investments are getting underway. For the resource rich countries, managing large tax and investment inflows will be a continuing challenge if they are to take full advantage of the opportunity that high commodity prices are bringing.

For poorer developing countries that are not resource exporters, high oil prices in particular, are an added cost that can be very large relative to their overall balance of payments. To date, the impact of high oil prices on economic growth appears to have been relatively limited, but this could change. Governments will need to ensure, to the extent possible, that high prices do not have a disproportionate impact on the poorest.

Climate Change - Growing Consideration for Extractive Industries

Concerns about climate change have deepened. For the extractive industries, this presents challenges in terms of improving the efficiency of energy use in production and processing, including wastage such as gas flaring. Climate change concerns will also have an impact on demand for the sectors' products. High oil prices in particular will eventually constrain oil demand, but, for now, the impact of fast economic growth in developing countries is outweighing the price impact. The competitiveness of coal has been boosted substantially by very high internationally traded oil and gas prices. The demand for coal for power and some industrial uses will grow as a result, increasing the pressure for efficiency improvements and ultimately carbon capture and storage to offset greenhouse gas (GHG) impacts. In this respect, optimizing the entire coal supply chain (production, transport, use and waste disposal) is increasingly seen an important contributor to mitigating the climate change impacts of coal use.

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

The World Bank Group has continued to implement the Management Response to the Extractive Industries Review. Its overall approach in the sector is to work through its policy and investment support interventions to help ensure sustainable outcomes at the local, national and global levels. By early CY2008, IFC will have completely revised all five of its guidelines for extractive industries. In October 2007, MIGA adopted its revised policy and Performance Standards which were based on those of IFC. Important global initiatives in which the World

Bank is playing a strong role, such as the Extractive Industries Transparency Initiative (EITI) and the Global Gas Flaring Reduction Partnership (GGFR) have continued to thrive and to play an important role in addressing global EI issues. From January 1st 2007, IFC's policy requirement that all EI projects it supports should make public their payments to governments took effect and IFC will be following up and reporting publicly on the outcomes of this in due course.

The World Bank Group's financing commitment for total renewable energy and energy efficiency projects increased by 67 percent to US$1.43 billion in FY07. Over the three fiscal years from July 2004 to end June 2007, World Bank Group investments in "new" renewable energy (wind, solar, biomass, geothermal and hydropower up to 10 MW per facility) and energy efficiency totaled US$1.8 billion. This substantially exceeded the target adopted in Bonn in July 2004 for such investments to grow by 20% pa.

Strong Demand for World Bank Group Extractive Industries Financing

Total World Bank Group EI financing in FY2007 fell by 27% to US$777 million compared to FY2006. Private sector financing support by IFC and MIGA grew from US$619 million to US$721 million, whereas IBRD/IDA financing fell from US$447 million to US$56 million. IBRD/IDA financing supported a variety of policy support, capacity building and other activities with governments with none used to support investment in new EI capacity. More than 70% of IFC and MIGA's support for private investors in the oil and gas sector was for gas production, transport or processing. In total, Africa (40%) was the most important region for overall World Bank Group financing, followed by South Asia (19%), Europe and Central Asia (17%) and Middle East North Africa (14%).

Challenges Looking Forward

Looking forward, developing countries, the private sector and the World Bank Group will face continuing challenges to ensure that the EI sector contributes to sustainable development. Very large increases in revenues for some developing countries are an opportunity for them to invest more in their own development. However, revenue and investment inflows need to be managed well and spent effectively if this to happen. As noted in last year's report, there are signs that some resource rich countries are managing this commodity price boom better than in the past. The continuing strength of initiatives such as EITI is a hopeful sign in this respect. For the World Bank Group, governance and transparency at the national and local levels and helping ensure that communities benefit from resources that impact them will continue to be its key priorities.

Implementation of the Management Response to the Extractive Industries Review

I. INTRODUCTION

1. This is the third report[1] 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 evaluations[2]. The report summarizes WBG activities in the extractive industries (oil, gas and mining – EI) in FY07, and reviews specific progress in implementation of the MR.

II. KEY DEVELOPMENTS IN THE EXTRACTIVE INDUSTRIES SECTOR

Commodity Prices Remain Very High

2. Oil and metals prices continue to be at very high levels in real terms with some common forces driving both markets:

Strong demand growth:

- Global demand growth has been exceptionally strong, driven by the world economy which has averaged growth of over 3.5% pa over the last five years. Average developing country growth, which is more material and energy intensive, has been close to 7%.
- In particular, Chinese economic growth has been exceptionally fast and commodity intensive. In the last 5 years, China has accounted for 70% or more of most metals demand growth and close to 40% of oil demand growth.

Weak growth in capacity:

- A long period of low metals prices till the early 2000s and poor profitability kept investment down in the mining sector, reducing its capacity to meet growth in demand.
- Limited access to good resources has constrained private oil investment.
- Oil supply has also been interrupted in several countries by a variety of factors and perceptions of political risk are said to have also contributed to higher oil prices.
- Both the oil and metals industries have confronted skills shortages, escalating costs and delays in the supply of equipment, although this may be starting to ease in some areas.

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[1] Implementation of the Management Response to The Extractive Industries Review (SecM2005-0587,IDA/SecM2005-0589, IFC/Sec/M2005-0064, MIGA/SecM2005-0039) was the first update. The second update was SecM2006-0546, IDA/SecM2006-0656, IFC/SecM2006-0061, MIGA/SecM2006-0037.

[2] The World Bank Group 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)

3. In the short run, although both the oil and metals markets are vulnerable to a sharp fall in the rate of growth of global demand, on balance, oil and metals prices look likely to remain high for some time ("super cycle') as global demand continues to be strong and supply responds slowly. In the case of oil, OPEC's policy and capacity to influence prices may be an additional factor.

4. The expectation of high prices is likely to continue to drive new investment in EI in developing countries. Continued high prices will mean continuing strong levels of revenues from EI for resource producing countries. For some countries, taxation receipts have been relatively disappointing so far, but, as the period of high prices is extended, companies will use up tax allowances and generate more taxable profits and tax revenues. In addition, governments are likely to continue to fine tune their tax frameworks to capture more of the rent. For poor non-resource producing, oil importing countries, high oil prices will be a burden and will eventually impact growth rates.

Climate Change A Growing Concern

5. Concerns about climate change have become more pronounced as increased evidence is presented about the impact of GHGs and the pace of climate change. For extractive industries, concerns about climate change and governments responses to it will present challenges in terms of requiring greater efficiency of energy use, reducing wastage such as gas flaring, the development of less GHG intensive fuels and processes and, ultimately approaches such as greenhouse gas capture and storage for GHGs generated from fossil fuel burning.

III. IMPLEMENTATION OF MANAGEMENT RESPONSE COMMITMENTS

6. Since the second report on implementation of the Management Response in December 2006, further progress has been made in the implementation of its commitments. Annex A summarizes progress on specific objectives.

Renewable Energy

7. The WBG's commitments for renewable energy and energy efficiency projects were up 67 percent to US$1.43 billion in FY07, compared with US$860 million in FY06. The WBG outperformed its 2004 pledge under the Bonn Commitment[3] to increase funding of "new" renewable energy projects (wind, solar, biomass and geothermal, as well as hydropower up to 10 MW per facility) and energy efficiency projects by 20 percent a year. From July 2004 through June 2007, the WBG has committed US$1.8 billion for such projects, almost doubling its Bonn goal of US$913 million for the same period.

8. WBG financing, including Carbon Finance operations and co-financed projects by the Global Environment Facility (GEF) included:

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[3] At the Bonn International Conference on Renewable Energies in 2004, the World Bank Group made a commitment to accelerate its support for new renewable energy and energy efficiency. WBG committed to increase its financial commitments for new renewable energy and energy efficiency at a growth rate of 20 percent per annum between fiscal years 2005 to 2009, compared to a baseline commitment of US$209 million (equal to the average of the previous three years).

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- US$421 million for new-renewable energy – wind, solar, biomass, geothermal, and hydropower up to 10 MW;
- US$262 million for energy efficiency; and
- US$751 million for hydropower projects with capacities larger than 10MW.

9. There has been a steady rise in the share of financing the WBG committed for renewable energy and energy efficiency projects since 1990, with total financing topping US$11 billion. Financing for such projects amounts to one-fourth of the Bank Group's energy sector commitments in the three financial years since the Bonn commitment. This is up from about 12 percent in the 1990-94 period. It was 40 percent of the Bank Group's commitments in the energy sector in the 2007 financial year.

10. The WBG supported 63 renewable energy and energy efficiency projects in 32 countries with funding coming from[4]:

- International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA), for US$549 million plus US$128 million in co-financing from the GEF and US$144 million from carbon funds;
- International Finance Corporation (IFC), including trust funds, for US$457 million; and,
- Multilateral Investment Guarantee Agency (MIGA) for US$155 million.

World Bank Group Commitments for Renewable Energy and Energy Efficiency in Fiscal Year 2007 (millions of dollars)

Source of Funds	New Renewable Energy	Hydro>10MW	Energy Efficiency	Total
World Bank (IBRD/IDA)	70	430	49	549
GEF (World Bank)	121	0	7	128
World Bank (Carbon Finance)	68	66	10	144
IFC (Own Funds)	154	140	156	450
IFC (Carbon Finance)	7	0	0	7
MIGA	0	115	40	155
Total	421	751	262	1,433

Source: World Bank Group
Note: Some columns may not add up exactly due to rounding

Governance

11. During FY07, the WBG carefully assessed the governance risks to expected benefits of proposed projects during appraisal. Over the same period, 39 WBG Country Assistance/Partnership/Interim Strategies (CAS/CPS/ISN) were presented to the Board. Of these, two (Azerbaijan, Angola) related to resource rich countries, and in both cases addressed issues relating to the EI sector. IFC, through its Summaries of Proposed Investment (SPI), continues to disclose publicly the anticipated benefits of proposed investments in the EI sector, and notes

[4] For further information see " Catalyzing Private Investment for a Low-Carbon Economy - World Bank Group Progress on Renewable Energy and Energy Efficiency in Fiscal 2007" World Bank November 2007, a report on WBG activities in clean energy in FY07

governance risks to these expected benefits. During the year, the IBRD/IDA developed a proposed EI Governance Framework which is now being piloted in two West African mining countries.

Transparency

12. The WBG continues to strongly support the implementation of the *Extractive Industries Transparency Initiative (EITI)* [5] through (a) administration of the EITI Multi-Donor Trust Fund, (b) support to civil society, and (c) assisting the EITI Secretariat in its coordination function and serving as an observer on the EITI Board.

13. Since inception, the EITI principles have become a well-established and recognized standard for resource revenue transparency. At the country level, 28 developing countries have formally adopted EITI (The EITI Board has formally declared 15 of these as "candidate" and is awaiting information from another 9 countries – and a further 4 countries very recently joined or still at early stages of sign-up steps). A full list of these countries and their status is shown in Annex F.

14. Eight of these countries have advanced in their EITI implementation to the stage of having issued one or more EITI Reports (six of them in Africa). Norway recently became the first Part I resource-rich country to announce that it will soon adopt EITI. In addition, the WBG is working with several other countries which are in dialogue about possibly adopting EITI. This reflects not just country interest but also the growing take-up of EITI issues among Bank Country Directors.

15. Globally, the EITI structure became fully operational during the year, with the multi-stakeholder EITI Board headed by Mr. Peter Eigen having met regularly including addressing various EITI policy issues such as the pre-validation and validation of countries. The EITI Secretariat which supports the EITI Board is now fully staffed and operational in Oslo.

16. Since January 2007, IFC has required all investors it supports to make public their payments to government from their operations. It will be following up with investors in the first half of CY2008 in this respect, and will report on progress regarding the location and form of disclosure during 2007.

Ensuring Communities Benefit From EI

17. *The Oil, Gas and Mining Sustainable Community Development Fund (CommDev)* is a source of knowledge and funding for practical capacity building, training, technical assistance, implementation support, awareness-raising, and tool development for community development efforts integrally linked to extractive industry projects. CommDev serves as an integral component of an extractive industry project, enhancing, accelerating, and extending the value-added support given to communities beyond the compliance requirements of IFC investment projects and World Bank loans.

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[5] For more information on the EITI see www.eitransparency.org

18. As of November 2007, CommDev is funding eight technical assistance projects valued at over $2 million. Another 15 projects are in the pipeline. In addition to projects in Guinea and Guatemala reported on in FY06, examples of CommDev projects include Colombia (Capacity Building for Managing Oil Royalties), DRC (Artisanal and Small-Scale Mining), Madagascar (Developing a Regional Foundation for a mining project), South Africa (Capacity Building for Municipal and Traditional Authority in support of IFC's Private Enterprise Partnership), Peru (Participatory Monitoring of Mining Royalties), and Bolivia (Strengthening Indigenous Peoples Businesses).

19. CommDev is aiming to change the way community development projects are implemented. It is using leverage to require increased participation of stakeholders, greater definition of monitoring and evaluation frameworks, more practical tool development, increased use of local counterparts (in two cases previously trained by WBI), as well as building on existing internal and external expertise. It has also developed an information clearing house about community development in the extractive industries that is now being trialed (see Box 3.1).

Box 3.1 The Extractive Industries Information Clearing House

In response to growing demand for community development guidance by extractive industry companies, CommDev recently launched its online Information Clearinghouse, a repository of CommDev's knowledge, case studies, tools, and research collected from its network of internal and external community development practitioners. It is the primary vehicle through which CommDev will disseminate information and engage practitioners to share experience.

The Clearinghouse is designed to be a resource for the key stakeholders - companies, communities and local/regional governments - in this sector. As it is also intended to have broad ownership, CommDev will initiate focus groups with key stakeholders and a concerted outreach effort to engender partnerships for developing and maintaining the site. The initial website is designed to be in draft form so as to encourage external participation in its design. Over time, CommDev will seek to be the "go to" resource for information and knowledge - through its partners and own experience - on grappling with community development issues in extractive industries.

With nearly 1,500 resources available, this knowledge - through judicious, selective, and thoughtful application - should contribute to "raising the bar" on how community development is implemented and establish a more sustainable, technically-grounded foundation for long-term socio-economic development in communities impacted by extractive industry. 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 specifically to respond to the requests for assistance CommDev has received or we expect to receive from industry, regional/local governments and communities. We are currently building the interactive platform that will be an important vehicle for creating a network of practitioners - in companies, communities, and government - to share their concrete ideas, approaches, issues, and successes. The Clearinghouse is expected to increase the access of companies, communities, and local and regional governments to practical knowledge and tools for navigating complicated, community-focused, social, environmental, and economic development issues.

20. *Gender Issues*. The WB Oil, Gas and Mining Policy division has developed an Extractive Industries and Gender Program, which aims to mainstream gender issues into the EI sector in order to enhance the benefits and minimize the negative impact of extractive industries operations on women stakeholders. It will develop instruments and operational tools to address gender issues in extractive industries activities, and raise awareness among Bank Staff, client governments, civil society, and major EI companies about this critical issue. In addition to the

preparation of a Gender Guide to assist Task Leaders with mainstreaming gender into mining related projects, other relevant results achieved to date are as follows:

- Initiation of a Gender and Mining in Peru activity focusing on developing the "business case" for mining companies to mainstream gender into their activities
- Preparation of a draft Stakeholder Guide for Improving Practice in Mainstreaming Gender into Mining Operations that is now being finalized.
- Assessments of the impacts of mining on women and youth in Indonesia and Poland
- Development and launch of a webpage regarding EI and Gender, under the OGMC website (http://www.worldbank.org/eigender).
- Preparation and dissemination through the EI and Gender webpage of various information materials, including the EI and Women Fact Sheet, Gender and Mining Issues Brief and a Summary of EI companies gender programs (stand alone or as part of a larger community development initiative).
- Organization in cooperation with the Women Network for Sustainable Future, IFC and MIGA of a panel on "Sustainability and Gender: Private Sector Perspective" (March 6, 2007)
- Financial support for and participation in the first Mining and Gender Conference in South Africa

Mitigating Environmental And Social Risk

21. A number of the key recommendations in the Management Response were subsequently reflected in IFC's new Policy and Performance Standards on Social and Environmental Sustainability that came into effect in April 2006. IFC reported to the IFC Board on progress on the first 18 months of application in December 2007[6]. The Performance Standards have now been adopted by more than 50 "Equator Banks" (including institutions such as export credit agencies) as the continued basis for their financing activities including activities in the extractive industries.

22. As of April 30, 2007, new versions of the *World Bank Group Environmental, Health, and Safety (EHS) Guidelines* have been in use. The new EHS Guidelines were developed as part of a two and a half year review process, and are intended to be 'living documents' that will be updated on a regular basis going forward. As part of this update, there are five guidelines specific to the extractive industries: Offshore Oil and Gas Development (published), Onshore Oil and Gas Development (published), LNG Facility (published), Base Metal Smelting and Refining (published), and Mining which is now being revised after public consultation and comments and is expected to be published in final form in early 2008.

23. On August 28, 2007, MIGA's Board of Directors approved its new Policy and Performance Standards on Social and Environmental Sustainability, and a new Policy on Disclosure of Information. These policies are designed to achieve harmonization to the extent possible with the IFC's new policies. MIGA's new policy and performance standards became effective from October 1st, 2007.

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[6] IFC's Policy and Performance Standards on Social and Environmental Sustainability and Disclosure Policy: Progress Report on the first 18 Months of Application, December 14th, 2007.

World Bank Group EI Advisory Group

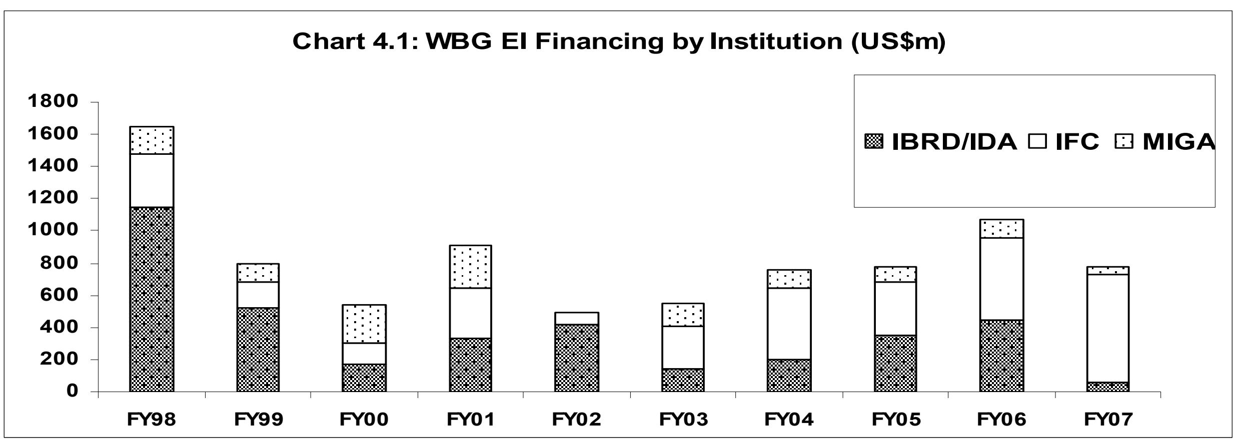
24. The third meeting of the WBG Extractive Industries Advisory Group was held in Washington in September 2007. The record note of the meeting is accessible at http://www.worldbank.org/ogmc. A number of issues were discussed by the Group, including: progress in the implementation of the EIR MR; WBG EI activities; the need for a "level playing field" for all participants in the extractive industries; the role of the WBG in the extractive industries sector in Peru; the new World Bank/Norwegian Petroleum Governance Initiative; progress with the Global Gas Flaring Reduction Partnership; work supported by the Government of Germany to develop a certification system for metals; the Zambian mining sector; and, IFC progress in developing an extractive industries community development information clearing house. A number of WBG staff participated in the Advisory Group meeting.

IV. WORLD BANK GROUP ACTIVITIES IN EXTRACTIVE INDUSTRIES FY07

Financing Activities

25. The overall volume of WBG EI financing in FY2007 was US$776.8 million, a decrease over FY2006 of 27%[7]. IFC investments accounted for 86% of the total financing volume, with the remainder split equally between IBRD/IDA and MIGA. 60% of the IFC investment volume was gas and oil/gas blend investments, whereas 37% was mining and 3% oil. Almost 90% of IBRD/IDA financing, all in the form of general policy and capacity building programs, was directed at the mining sector. MIGA provided one guarantee for a gas development and export project in FY07. Africa (40%) was the most important region for overall World Bank Group financing, followed by South Asia (19%) and Europe and Central Asia (17%).

Graph 4.1 WBG EI Financing By Institution FY1998-07



26. The fall in the volume of funding in FY07 with respect to FY06 was due to a reduction in IBRD/IDA funding. In FY06, IBRD/IDA funded a number of large gas infrastructure investments whereas in FY07 their EI financings were focused on relatively small investments to support policy and capacity building with governments and not on new physical investment. For

[7] Details provided in Annex B.

the WBG, mining related financings accounted for 39% of the total compared with 61% for oil and gas. Gas accounted for 77% of the total oil and gas investments.

Table 4.1 WBG FY07 Financing by Sub-Sector

Investments				**Other**
US$ Millions	Mining	Oil	Gas	Policy & Capacity Bldg
IDA	0	0	0	52.3
IBRD	0	0	0	4
IFC	251	105.5	312.3	0
MIGA	0	0	51.7	0
Total	**251**	**105.5**	**364**	**56.3**

IBRD/IDA

27. IBRD/IDA financed 9 programs in FY07 for a total of US$56.3 million. All 9 programs were directed at policy reform and capacity building in the oil, gas and mining sectors, with the largest concentration in Africa.

IFC/MIGA

28. MIGA provided guarantees for one gas project in FY07 to build on earlier support for the Sasol pipeline in Mozambique/South Africa.

29. In FY07, IFC committed 18 EI financings for a total of US$668.8 million for its own account of which 37% was for mining, 47% for gas and the balance for oil. The major part of IFC financing was for smaller international and local companies. Companies that have commenced or scaled up their production continue to benefit host countries and communities in multiple ways. Notable among these are the following:

- *In 2007, these companies created or preserved over 6,500 direct jobs.*
- *Over the same period, contributions made by these companies to government revenues were over US$466 million.*
- *More than half of these companies are engaged in activities to promote community development. The total outlay on such activities during this period was approximately US$26 million.*
- *These companies also made a strong contribution to development of the domestic economy through linkages with local supplier. The total value of goods and services purchased was in excess of US$370 million.*

30. These benefits complement the existing contributions made by IFC portfolio companies in the Extractive Industries. As of December 2006, there were 53 companies in IFC’s oil, gas & mining portfolio. An aggregation of results undertaken as part of IFC's DOTS exercise indicates that, collectively, these companies contributed over US$7 billion to government revenues and created or sustained over 62,000 jobs in 2006. Virtually all these companies engaged in the development of local communities, spending about US$240m on activities in this area in 2006.

Linkages to local businesses were also strong, with total spending on goods and services purchased from local and national suppliers of about US$1.9 billion in 2006[8].

Addressing Stakeholder Concerns

31. During the year, the CAO's office received two complaints about IFC projects. In one case, the CAO's office arranged for meetings between complainants and the sponsor and closed the case in February 2007. In the case of a second complaint concerning the Karachaganak project in Kazakhstan, the CAO is conducting an appraisal. In the case of the first complaint that was filed in September 2004, after failing to have the parties agree to a mediated approach, the CAO launched an audit in June 2007. The Inspection Panel did not receive any requests for inspection in connection with extractive industries projects in FY07. In respect of one request outstanding from a prior year it closed its file and in the case of another complaint from a prior year, the Board accepted the Inspection Panel's proposal that it carry out an inspection. For more information see Annex E.

32. The WBG's internal evaluation units continued with their regular program of evaluation of project outcomes. Lessons learned are applied to new operations. In the case of IBRD/IDA, individual project reviews are accessible via the IBRD/IDA website (http://www.worldbank.org/oed), and, in the case of IFC, are incorporated into its Annual Review of Evaluation Findings (http://www.ifc.org/oeg).

Non-Financing Activities

33. During FY2007, the WBG was active in partnering in a number of global initiatives aimed at addressing key issues in extractive industries. In addition to its continued support for the Extractive Industries Transparency Initiative (EITI, see section 4), these included:

Global Gas Flaring Reduction Partnership (GGFR)

34. Since 2003, the Global Gas Flaring Reduction partnership (GGFR) has been raising awareness about gas flaring issues and options through international best practice dissemination, gas utilization and carbon finance projects. The partnership has also been providing assistance to a number of high-impact flaring countries, including the two top flaring countries - Russia and Nigeria - where GGFR has been instrumental in elevating gas flaring issues to the highest level and promoting the stakeholder engagement approach while designing flaring policy and regulations.

35. GGFR's strategy over the next three years is to focus on high-impact flaring countries and regions to minimize this waste of a valuable resource and mitigate its impact on climate change by reducing greenhouse gas emissions. Within the context of the Clean Energy Investment Framework (CEIF) and in combination with other relevant Bank and IFC instruments, the GGFR plans to scale up gas flaring reduction through joint WBG operations in key flaring countries. The key elements in this strategy are to: (1) Facilitate private sector

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[8] Result for 2007 will be available in April and will be summarized in next year's report.

investments, (2) Increase energy access through sector reforms, and (3) Support the transition to a low-carbon economy, mainly through carbon finance. To date, GGFR has supported 5 gas flaring reduction projects with carbon finance components that could lead to reductions in CO_2 emissions of 13.65 million tons before 2012.

Communities and Small Scale Mining (CASM)

36. Artisanal and small-scale mining remains an important focus of Bank mining activities, especially in Africa. In June 2007, the G8, in a joint statement about development and extractive industries, expressed its support to the Communities and Small Scale Mining (CASM) Initiative. Established in 2001, CASM contributes to the reduction of poverty and the promotion of more viable livelihoods within communities and rural areas where artisanal and small-scale mining (ASM) is significant, through social, economic, and environmental changes. CASM's objectives are fully aligned with the Millennium Development Goals.

37. The major themes during FY07 and continuing into FY08 include (a) ASM in the Great Lakes Region of Africa, (b) large-scale and ASM conflicts; (c) gender; and (d) fair trade. CASM's global activities include (i) advocacy, awareness building, and fundraising; (ii) networking and coordination of ASM development programs; (iii) dissemination of best practices/knowledge; and (iv) actively building partnerships with other developmental agencies and the private sector (more than 40 public, private, and civil society entities are associated with CASM including ICMM, CommDev, etc). Regionally, CASM activities are implemented through CASM networks in Africa, Asia/Pacific, and China. Regional CASM networks support government ASM policies, knowledge sharing, and grass roots development programs.

38. The 7th Annual CASM Conference (ACC) was successfully held in Ulaanbaatar, Mongolia from September 7-12th. Over 300 participants, ranging from Mining Ministries, to NGOs, to Donors, to Small-scale Miners, representing 40 different countries convened to discuss "Effective Partnerships for Sustainable Artisanal and Small-Scale Mining". This year boasted the strongest host country, governmental participation and collaboration including an official request for CASM experts to provide recommendations on the new ASM legislation being written in Mongolia.

39. During FY07, CASM continued to receive strong support from existing donors: the UK Department for International Development (new 2 year grant of US$885,000), the WBG (annual allocation of US$150,000 and last year of DGF funding US$330,000). This year saw two new donors join the CASM Trust Fund; the Danish Government (3 year grant of US$300,000), and a private foundation (1 year grant of US$100,000). From Development Grant facility funding in FY07, CASM contributed a total of US$330,000 to projects in seven countries, which leveraged an additional US$2,325,000 in other donor funds.

Petroleum Governance Initiative (PGI)

40. The WBG has signed a Memorandum of Understanding with the Norwegian government for a joint Petroleum Governance Initiative (PGI) in the context of Norway's Oil for Development agenda. Encompassing the thematic pillars of sector governance, environment, and community development, the PGI works at both the global and country-specific levels. The total level of support from Norway is planned to be some US$6 million over two years (to end-FY2008). Activities currently being supported include: preparation of a source-book on

governance of the oil and gas sectors, assessment of the petroleum licensing framework in Yemen, a survey of environmental management systems for oil and gas, a strategic assessment of the social and environmental challenges of oil development in Mauritania, increasing capacity of local municipalities to manage oil revenues in Colombia, and development of an online information clearinghouse on community development in relation to the extractive industries.

Publications

41. Bank staff carried out selective policy research work on EI related issues. Some recent published notes (available at www.worldbank.org/ogmc) have included:

- Fiscal Systems for Hydrocarbons – Design Issues, COCPO, WB 40902
- World Bank Cambodia, Oil and Gas, Petroleum Sector Briefing Note #6 & & 7 - Contracts for Petroleum I & II
- Considering Trade Policies for Liquid BioFuels, ESMAP Special Report 004/07

V. CONCLUSIONS AND CHALLENGES

42. As was the case in FY06, high commodity prices and substantial inflows of investment into the EI sector in developing countries were a key feature of FY07 from an overall industry perspective. For resource rich countries, Government revenues have increased substantially and for a number of countries are likely to continue to increase as accumulated tax losses and allowances are exhausted and governments renegotiate terms. The key challenge for the resource rich countries is take advantage of the resources price boom by managing and using revenues wisely. For the WBG, the challenge is to meet strong demand from governments and work effectively with them to help do this. In its support for private sector investment projects, the challenge for the WBG is to meet growth in market demand and work with investors to broaden the positive development impacts of EI projects so that communities enjoy sustainable benefits.

43. The WBG has continued to implement the specific requirements 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 project level. It continues to carefully assess the expected benefits of its engagement in the sector, in particular with a view to the risks to sustainable benefits and the capacity to mitigate these.

ANNEX A

Summary of Commitments in EIR MR

Commitment	Process/Actions
Renewable Energy:	
• 20% pa growth in investment for new-RE and EE	• New-RE and EE commitments in FY07 were US$683 million. From July 2004 through June 2007, such commitments totaled US$1.8bn, almost doubling Bonn goal of US$913m
• Enhance international cooperation in RE and EE	• Continuing active engagement with international community.
• Enhancement of reporting	• WBG RE & EE Progress for 2007 published.
Governance:	
• Address relevant EI issues in CASs for resource rich countries	• LICUS and CAS guidance notes operational. EI issues covered in FY07 CASs/CPSs/ISNs.
• Review of governance risks in projects & review of use of governance indicators	• Governance issues being considered in project appraisal and design
• Mitigation in significant new projects	• Being applied as needed
• Disclosure of assessment of governance	• Governance assessment referenced in IFC Summary of Project Information
Transparency:	
• Requirement for significant new projects & for all new projects within two years	• For new investments disclosure of payments to government IFC policy since January 1st 2007 – has been applied in practice since October t 2004 and as policy from January 2006.
• Support country led transparency work	• Continued strong IBRD/IDA support for and momentum of EITI
Benefiting the Poor:	
• Require projects to benefit local people and have broad community support	• Careful assessments and judgments being applied.
• Work with sponsors to broaden development impact	• Wherever possible being done.
• SME programs	• Extensive experience now being gained in a number of projects
• Application of poverty indicators	• Initial results being reviewed & consolidated with new IFC Development Tracking System (DOTS) – sector results in IFC Annual Report
• Support for capacity building	• Applied as appropriate
• Sustainable development facility	• New Sustainable Community Development Fund fully operational
• Support for ASM program	• Ongoing CASM initiative supported by new DFID and other financing
Mitigating Social and Environmental Risk:	
• Revision of IFC guidelines addressing EI issues (submarine and river tailings disposal, cyanide etc)	• 4 New EHS guidelines for EI now operational – final one for mining expected in final form early 2008
• Review of no-go issues	• Issue reviewed on revision of IFC safeguards. Performance Standard 6 addresses issue – not no-go zones but " no-go circumstances"
• IBRD/IDA guidance on new project categorization	• Guidance note issued in December 2005
Disclosure:	
• Disclosure of expected project benefits	• Addressed in revised IFC Disclosure policy review – EI project expected development impacts now being disclosed in SPIs
• Annual disclosure of project impacts by investors.	• Investors being encouraged to disclose in appropriate form
Protecting Rights of People:	
• Prior informed consultation	• Requirement in Sustainable Policy & Performance Standard – with additional guidance in Guidance Notes. New IFC good practice guide on on stakeholder engagement issued May 2007.
• Broad community support for projects	• As above
• Requirements about use of security forces	• Requirements now in IFC Performance Standard 4
• Review core labor standards	• Requirements now in IFC Performance Standard 2 – IFC Q&A on ILO 169 for private sector issued March 2007.
• Broader human rights issues	• WBG emphasis on understanding link with development - IFC toolkit being trialed.
Ongoing Learning and Review:	
• Establishment of Advisory Group	• Third meeting held September 11-12th, 2007 - record note published
• Annual review of progress	• This is the third report
• Lessons of review of joint IFC/Bank Department	• WBG activities in EI continue to be focused in joint IFC/Bank Department for Oil, Gas, Mining and Chemicals

ANNEX B: World Bank Group Extractive Industries Financing – FY07

Institution	*Project*	*Country*	*Sector*	*Financing US$m*	*Description*
IFC	Ahafo	Ghana	Mining	75.0	Construction of green field open cast gold mine and associated facilities
	Aricom	Russian Fed.	Mining	20.0	Exploration, appraisal and development or iron ore resources in Russia
	Block Z1	Peru	Gas	9.8	Gas development, transportation, processing and conversion to power in Peru
	Cairn India	India	Oil/Gas	22.9	Appraisal/Development of oil/gas discoveries in Bangladesh/India
	Dewan Petroleum	Pakistan	Gas	27.0	Gas/condensate development in Pakistan
	Geopark	Latin America	Oil/Gas	20.0	Capital Strengthening/improved corporate governance for local producer
	IPR Egypt	Egypt	Oil	15.0	Development, appraisal and exploration of four oil fields in the Western Desert of Egypt
	Kappa	Colombia	Oil/Gas	30.0	Oil/Gas development and exploration in Colombia
	Lonmin	South Africa	Mining	150.0	Platinum mining expansion and community development program
	Melrose II	Global	Gas	50.0	Gas development and exploration in Bulgaria/Egypt
	Melrose II Expansion	Global	Gas	15.0	Gas development and exploration in Bulgaria/Egypt
	Petronet	India	Gas	150.0	LNG import and re-gasification facilities
	Petrotesting	Colombia	Oil/Gas	17.1	Financial strengthening/adoption of best practices by local producer
	Rally Energy	Middle East	Oil/Gas	10.1	Expansion of oil/gas production in Egypt/Pakistan
	Simandou	Guinea	Mining	5.0	Feasibility study for iron ore development
	SML	China	Mining	1.0	Development of gold mining operations
	Supplier Finance Facility	Azerbaijan	Oil	1.0	Provision of finance to SMEs partnering with oil companies
	Toreador	Southern Europe	Gas	50.0	Oil/Gas development and exploration in Turkey/Romania
				668.9	
MIGA	Sasol	Mozambique	Gas	51.7	Gas development and export in Mozambique
				51.7	
IBRD	National Program for Env. & NRMP	Philippines	Mining	4.0	Improving service delivery at the Department of Environment and Natural Resources
				4.0	
IDA	Development Policy Operation	Central Africa Republic	Mining	20.5	Reengagement and institution-building support program
	Lignite Power TA	Kosovo	Mining	1.4	Enabling framework for a large power plant and associated lignite mine
	Lignite Power TA - Additional Fin	Kosovo	Mining	0.3	Enabling framework for a large power plant and associated lignite mine
	Cleanup of Gasification - Additional Fin	Kosovo	Mining	0.5	Cleanup of hazardous substances at gasification plant site
	Petroleum Capacity Bldg TA	Mauritania	Oil/Gas	5.0	Contribution to capacity building in the mining sector
	Mineral Resources Government TA	Madagascar	Oil/Gas/ Mining	1.1	Transparency, governance and institutional reform in the extractives sector
	Bor Regional Development	Serbia	Mining	21.5	Addressing environmental and social legacy issues arising from mining sector restructuring
	Programmatic Gov Reform & Growth	Sierra Leone	Mining	2.0	Consolidating core capacity for public resource management
				52.3	
	TOTAL WBG			**776.9**	

ANNEX C

Summary Expected Development Impacts of MIGA/IFC Projects FY07

Ahafo
Construction of a green field open cast gold mine and associated facilities (the mill facility, a tailings storage facility, a water storage facility, construction camp and access roadways) to mine, process and extract gold in Ghana. The Project will increase Ghana's gold output by 30%, and is expected to make sizeable contributions to the government's fiscal receipts, generate direct and indirect employment opportunities for local communities, strengthen the power grid, upgrade vocational training facilities, and become a demonstration case for how to handle environmental, social, and community development issues in Ghana.

Aricom
The project is the continued exploration, appraisal and development of iron ore resource properties and associated infrastructure in the Russian Federation, including feasibility studies, detailed engineering, environmental and social impact assessments and other preparatory activities. Progress in these respects could lead to substantial mine development focused on supplying strong growth of demand for steel making manufacturers. Potential development impacts at the mine production stage should include employment, federal, regional and local revenues, and increased exports of iron ore.

Block Z1
Integrated gas-to-power project in northwest Peru, near the border with Ecuador. The project is designed to produce gas from their current gas reserves offshore and generate electricity for the growing demand for electricity in northern Peru. It will support the monetization of hydrocarbons, particularly 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, create direct new employment opportunities in Peru, help substitute the more expensive and more polluting imports of diesel and fuel oil, reduce transmission constraints by reversing the flow of electricity from South to North, in addition to making sizeable annual contributions to local community development

Cairn India
Newly incorporated Indian company formed by Cairn UK, an oil and gas exploration and production company. Cairn UK has been exploring, as well as operating development and production assets, in India for over 12 years. The company's medium term capital expenditure program will focus primarily on Rajasthan and is expected to comprise additional exploratory, appraisal and development drilling as well as the construction of oil and gas processing and export facilities. It will also include a component covering further exploration and development in currently producing fields as well as exploration in non-producing fields. The company's operations are expected to enhance the availability of higher-quality domestic fuel, help reduce India's oil imports, create and preserve direct and indirect employment, support local communities, result in a wide range of community development activities, and generate substantial fiscal receipts from royalties, production sharing and corporate taxes.

Dewan Petroleum
Small oil and gas exploration and production company with a working interest in Pakistan. The project involves the development of a discovered gas and condensate field, and ongoing exploration programs towards establishing additional oil and gas reserves. It has also been

awarded concession rights to five new exploration blocks. Project activities in these blocks will be limited to initial exploration. In addition to contributing to increased availability of a relatively cheaper and clean fuel, the project company will contribute to social programs, generate jobs and provide training; and result in incremental revenues to the governments from royalties, production bonuses and taxes.

Geopark *(First reported in December 2006 Update)*
Small South American independent exploration and production company with producing assets in both Argentina and Chile. Project will finance a portion of the company's capital expenditure program which aims to increase oil and gas production. Through the development of its existing blocks and acquisition of adjacent blocks, the company will help meet domestic oil and gas requirements, and help Argentina and Chile maximize the use of their natural resources by developing much needed oil and gas reserves and increasing the recovery factor of marginal fields. It will provide full-time employment, support local communities and suppliers, and generate benefits for the national and local governments.

IPR Egypt
Small independent oil and gas company engaged in the development of oil fields in Egypt. The project consists of the continued development, appraisal and exploration activities in six oil concessions located in the Western Desert and the Gulf of Suez. It is expected to result in benefits to the government though revenue payments and production sharing, creating and providing sustainable local employment, and developing the local oil services industry through its expenditures on local goods and services.

Kappa
Local oil and gas company operating in Colombia since 1997 and holds exploration and production licenses. The Project will further the company's continuing development and growth in an industry dominated by multinationals, and seeks to support the monetization of stranded natural gas reserves in Colombia. It will benefit the local community through increased employment opportunities, the Government of Colombia will receive substantial receipts from royalties, production sharing and corporate taxes. The Company is also engaged in supporting children's education, medical services, water sanitation and infrastructure projects.

Lonmin
Multi-year expansion program of the operations of Lonmin Plc, the world's third largest platinum producer. The project consists of the development, expansion, and mechanization of Lonmin's South African mines and the development of a comprehensive, large-scale community and local economic development program. The project's activities will generate significant benefits to South Africa in terms of employment, linkages with suppliers and taxes and revenues paid to national government and royalties paid to local communities. The company will also execute an extensive community and local economic development program, and its skills development and worker training will encourage and facilitate greater engagement of local businesses and will address the skills shortage in South Africa's labor force through increased functional and leadership training.

Melrose II
Oil and gas exploration and production company with operations in Bulgaria, Egypt, France and the United States, and a balanced portfolio of producing assets, development projects and exploration interests. The project is expected to contribute to the benefits provided by Melrose's continued operations, including the Promotion of Natural Gas Development and Use, the Creation

and Preservation of Direct and Indirect Employment, Supporting for Local Communities and Suppliers, and generation of benefits to Governments in Egypt and Bulgaria.

Petronet
Established in 1998 to import liquefied natural gas (LNG), build and operate the related terminals and regasification facilities, and sell natural gas to distribution companies to meet India's rapidly-growing energy needs. The company is planning a capacity expansion which is expected to increase the supply of LNG as premium fuel in India's energy mix, that will stimulate the rationalization of inter-fuels pricing, support the consolidation of a key new technology that will provide a model for other LNG terminals to be developed in future, promote the substitution of a wide range of industrial fossil fuels by LNG, reduce energy costs for industry through displacement of imported petroleum fuels, contribute to the introduction of piped natural gas in several cities where residential consumers will benefit from increased convenience of piped gas over bottled LPG, and create locally filled jobs during construction and permanent jobs during the operational phase.

Petrotesting *(First reported in December 2006 Update)*
Small Colombian company focused on small and medium fields. Since inception, it has grown into a highly regarded company with 14 assets spread throughout Colombia's main hydrocarbon basins. The project involves both the strengthening of the financial position of Petrotesting and supporting the adoption of best practice corporate systems such as those related to governance, environmental, social, community programs and accounting, to enhance the future growth potential of the Company. It will promote generation of indirect employment and local development through the purchase of local goods and services, and will also reduce local and regional unemployment through direct employment opportunities.

Rally Energy *(First reported in December 2006 Update)*
Rally Energy is a small oil and gas company whose operations are primarily focused in Egypt. The company also has a non-operated interest in a concession area in Pakistan. The Project involves Rally's ongoing exploration, development and production activities in Egypt and Pakistan, including a heavy oil development and production program in Egypt, and development of gas/condensate field and additional exploration in Pakistan. The project will create local jobs and provide training, generate incremental revenues to the governments from production sharing, royalties and taxes, undertake expenditures on social programs in Pakistan, and ensure local sourcing of goods and services where possible.

Sasol (MIGA Project)
MIGA has issued additional coverage in support of the Sasol Pipeline project to build on the coverage extended in FY2003 and FY2004. The guarantees support the development of Mozambique's Temane and Pande gas fields and the construction of a 865 km cross-border gas pipeline in Mozambique and South Africa. The project represents the first cross border initiative in sub-Saharan Africa in developing regional natural gas markets and will generate many benefits for the local economy, including substantial government revenues, and contracts for local purchases of goods and services. The project will substantially add to Mozambique's infrastructure through the development of roads, water supplies and the removal of land mines. Environmentally, the project will contribute to the reduction of harmful emissions by replacing heavy oils and sulfur-rich coal with clean burning natural gas.

Simandou
Exploration of various high grade iron ore resource targets with a 110 km long zone in the Simandou Mountain Range in the Eastern Region of Guinea. The project will contribute to

continued exploration activities and completion of a feasibility study for the resource in the concession area. During this phase, employment and training opportunities will be provided at the exploration camps, purchases from suppliers in-country are estimated to be large, and an education and literacy program will be implemented in the impacted and affected villages. Social investment projects in these areas will also be undertaken.

SML

The improvement and further development of the existing Jianchaling underground gold mine, the exploration of an adjacent area, and the early stage development of other projects in Western China. The project will demonstrate the viability and success of improving environmental and safety best practices in mining in China, facilitate local community development, and contribute to local infrastructure and education. The Project will introduce western management practices and transfer technology to China, where processing refractory ore remains a technological challenge.

Supplier Finance Facility

Establishment of a supplier finance credit facility to provide financing to small and medium sized contractors in Azerbaijan. The project aims to help increase local content in the oil and gas supply chain by strengthening the local oil servicing sub-sector. Expanded participation of local businesses in the sector would support job creation and acquisition of technical skills. The project would also encourage the local banking industry in the development of new products and customer segments.

Toreador

Small but rapidly-growing independent oil and gas exploration and production company with operations in the United States and France. Having identified a series of specific investment projects in Turkey and Romania, the company will accelerate their development, and position it as a key player and foreign investor in Turkey and Romania’s domestic hydrocarbons sectors, while shifting its production focus from oil to natural gas. The increased availability of natural gas in both countries is expected to promote the use of a cleaner and more efficient fuel, improve resource utilization of smaller mature fields which have no interest for the larger players, generate fiscal receipts for the governments, from royalties, production sharing and/or corporate taxes, generated by the production to be achieved by the proposed investment, and help promote competition and FDI in the upstream sector.

ANNEX D

Summary of Objectives of IBRD-IDA EI Projects FY07

Central African Republic

The proposed *Development Policy Operation* for a reengagement and institution-building support program for Central African Republic (CAR) sets the stage for meaningful reengagement of the donor community that is sustainable over time. It will assist CAR in its economic and social recovery underpinned by the Government's Economic and Social Policy Framework (ESPF). This one- tranche operation will support Government-owned reforms that might help stabilize the security situation, strengthen institutions and reduce poverty, through budget financing of basic public services. It will be the first IDA operation in CAR since the country went into arrears in 2002, and is an integral part of the Bank's strategy for reengaging with CAR.

Kosovo

The *Lignite Power Technical Assistance Project* for Kosovo aims to help the Provisional Institutions of Self-Government build an enabling investment environment that will attract private investors to develop lignite mines and build new capacity for lignite thermal power generation on a socially and environmentally sustainable basis. Project components include (i) sector policy, and legal, regulatory and safeguards advice; (ii) mine and power plant analyses; (iii) technical assistance to help the Ministry of Energy and Mining develop policies and strategies to promote renewable energy, cogeneration and energy efficiency in Kosovo; and (iv) technical assistance in carrying out the transaction process to the financial close of selected investments.

Kosovo *(First reported in December 2006 Update)*

The *Cleanup of Gasification project* objectives are to (a) address environmental legacy issues related to open dumping of ashes on land; (b) free land currently taken by overburden material for community development purposes; and (c) build capacity for continued clean-up and environmentally conscious mining operations in Kosovo Energy Corporation. It provides a least-cost financial alternative for a relatively costly program that would yield significant financial and environmental benefits, and help develop and utilize Kosovo’s lignite resources in a transparent, environmentally and socially sustainable, and fiscally responsible manner.

Madagascar

The *Mineral Resources Government Technical Assistance* Project is a continuation of the Mineral Resources Governance Project, instituted in 2002 with the objectives of (i) strengthening of accountability and transparency in mining; (ii) promotion of key institutional reforms for the decentralized management of mineral resources; and (iii) promotion of private investments and value-added in the sector. The objectives of the current project are unchanged. Activities in the proposed operation will include policy, legal and regulatory framework reform, institutional restructuring and strengthening of the Ministry of Mines, support to integration of large-scale mining projects to regional development, management of potential conflict between environmental protection and large-scale mining; and improved government and management capacity of small-scale mining activities.

Mauritania

The *Petroleum Capacity Building Technical Assistance Project* aims to (i) build up and consolidate the Government's long term institutional and technical capacity to manage the country's mineral resources, including social and environmental management; (ii) promote private investment in the minerals sector; and (iii) improve mineral sector contribution to national and regional socioeconomic development. Sub-components of the program include improvement of the legal, regulatory and contractual framework, capacity building, environmental management of the petroleum sector, data management/petroleum cadastre and information system, and sector strategic assessments.

Philippines

The *National Program Support for Environment and Natural Resources Management Project* aims to assist the Department of Environment and Natural Resources to improve efficiency and effectiveness in its service delivery. More specifically, the project would aim to strengthen the allocation efficiency of limited budget resources, through better prioritization and partnership arrangements, facilitating scaling up and better linking of plans and budgets. The program's approach based on targeted expenditure support is also consistent with the country assistance strategy for improving fiscal and expenditure discipline, mainstreaming support for the regular programs of the Government and developing broader sector based approaches. The Global Environmental Facility (GEF) will partner the Bank in meeting these higher level objectives by providing incremental funding for operational GEF priorities with anticipated global benefits.

Serbia

The development objective of the *Bor Regional Development Project* is to support the Government of Serbia's (GoS) efforts to revive the depressed Bor region through: (i) dealing with urgent environmental and social legacy issues arising from mining sector restructuring; and (ii) fostering new sources of economic growth and job creation in the region. The project will support strengthening the capacity of the GoS to manage the past environmental liabilities remaining the responsibility of the state following the privatization process; strengthening the capacity of the GoS to monitor the compliance of the new owner of mining and smelting assets with Serbian environmental norms, remediation of the most pressing environmental problems remaining within state responsibility, improved labor redeployment programs and employment services aimed at redundant workers and the unemployed population of the Bor region.

Sierra Leone

The proposed *Program for Governance Reform & Growth* will provide critical resources to support elements of the Government Poverty Reduction Strategy in a manner that consolidates and deepens the agenda set by the Economic Rehabilitation and Recovery series including progress made in governance, decentralization of government, management of public resources and private sector-led economic growth. The grant will contribute to economic recovery and growth by providing foreign exchange resources for imports of essential commodities, by providing financial resources to the Government budget to finance priority public expenditures and by supporting reforms to attract private investment. By helping to close the financing gap, it will also contribute to maintaining macroeconomic stability and low inflation.

ANNEX E

Summary EI Project Complaints/Requests for Audit/Inspection

A. Summary EI Project Related Complaints/Requests for Audit Handled by CAO FY07

The CAO's received two complains concerning Extractive Industries in FY07:

1. Baku- Tbilisi -Ceyhan (BTC) Pipeline. A CSO filed a complaint on behalf of fisherman in Ceyhan. The CAO encouraged a meeting between the group and the investor and a number of meetings were held. The CAO closed the complaint in February 2007.

2. Lukoil Overseas (Karachaganak gas/oil development). In April, 2007, the CAO received a second complaint on behalf of a local community who had concerns about health and safety. The CAO is currently appraising this complaint. In response to a first complaint that had been received in September 2004, the CAO came to view in August 2006 that parties involved did not wish to resolve the complaint through a mediated or collaborative process. After evaluation by CAO Compliance, an audit whose terms of reference in this respect were published in June 2007, was carried out and is now under consideration.

B. Requests for Investigation of IBRD/IDA projects received by the Inspection Panel FY07

The Inspection Panel did not receive any requests for inspection in respect of extractive industries in FY07. In respect of previous years' requests:

1. In the case of the Romania Mine Closure and Social Mitigation project (#39) it received confirmation from the requestors that they were satisfied with the Bank response and did not want an inspection; and,

2. In the case of the West Africa Gas Pipeline (#40) where it had deferred making a recommendation in the previous fiscal year the Panel recommended to the Board that it carry out an inspection. The Board approved the Panel's recommendation.

Further information about these 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

ANNEX F

EITI Work Program – Country Portfolio Summary

(Showing MDTF FY08 work program approved by donors and pipeline countries. EITI Board status shown in shaded column [1/])

As of October 31, 2007

EITI countries -- 28 countries have adopted EITI ……			of which:	Non EITI countries - in dialogue	
EITI "candidate" countries per EITI Board (or awaiting data)			*Not yet candidate*		
Have issued one or more EITI Reports (8 countries)	**EITI implementation still in progress - at varying stages** (16 countries)		**Have only recently adopted EITI (or not implementing)** (4 countries)	**Non-EITI countries included in MDTF work program** (8 countries)	***Other pipeline countries that WBG or donors are following*** *(7 countries)*
Azerbaijan	Kazakhstan *	*Pre-validation data*	Bolivia	Angola	*Burkina Faso*
Cameroon *	Peru *	*awaited till 12/07:*	Cote d'Ivoire	Cambodia	*Kenya*
Gabon	Mongolia *			Central African Rep	*Philippines*
Guinea *	Liberia	Chad		Mozambique	*Senegal*
Kyrgyz Republic + / **	Mali	DR Congo +	*Newer entrants:*	Indonesia	*Sudan*
Nigeria *	Niger	Equatorial Guinea	Botswana	Papua New Guinea	*Tanzania*
Mauritania *	Yemen +	Madagascar +	Colombia	Uganda	*Vietnam*
Ghana *		Rep. of Congo		Zambia	
		Sao Tome e Prin			
		Sierra Leone			
		Timor Leste			
		Trinidad + Toba			
By WBG Region:					
AFR - 8 countries	AFR - 3 countries	AFR - 7 countries	AFR - 2 countries	AFR - 5 countries	*AFR –5 countries*
ECA - 2	LAC – 1	LAC – 1	LAC - 2	EAP - 3	*EAP - 2*
	EAP – 1	EAP – 1			
	ECA - 1				
	MNA - 1				

1/ = shows EITI Board pre-validation status per EITI Board meeting of Sept 27, 2007. No country has yet begun validation steps to be categorized in "compliant" status.

* = EITI MDTF trust fund grant signed and being executed (country-executed in each case except Kazakhstan)

\+ = EITI MDTF trust fund grant agreement in progress and/or related grant proposal (program of activities) under negotiation with the country

** = Issued an initial formal EITI Report in 2004 without an Administrator's Report but has not issued a subsequent EITI Report as yet