

SUMMARY NOTE
THE WORLD BANK GROUP EXTRACTIVE INDUSTRIES ADVISORY GROUP MEETING
November 5-6, 2009

The 5th meeting of the World Bank Group (WBG) Extractive Industries (EI) Advisory Group was held in Washington, DC on November 5-6, 2009.

The following members of the Advisory Group participated: Hon. Mercy Almona-Isei, Dr. Sixtus Mulenga, Dr. Hans Peter Schipulle, Tony Hodges, Dr Steve Manteaw, Dr. Adnan Shihab-Eldin, Leon Rajaobelina, Apologies were received from Stephen Lucas. Mr. Leonard Surges, Senior Advisor, attended the meeting. A list of WBG staff attending in support (part or full time) of the meeting is given at the end of this summary.

Introduction

A welcome was given to the new members to the Advisory Group and after general introductions by each member and their current roles and responsibilities, it was agreed that, keeping with past practices, the meeting would be conducted under Chatham House rules and that a nonj-attributable summary of the meeting would be prepared and, after a review and comment period, made public subsequently.

Session 1– Update of WBG Activities

WBG staff presented on key trends in the EI sector and gave an overview and update of WBG activities in the EI sector in the past fiscal year that covered both WBG investment and advisory activities.

During discussion of governance and transparency, it was noted that EITI continues to expand and that the IFC undertook a pilot on public disclosure of project-level results to assess the costs and benefits of such an exercise. Some specific examples were given with respect to the WBG's commitment to ensure that local communities benefit from investments in the extractives sector.

Several advisors emphasized the importance of both generating and demonstrating the positive impact of the extractives sector for local communities. One advisor emphasized the importance of going beyond consulting local communities on expected project benefits to actively engaging them in the reporting and monitoring of expected and actual impacts. The WBG was asked to consider taking the lead in promulgating these types of practices. Another advisor added the importance of also strengthening government capacity to manage the extractive sector and encourage the consultation of the needs and expectations of local communities. Another advisor also found that countries that are new to the oil and gas sector would particularly benefit from guidance and best practice examples so as to avoid the mistakes others have committed as exemplified for example by the Niger Delta. The positive impact of natural resource wealth was emphasized by another advisor who also found it important to differentiate the type of benefits that the mining sector brings versus the oil and gas industry. The former generates significant benefits primarily through its local purchases and stimulation of the local economy, compared to the importance of rents that the oil and gas sector is known for generating. In terms of positive development impact, another advisor also emphasized that IFC had an important role in developing small, local entrepreneurs to counter the perception that the institution mainly sponsors international mining companies.

In a discussion on mitigating environmental and social risks of EI projects, and advisor noted that one must go beyond risk mitigation and think about how positive impact can be generated. It was felt that one must capture the added value and ensure that benefits are distributed fairly amongst all stakeholders.

A brief overview of WBG EI financing during FY09 was given. Regionally, the IFC was weighted more in Africa and Latin America while the World Bank's volume was focused in Asia. Mining and oil, gas

investments were split roughly equally. It was noted that with respect to RE/EE investments, on which the WBG had committed to focus, FY09 RE/EE commitments represented about 40% of total WBG energy lending.

WBG concluded with the observation that development results of the IFC oil, gas & mining investments as of FY2009 outperformed the IFC average and that client companies generated close to US\$11 billion in government revenues and roughly an equal amount in terms of local purchases.

One advisor expressed his appreciation for the update and felt that the demonstrating positive examples is necessary, especially since the focus is often on what has gone wrong in the EI sector. However, it was felt that the annual update of WBG activities that is published each year, lacks information on what has been problematic and challenging during the year. It was suggested, for example, that this annual report to the WBG Board should contain a discussion on how the WBG is dealing with new big non-traditional investors and players like China. The advisor also expressed interest in hearing more about the independent evaluation of the WBG's global programs such as EITI, CASM and Gas Flaring.

Session 2 – Review of IFC's Performance Standards and Disclosure Policy

WBG staff provided an update on the ongoing review of the IFC Performance Standards and Disclosure Policy. The staff member explained the rationale for the review, the timetable and reported back on preliminary responses from stakeholder consultations that have already taken place.

The IFC Performance Standards (IFC PS) were formally adopted in 2006 and were developed out of a realization that the WB safeguards framework was not directly applicable to the IFC's engagement with the private sector. Upon adoption of the new IFC PS the institution committed to a review three years hence. Preliminary results show that IFC PS have worked well and that the framework is cohesive and is easily operationalized. The IFC PS were hoped to become a global standard, which has been achieved as evidenced by their adoption by 70 Banks that have signed onto the Equator principles. The staff member, however, highlighted stakeholder feedback on particular areas with need for improvement and further refinement. These included, among others, the treatment of human rights, gender and free prior informed consultation and broad community support. Specifically regarding the treatment of human rights in the PS, the staff member put forth that while they are not explicitly captured many of the ideas are included in concept. The language that describes them was chosen such that the private sector could understand it. The outcomes of what the PS deliver are similar to what a human rights approach would engender. The staff member agreed that the language needs to be changed to address address human rights more explicitly. With respect to the review of the disclosure policy, the staff member noted that stakeholders were interested in contract disclosure and greater disclosure of project level information.

Responding to the remark that not each Performance Standard applies to every project and that some get triggered rarely, such as Performance Standard 7 (Indigenous People), an advisor noted that the frequency with which each standard is getting triggered within the portfolio of IFC is not that important. More important was the fact that the IFC PS have been adopted as a global standard and are being used by many other Banks, giving them a broad radius of influence. WBG staff noted that the frequency with which different IFC PS are 'triggered' differs by sector and that the EI sector tends to trigger in higher frequency PS related to indigenous people, resettlement etc.

An advisor remarked that the IFC framework does not address 'beyond compliance' issues and asked whether it would be possible to do so. WBG staff explained that the IFC PS represent a set of standards that need to be met by client companies as a minimum to be eligible for IFC financing. It was clarified that clients need to meet both IFC standards and be in compliance with country laws. But these standards are only part of the puzzle since the creation of development impact and value addition is steered through IFC's sustainability policy ensuring that, as an institution, IFC goes beyond compliance and helps to generate development impact, including through IFC's advisory services.

The issue of establishing consent among local communities and making it a condition for IFC investment was discussed at length. One advisor questioned what the difficulties were about establishing consent. Another advisor posed a clarifying question about the process that IFC currently goes through to establish broad community support in the context of an investment in Ghana where there had been demonstrations.. WBG staff replied that within the specifics of this project the demonstrations were only one factor in IFC's estimation that broad community support existed. The view was expressed that making 'consent' the standard introduced an effective veto power by a single individual on a project that may actually have a positive impact on the community as a whole.

An advisor observed that frequently special or political interests drive local community opinion for their own gain. It is thus important to consider the possibility that special interests hijack and influence community opinion in its own favor and one must balance the common good against those interests.

An Advisor considered that focusing too much on consent was not productive while noting that the WBG had done itself a disservice by choosing the acronym FPIC and changing 'consent' to 'consultation', which some perceived as finessing and led to a loss of credibility. It was argued that the debate around consent has become somewhat academic and removed. In practice, the focus is now on 'free prior and joint decision making'. An investment in Brazil was cited as an example where the approval was based on joint decision making which has led to a totally different engagement with the community. The focus has been on generating positive outcomes for the community, ensuring a fair distribution of the benefits and monitoring results through various metrics against expectations. The emphasis has been on collaboration with the local communities and the expectation that positive benefits need to be generated throughout and in the long term. The advisor added that this type of approach could be used by IFC wherever local communities are affected. It was remarked that establishing broad community support (BCS) is crucial and the focus should be on relationship management rather than 'consultation' which is frequently perceived as being told what to do.

Another advisor suggested that IFC should do periodic reviews to get stakeholders' perspective throughout the project cycle.

In a discussion about how IFC's Performance Standards interact with a country's own regulatory systems and government legislation, WBG staff member explained that every IFC investment must be in line with country legislation and in compliance with IFC Performance Standards. An advisor gave an example of where there was some uncertainty about whether IFC was supporting a project that did not fully meet local standards. Staff clarified that IFC had assured itself that environmental and social documentation had been done to a sufficient degree and that regulatory approval was expected. It was also clarified that IFC does not engage with country governments to enforce compliance of country legislation with IFC Performance Standards as IFC's remit is the private sector. Furthermore, country legislation and regulatory requirements are generally more far reaching while the IFC PS target a very specific segment of private sector investments. Nonetheless, IFC is not adverse to engaging with government entities and in fact has worked with China Bank which has subsequently adopted IFC PS.

Session 3 – Discussion on the WBG's Enhanced Approach to issues across the whole EI value chain

This session focused on the WBG's enhanced and integrated approach to managing the extractives sector (that had been known as 'EITI++') in client countries and to ultimately increase accountability among the key stakeholders and actors beyond what EITI has already pursued. WBG staff noted that much of this work has been done for many years but this approach is to ensure a tailored and comprehensive and coordinated coverage for client countries by the WBG. This approach has been tested with diagnostic missions in various countries, with some more being planned. An external advisory group, has been set up to support the WBG in further developing its thinking and strategy in the EI policy area. The Natural Resource Charter, drawn up a group of academics and others was felt to offer some principal guidance for the Bank's thinking. Ghana was mentioned as a good example of how a country tries to set out some broad principles that are to guide its natural resource management.

With respect to one of Ghana's guiding propositions ('Create broad consensus at the design stage around what oil rents will be used for and how they will be managed') one advisor posed the question whether establishing consensus was sufficient and how a consensus would be dealt with that indicated different priorities than the WBG believed appropriate such as for example as giving priority to spending today versus investment for the future. Did the WBG have sufficient experience to guide countries in how they should make investment decisions about immediate consumption versus long-term investments (health, education) of their resource wealth.

WBG staff acknowledged the trade-off between immediate consumption and forward-looking investments as a legitimate concern and noted that the WBG would favor a longer term perspective. Most important is, however, that the Ministry of Finance, as the key decision-making body for example, is urged to consult with a broad base of stakeholders in a transparent way so that best results are achieved. There is no catalogue of policies that the WBG can impose on countries on how to best invest its resource wealth. Countries are sovereign entities and differ greatly from one another.

Another advisor remarked that countries should accept the principles but realize that their respective priorities and implementation may vary by country. Ghana was mentioned as an example of a country that may adapt the Norway model to its own country context. It was emphasized that a national dialogue should occur about how the country will exploit its resource in order to ensure that people own the process and the decision. Only if the decision and the process are owned by all members of society will it withstand change in governments and the political landscape. An advisor quoted the example of the national oil policy in Ghana, which was not broadly consulted on and subsequently thrown into flux as a new government came into power. The result is that Ghana still lacks a national oil policy.

One advisor felt that the litmus test of good management of extractives resources along the value chain was ultimately whether revenues are spent so as to effect sustainable development. Instead, it was felt that EITI particularly which was focused on transparency was also preoccupied with 'accountability' and process. Furthermore, it was urged that EITI needs to better accommodate the differences between the mining and oil, gas sectors so as to also account for the disparate types of economic and social benefits that are generated. Rents, while important, are not the main impact of mining projects. Communities are positively affected through significant local purchases as well as mine closure expenditures.

There was further discussion about the principal rationale behind 'EITI++', the needs that it serves and how it can be operationalized. One advisor questioned whether broad principles of managing the EI sector for development did not already exist and what the specific value-add of this initiative was. It was remarked by another advisor that the real challenge was not the lack of principles or frameworks but rather the implementation, which EITI++ does not seem to remedy. Another advisor put forth that EITI++ seemed very complex and it was not clear how it was integrated into a country's PRSP. Further information was requested on what precisely it meant for a country to get under the umbrella of the EITI++ prescriptions. It was also noted that EITI++ was a poor choice of acronym and a source for further confusion. In this respect, staff clarified that the term "value chain" was now being used to better describe the approach. The concept of the Natural Resource Charter was also briefly discussed and one advisor noted that it was not well received at the Intergovernmental Forum in Geneva this year. The process under which it has come into being seems to distract from the sound principles that it contains.

In response to the discussion WBG staff clarified various points. The Natural Resource Charter has not been adopted as WBG policy but simply presents a good starting point for consideration of the issues relating to the management of EI resources/sectors. The WBG will in future use employing the term 'value chain approach' in to describe its approach to engagement across the entire EI value chain. Focusing on such issues in a more systematic way is not thought to undermine the PRSPs. But given the life cycle of PRSPs, countries will at times have to address EI-specific issues more immediately.

As an example of operationalizing the approach, WBG staff provided an overview of a work program on “Good Governance on EI in Africa” whose objective it is to build a coalition of leaders in Africa that can promote a good governance agenda. The aim in the first instance is to bring key EI stakeholders together to understand applicable good practice; help them identify and prioritize EI vulnerabilities and entry points for stakeholder action on good governance. Ultimately, the coalition will support them in managing reform design and implementation. Countries that have been identified for this initiative are the same ones where EITI++ diagnostics have been carried out. The first consultation workshop will take place in Accra in December 2009,

Following the presentation, an Advisor noted the growing importance of EI investors from a wider range of countries than in the past and this reflected strong demand for commodities that was benefiting resource producing countries. A discussion ensued about the integration of such investors into EI initiatives and processes, such as EITI that are intended to enhance the sustainable impacts of EI investment. An advisor noted that such investors are not typically familiar with such initiatives and may be slow to engage in them and may even see them as counter to their own interests.

Another advisor observed that many such investors are sensitive and worried about reputational risks. For example, in the forestry sector good practice guidelines have been drafted for private sector engagement in the forestry sector that have attracted support by a wide range of investors. Another advisor added that there is a wide variety of players many of whom are interested in doing the right thing and are looking for guidance and advice.

Responding to the query what the WBG’s role could be in this respect, WBG staff noted that the WB’s role is to help countries that request support and advice in the management of their EI resources and that the WBG was very willing to engage and help support all investors to enhance the sustainable impact of their EI investments.

Session 4 CommDev

A WBG staff member gave a presentation on IFC’s Community Development Program (CommDev), providing an overview of activities sponsored under this program and its achievements over its three-year existence. While CommDev focuses specifically on the extractives sector much of the accumulated information and knowledge of best practices is relevant for other industries as well. The staff member focused the remainder of the presentation on a new product that CommDev is developing on and which has become a cornerstone of the work program: the Financial Valuation Tool. This tool is intended to help companies maximize the positive impact of their social and community investments given the environment in which they operate and calculate the net present value of their sustainability investments. In short, the tool helps to both estimate ex ante what the best outcomes will be per dollar invested, prioritize different community development investments, and monitor the extent to which these investments help mitigate risks. This tool, after being piloted with various companies, will be made publicly available.

One advisor commended the WBG for the tremendous work that CommDev had already done. The tool was very well received but the advisor also cautioned that this was an evolving tool and that it cannot be a rigid prescription of how community investments should be planned. One of the tool’s primary outputs, a calculation of a net present value of social spending, can be misleading. NPV calculations are sensitive to discount rates and the length of a project, they can be manipulated and in the end may have very little meaning to the local communities themselves. Particularly with respect to calculating liabilities associated with mine closures that stretch many years into the future, NPV calculations are not particularly useful. In addition to identifying the right quantitative metrics it is important to also make good use of qualitative information as anecdotal and qualitative accounts are equally powerful.

Another advisor suggested that despite its drawbacks NPVs remain quite useful if contextualized properly and that the Monte Carlo simulations run by the tool work with probability distributions rather than point estimates, increasing the usefulness.

Other advisors complemented CommDev for its innovative work. In answer to an advisor's question about whether this tool could also be applied to the forestry sector and other sectors, the WBG staff confirmed that this could be possible in future.

Session 5 – Certification System for High-value Metals - Certified Trading Chain

An advisor presented an update on the Certified Trading Chains initiative which came out of the G8 at Heiligendamm and enjoyed financial and technical backing initially from Germany and now other sources as well (EU, OECD etc) subsequently. The advisor reviewed several pilot projects under the CTC umbrella that are funded by Germany, including a CTC pilot project in Rwanda, support for a state certification system for minerals, a fingerprinting project of coltan and support to the International Conference on the Great Lakes Region (ICGLR) for the introduction of a certification system.

As one example of how CTC has progressed the advisor gave some details on the pilot project in Rwanda. Initially bilateral consultations were held with the Rwandan government and other stakeholders, including industry representatives. Several private sector companies volunteered to join the initiative and work started with baseline assessments on concessions, trading chains etc. An official audit of these companies will be made public in 2010.

As a retrospective of the initiative thus far, the advisor summarized the following main findings: i) the private sector has demonstrated both interest and commitment; ii) the CTC program needs to be both tailored to a particular country context and integrated into regional and international activities at the same time; iii) commitment from both national government and institutions as well as international/regional partners is important; iv) link with international initiatives for the due diligence in the supply chain of high value metals is important and underway.

An advisor noted how impressively this ambitious initiative had evolved and commended the presenter on the fact that the approach on the ground has been practical and realistic. It was felt that this pilot made an important contribution to existing thinking around both the benefits of and limitations to the certification of high-value metals.

The presenter when asked about whether this initiative is to emulate the Kimberly process noted that the Kimberly process had been an influence, but the diamond market is quite different and while there are similarities in the problem the solutions are very different. Fingerprinting and tracking techniques more difficult for coltan., for example. Another advisor added that the Kimberly process focuses on one step in the value chain and that there is no further tracking once it progresses beyond rough and uncut diamonds.

Session 6 – Contract Transparency

WBG staff gave a presentation outlining the current status of the debate on contract transparency, highlighting both the arguments for and against. Reviewing the status of current practice it transpired that there is no comprehensive information available as to what the status of contract transparency is across countries. In some, contracts are made public as a matter of policy, in others contracts are subjected to parliamentary review and may become public through this process, and in yet other countries, contracts do not enter the public domain at all. In the home countries of some investors, material information is made public for investor purposes as a result of an exchange requirement. For example, contract information for many Canadian stock exchange listed-companies can be found online. Companies generally seem to be ambiguous about public disclosure. The World Bank generally supports contract transparency but does not require – with the limited exception of the IFC policy requirement for the

disclosure of key terms in the public interest in the case of “significant” EI projects (where project revenues would exceed 10% of total government revenues).

Referring to the experience of Zambia, an advisor remarked that contract transparency is critical to the stability of the political environment in developing countries. Even though the World Bank did a lot of good work on the regulatory framework as a precursor to the privatization of the local mining sector, the government engaged in secret deals with incoming mining companies which sparked a lot of discussion. Contract transparency is the right signal, also in terms of handling expectations and perceptions from local communities. Secrecy feeds the perception that there is illegal activity.

Another advisor felt that companies see contract transparency as a mixed bag but it is important to keep in mind that while there is no uniform opinion among companies corporate culture also varies vastly and that it adapts to the country context. Ultimately, while most CEOs would favor greater transparency, a company’s position and actions will be informed by the interests of their shareholders and what needs to be done to defend them. In other words, if it can be demonstrated in concrete terms that contract transparency translates into public recognition and valuation, making it for example easier to get access to finance etc, companies will be more inclined. Relatedly, most companies would want a move to contract transparency to be made universal so that there would be a level playing field for all. The World Bank Group thus has an important role to play to help set and promote uniform standards.

Drawing on Nigeria’s experience, an advisor noted that the WBG has an important role to play in various ways: It needs to build government capacity to negotiate with companies that often fail to fully disclose resource-related information. At the same time, the public sector itself and its civil servants need to be trained so that they can uphold standards and continue to operate irrespective of what the ruling government is at the time. Governments are self-interested entities and are likely to prefer keeping information secret. The WBG is key in putting pressure on governments to follow rules and standards, which could include contract transparency.

Another advisor cautioned that while transparency may usually be a good thing, there may be circumstances in which terms or part of them should be kept secret. The difficulty lies in objectively prescribing what and under which circumstances certain contract terms may be legitimately kept secret. It could need an independent body to set the criteria and rules and to which parties turn for recourse. Sharing the experience of those countries that have moved towards transparency will be quite important in shaping and moving forward on this debate.

It was noted by another advisor that in the forestry sector an evolution towards transparency had actually happened. The key drivers were reputational and resulting commercial risks, an interest in ensuring a level playing field (and the notion that transparency ensures that), feeling that transparency may help governments get better deals, and security of contract tenure. The important role of the WBG and others to help build robust legal and regulatory systems was further emphasized. In order to deal with the sensitive issue of protecting commercial terms it would be an idea to establish a multi-stakeholder arbitration mechanism that could help set out a framework. In conclusion, it was felt that non-disclosure was more dangerous than beneficial. As information flows easily and rapidly in today’s age, it also was deemed not longer possible to keep information truly secret. And so it may be better to inform the public upfront.

Another advisor offered his perspective on how companies and countries can be moved towards contract transparency through peer pressure and individual benefit. Multilateral organizations and other international bodies were clearly felt to have a comparative advantage. The broad approach could be to publish the general, key fiscal terms but maintain complex and commercially sensitive information under wraps.

One advisor stated that there is no doubt that contract transparency reduces the rent seeking behavior of countries but they need to be encouraged from the outside as well. As a real-life example, the lack of

contract transparency became an issue within the context of EITI in Ghana. The auditors were unable to determine whether the payments that were paid were equivalent to those that should have been paid. The advisor thus felt that within EITI, at least auditors should have access to contract terms, and parliaments should be privy to the actual contracts rather than summaries as apparently sometimes happened. Parliaments have an important role to play with respect to reviewing key contract terms but often the available information is poor and as a consequence so is the oversight.

Further supporting the sentiment that contracts should be public and secrecy the exception (for which clear criteria should be defined) one advisor remarked that even the arguments against disclosure are actually arguments for. The more complex contracts are the more they should be explained to the public.

A WBG staff offered his perspective on the debate by drawing on the IFC requirement on revenue disclosure as a proxy for how a move to contract transparency could play out. On the one hand, companies often use IFC as a means to be able to disclose payments because they can present it to governments as a requirement of their lenders. In some cases, there have been potential clients that IFC could not engage with as they were not ready to meet the requirement, for either internal reasons or because the country government was opposed and the client was concerned about maintaining a good relationship with the host country. The trade-off of IFC applying contract transparency as a condition thus may be between forgone beneficial impact of its engagement in terms of development results (including revenue disclosure) versus upholding the principle of contract disclosure. Another WBG staff added that in the extractives sector generally, the sentiment is that contract transparency is not a huge challenge but the attitude of governments was important and varied by country.

More generally, an advisor invoked the notion of ‘trust’ and remarked that contracts as a mechanism do not engender trust, do not reflect different cultural values of the contract parties nor do they adapt to the changing needs of the affected stakeholders over time. In order to engender trust, contracts need to be made public.

The discussion was felt to have been very useful, and the best way forward was deemed to be a two-pronged approach whereby both countries and companies would have to be engaged on this topic. It was felt that a coalition of like-minded institutions would have to be established in order to move forward. The advisors were asked to explore and initiate talks in their networks and feedback to the WBG.

Session 7: WBG Global Initiatives

EITI

A brief background of EITI was given by a WBG staff member. 30-40 countries have pronounced their interest in EITI thus far. The WB manages a Multi-donor Trust Fund (MDTF) worth \$US30 million, which is supported by 13 donors. The WB team assists countries that are going through the entire cycle of EITI and are engaged in knowledge management to support EITI globally. There are currently, 30 official candidate and validated countries, with a focus in Africa but also across various other continents. The pipeline of countries includes a diverse set of countries, ranging from Iraq to Togo.

The major accomplishments of EITI can be summarized in the fact that EITI has become a global standard, it has achieved a strong momentum in a short period of time and is being actively implemented around the globe, including also developed countries. There are many reasons for why countries are interested in EITI: i) clear signaling effect to investor community and others; ii) systematic framework for collaboration among important stakeholders; iii) transparency of revenue information; and iv) platform for initiating discussion about the management of EI along the value chain. The long-term outcomes of EITI are less tangible at this point but may include impacts on country risk ratings etc. In context of an independent review of the WBG global initiatives, EITI was also reviewed. The feedback was positive but the review made the suggestion that the WB should be involved at a higher level in the

EITI structure. (The WB does not have a representation on the Board. It supports the secretariat and has the role of an implementing agency.)

One advisor posed various questions about EITI and country experience. Some countries, such as DRC and Mali have reported that accessing funding from the MDTF is difficult and the advisor suggested that a clear and transparent roadmap for applying to these funds is needed. Another area of concern was what happens after EITI validation when access to MDTF stops and how this may affect the extent to which EITI can be successfully mainstreamed in once validated countries.. It was felt that NGO support has not been easily achieved and it was suggested that an international NGO could be mandated to run a support program for local NGOs that engage in EITI. Furthermore, the question was raised about how non-traditional international EI investors from countries such as China and India should be involved in EITI.

Another advisor echoed some of the concerns and highlighted particularly that there are dimensions of EITI that are loose and lack rigor. It was recommended that WB and others should take time to reflect and carry out an evaluation, and the transition period after Peter Eigen steps down may be an opportune moment.

A somewhat contrary view was taken by another advisor who felt that EITI is a framework of minimum standards and that the dynamics of how EITI plays out depends on the country context. In Ghana, for example, EITI has provided the civil society the opportunity to push the discussion and review other areas of how the EI sector is managed. It was felt that EITI is less about the final figures than it is about the catalytic effects that it can have. As a result of the national EITI process Ghana is thinking about extending it to the sub-national level. In conclusion, the advisor appealed that one should not limit an assessment of EITI to the minimum requirements it lays out but rather acknowledge the societal processes that it can engender.

Another advisor offered the perspective that ‘success’ depends on how it is defined. EITI may be a minimum standard but even that will be difficult to meet by some countries. As EITI validation is coming up soon for many countries, one should think about possibly taking a two-tier approach to validation.

In conclusion, a WGB staff summarized the main issues of the discussion:

- More clarity is needed on how countries can access resources from the MDTF to move forward on EITI.
- Post-validation how can the momentum and commitment be maintained by the country and what needs to be done to mainstream EITI. It was noted that there has not been much focus on the post-validation phase as everybody is currently working on the validation of various countries by March 2010.
- There has been increasing demand for EITI in a short period of time. While quality concerns are legitimate, the catalytic effect of EITI should be noted and the inherent limitations of EITI accepted.
- There is a need to better explain EITI and the WBG’s new focus on EI issues across the “value chain”

Global Gas Flaring Reduction Initiative

A WBG staff gave a presentation on the current status of the Global Gas Flaring Reduction Initiative (GGFR). To frame the issue, the extent of the problem was broadly delineated: on a global basis, around 150bcm of gas is flared, which is equivalent to the annual gasoline consumption in the US, adding 400 million tons of carbon dioxide. Gas flaring is concentrated in 20 countries that flare about 85% of the total. Major gas flaring areas are Russia, Middle East and the Gulf of Guinea.

In the last three years, GGFR can claim some success as flaring intensity (as measured by gas flared per unit of oil production) has decreased but lots of work remains. Several new countries have joined in the last year and new partners include Azerbaijan, Uzbekistan, Iraq, Qatar, United Arab Emirates as well as Maersk Oil & Gas company. Additional countries and regions whose support is being sought include Oman and Kuwait who are expected to join in 2010, and China and countries in South Asia.

An advisor noted that given the importance of CO₂ emissions and climate change, the WB should encourage particularly countries that are just starting out to exploit their hydrocarbons to ensure that recovery is done in the most efficient ways, including carbon sequestration.

Another advisor added that while the focus is on reducing CO₂ emissions decreasing gas flaring also decreases adverse local health impacts as gas flaring also produces significant amounts of persistent pollutants and this should be stressed as an additional reason to tackle the issue.

With respect to GGFR's work program with Nigeria, it was felt that the GGFR should work more closely with the Nigerian parliament. An advisor remarked that parliament has tried for a long time to enforce standard to ensure the reduction of gas flaring but has been consistently ignored by both government and companies.

A WBG staff noted that IFC has a policy that it will not finance projects where gas is flared and client companies are routinely asked to consider building power infrastructure or to link into gas pipeline systems to make use of the gas otherwise flared.

EI-TAF

WBG staff gave an overview of a new facility, the Extractive Industries Technical Advisory Facility whose objective it is to assist resource-rich, developing countries to structure correctly extractive industry development projects and related policies. It is a demand-driven facility that can deliver rapid help to countries and provide advice on issues related to contract negotiation, structuring of licensing rounds etc. It is designed to provide support to governments on very discrete tasks and queries. There has already been tremendous demand from client countries and donor countries have demonstrated great support.

It was felt that this was a good initiative and one advisor enquired whether knowledge and lessons learnt will be shared. The sentiment was that there is a critical role for networking to share experiences. WBG staff confirmed that a sourcebook is currently being worked on which will bring together sources of global good practice starting with the WBG's own work. It will be made publicly available online and the team is assessing how to best share information across various platforms.

Session 8: Climate Change, EI and the WBG

WBG staff presented an overview of the WBG's current stance on climate change with respect to its investments, policies and strategic directions in EI. The World Bank's Strategic Framework on Development and Climate Change presents an overall approach on how the World Bank Group proposes to mainstream climate change considerations in its development work. Another policy document, the WBG Energy Strategy, which is to outline the Bank's involvement in the energy sector going forward is currently in draft form and will be consulted on in the new year. It was noted that WBG investment in RE/EE in FY09 accounted for about 40% of its total energy financing and only about 25% of financing was for fossil fuels. .

Given that the WBG is a development institution, the WBG staff member summarized some key messages for the institution: climate change is a development issue with the WBG playing an important supportive role for needy countries. An emerging role for the WB could include being the facilitator of funding from developed to developing countries for paying mitigation and adaptation measures. Within the EI sector, WBG support with climate considerations includes efficiency investments, focus on gas,

carbon finance, potentially access to donor funds to buy down EI mitigation costs within the sector. Constraints to business as usual implies that there will likely only be selective support for coal projects with tough criteria set out in the strategic framework for development and climate change. Oil is likely to be further challenged to demonstrate development impact. The new consultations around the proposed WBG Energy Strategy may yield new insights.

An advisor suggested that the climate change debate is missing a crucial link. While renewable and greater energy efficiency is important in its own right for purposes of reducing CO₂, this agenda also holds significant potential for poverty reduction and energy security if it also led to a greater focus on distributed energy and new ways of meeting the energy needs of the poor. An example was given of how an indigenous peoples group had participated in utilizing an abandoned mine site for energy generation using solar energy. As a result, an isolated community was able to not only generate electricity for its own needs but also sell surplus power into the grid.

WBG staff noted that in various downstream projects IFC private sector clients in non-mining sectors employ energy efficiency components and try to utilize excess energy, including feeding it back into the grid. Despite climate change concerns one advisor felt that fossil fuels will remain key in the energy mix for many countries for some time to come. The advisor also remarked that the climate change debate would benefit from a realistic analysis and assessment of energy demand scenarios and supply constraints. For example, clean energy technology relies heavily on minerals and metals like cobalt, lithium, platinum all of which may face supply constraints.

Another advisor equally cautioned that the climate change debate and taking policy decisions ought be more rigorous so as to avoid unwelcome outcomes. For example, the rush to biofuels seems to have been unwarranted from a climate perspective as they are often as harmful as traditional fuels as well as having possible impacts on food supply. For developing countries, fossil fuels will remain crucial in the fuel mix to achieve growth.

Session 9: Meeting Review and Next Steps

WBG staff concluded the meeting by thanking the participants for a lively debate and valuable contributions that help inform the WBG's strategic discussion on how to move forward in the extractives sector. Key messages have also been recorded, including a review of the mandate of the EIR Advisory Group and a possible calibration of its *raison d'être*. One advisor particularly urged to get further clarity on the WBG expectations of the advisors and what input was needed. The WBG team will take on board the suggestion to add to the Annual Report.

For next year's meeting it was decided that the group should consider recruiting representatives from China and Latin America. The advisors agreed to provide suggestions.

WBG EI Advisory Group – WBG Staff Participants

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6. **Bent Svensson**, Program Manager, Oil, Gas, Mining and Chemicals Department WBG
7. **Michael Stanley**, Lead Mining Specialist, Oil, Gas, Mining and Chemicals Department WBG
8. **William Kingsmill**, Senior Advisor Africa Vice Presidency, WBG
9. **Michael Jarvis**, Private Sector Development Specialist, World Bank Institute, WBG
10. **Kathrin Frauscher**, Consultant, World Bank Institute, WBG
11. **Dafna Tapiero**, Program Manager CommDev, Oil, Gas, Mining and Chemicals Department, WBG
12. **Clive Armstrong**, Lead Economist, Oil, Gas, Mining and Chemicals Department, World Bank Group
13. **Liane Asta Lohde**, Economist, Oil, Gas, Mining and Chemicals Department, World Bank Group
14. **Patricia Miller**, Manager, Investment Services Support Group, IFC
15. **Victoria Zabolotnyi**, Research Assistant, Oil, Gas, Mining and Chemicals Department IFC