

**SUMMARY OF THE WORLD BANK GROUP EXTRACTIVE INDUSTRIES  
ADVISORY GROUP MEETING: September 11-12, 2007**

The 3<sup>rd</sup> meeting of the World Bank Group (WBG) Extractive Industries (EI) Advisory Group was held in Washington DC on September 11<sup>th</sup> and 12<sup>th</sup>, 2007

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

A list of WBG staff attending in support (part or full time) of the meeting is given at the end of this summary.

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

Members were welcomed to the meeting and introductions made. It was announced that since the last meeting three members had left the group: Mr. Samuel Nguiffo, Mr. Particio Cartagena and Ms. Patricia Yarrington. Mr. Leon Rajaobelina was attending his first meeting as a member.

In preparing the agenda for this meeting, the WBG had considered suggestions made by advisors at the last meeting in June 2006 and in consultations before the meeting. Sessions on Extractive Industries in Peru, Creating a Level Playing Field for Extractive Industries, Developing Certification Systems for Metals, The Inter-Government Forum and Mining in Zambia were included at of members' suggestion.

It was confirmed that, in keeping with past practice, a summary of the meeting would be prepared and, after comment by members, made public with all views and comments quoted on a not-for-attribution basis.

Following a request from a member, it had been agreed that Carlos Alza Barco, advisor to the Defensora del Pueblo (Human Rights Ombudswoman) in Peru could attend the meeting and present to the Group. However, last minute commitments prevented him from attending.

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

Staff presented an update of WBG EI activities. Major trends impacting WBG activities in these sectors included continued high and volatile prices, concerns about climate change and sustainable local development, and continued growth of cross border investment by developing country firms. Progress made in the implementation of the Management Response (MR) to the Extractive Industries Review (EIR) was highlighted. The Group was informed about the December 2006 update to the WBG Board of Directors. A brief overview of WBG EI financing during FY2007 was also provided, and examples of recent high profile projects were presented. The presentation included an overview and initial results from IFC's development outcome tracking system (DOTS). Following the presentation, the Group discussed the major issues emerging from it.

An advisor commented on transparency in WBG EI investments, in particular the results of IFC's request to investors to make payments public in the period up until December, 2006. Staff explained that during this (pre-policy requirement period), investors had nevertheless been asked to make payments public. At end 2006, the outcomes were reviewed and it was found that in all

cases, where there had been payments, some form of disclosure was made. In response to further comment, staff committed to making the outcome of a proposed survey for calendar year ending 2007 readily accessible on IFC's web site in the second quarter of 2008.

One advisor also commented that information made about IFC's consideration of governance issues in projects it supported was relatively limited and suggested that this could be expanded along the lines, for example, of IFC's review of environmental and social issues.

In response to a question from an Advisor about tracking development impacts of projects, staff explained that IFC had introduced a new approach to tracking outcomes on a more timely basis than the existing system of reviewing project outcomes five years post commitment. The new Development Outcome Tracking System (DOTS) was based on identification of key expected outcomes and then tracking key variables on an annual basis. Results of this system had been made public for the first time on aggregate basis in IFC's new format Annual Report.

Staff was asked about the relationship between IFC support for projects in particular countries and World Bank engagement in those countries that addressed policy challenges. Staff explained that there were several examples recently of World Bank staff engaging in countries to help address key policy issues relevant to IFC investment. In the case of Guinea, for example, initial approaches to IFC by private investors led to subsequent engagement of Bank staff in mining sector issues. In the DRC, IFC engagement with private investors and in supporting work to address artisanal mining issues followed Bank work with the government on the reform of the mining code.

The importance of the World Bank Group promoting high standards was stressed by an Advisor. IFC's environmental and social Performance Standards had been widely adopted by the Equator Banks but greater efforts to continue to promote their use is important. In the context of transparency, an Advisor noted that the definition of standards was relatively easy, but, the key issue was to ensure its effective implementation.

The issue of security concerns was raised by an Advisor who noted that community dissatisfaction with the benefits of extractive industries in the Niger Delta had contributed to current security issues there that were likely to continue to inhibit production and investment. The importance of approaches such as those outlined in the Voluntary Principles on Security Forces and Human Rights was emphasized. A staff member noted that MIGA was in the process of drawing up guidelines in this respect.

In commenting on Staff's observation that commodity prices have continued to be exceptionally high, an Advisor noted that in some cases, high prices did not seem to have led to commensurate increases in revenues to governments. This was the cause of some dissatisfaction and was driving a number of governments to renegotiate their contracts with investors to ensure a fairer deal for countries.

### ***Session 2: Creating a Level Playing Field for Extractive Industries***

It was noted by an Advisor that work done by ICMM (International Council on Metals and Mining) showed that the resource curse was not inevitable. The ICMM studies showed that some countries did manage to use the development of their mineral endowment as a base for faster growth although experience had been variable. The key difference between countries that had been successful in doing this and those that had been less successful was in the overall policies adopted by governments. The issue was how to ensure that appropriate pro development policies

were adopted and implemented effectively and to ensure that the World Bank was engaged where its support was needed.

In this respect it was asked on what basis were countries selected for Bank engagement in mining policy and capacity building work. Staff explained that Bank engagement depended on government interest in working with the Bank. This was often reflected in Country Assistance Strategies that set out proposed World Bank Group programs for countries looking forward. The capacity of the Bank to work was to some extent a reflection of the overall scale of the Bank's financial program with the country and other country priorities.

In the case of some countries the respective IDA allocation might be relatively small given the range of needs a government may face. Programs such as the Norwegian financed "Petroleum Governance Initiative" (discussed later) can make resources available for work on extractive industries sector beyond those available from Bank lending programs. An Advisor commented that while it was understandable that staff working in the extractive industries sector could not drive overall Bank country programs/agendas, it seemed that in the case of countries with relatively large resource sectors, it was essential that the Bank should be engaged in policy and governance work and its absence in countries was notable.

An Advisor stressed the need to try and ensure that high standards were broadly adopted to create a level playing field for all investors. This was echoed by another investor who noted that in a period of high prices and new entrants to the sector, there was a risk that some investors would not respect international norms of best practice. In countries where oversight capacity was weak, this could lead to poor outcomes.

In this respect, an Advisor emphasized the concept of a level playing field for companies should also be applied to countries and other groups. Countries should not be led to engage in races to the bottom in terms of terms and conditions. Civil society often lacked the capacity to engage effectively with industry and processes had to be put in place to address this.

In the context of ensuring that extractive industries development led to sustainable benefits, there was some discussion of whether new initiatives were needed or whether existing processes such as the Extractive Industries Transparency Initiative (EITI) could be broadened. Against this an Advisor commented a strength of EITI is that (like, for example, the Voluntary Principles on Security Forces and Human Rights, for example) it has a relatively well defined set of objectives and had effectively engaged governments, civil society and industry. Bank staff confirmed that the World Bank does not set the policy direction the EITI which was set by the multi stakeholder steering group chaired by Peter Eigen.

The Bank did play a significant role in working with countries to implement the initiative and was currently working with more than a dozen countries in this respect. The new Bank Vice President for its Africa region was a strong supporter of the initiative, and for Bank policy and capacity building support for governments in the extractive industries sector in general. In so far as the issue of competing country standards was concerned, it was advised that the Bank was currently working on an initiative to harmonize mining codes across a number of West Africa countries.

A number of advisors felt that greater engagement by societies in governance issues was the key and should be encouraged where possible. The benefits of local ownership of resources was referred to in comparisons made between Chile and Botswana, where there was a substantial local ownership of the local mining industry, and Zambia where there was not. An Advisor stressed the importance of local civil society engagement. Another Advisor echoed that a high degree of

social cohesion and perception that resource benefits were being shared equitably was an important component of any successful resource based development strategy. There were a number of countries where this was clearly demonstrated.

An Advisor commented that over the period 2002 to 2007, high commodity prices had led to faster growth in resource rich countries, the key question was how durable this would be. Democracy and the engagement of civil society are seen as key but it was felt that the World Bank had an important role to play as well.

### ***Session 3: Developing Certification Systems for Metals***

An Advisor gave a presentation on Government of Germany (BMZ) supported work to devise a voluntary “Certified Trading Chains in Mineral Production”. The 2007 G8 summit in Heiligendamm had stressed the need for actions to address issues in the artisanal and small scale mining sector. The German Government is supporting a project in Rwanda to address the feasibility of establishing a certification system for output of coltan from artisanal miners. The objective would be to use this to promote higher social and environmental standards in the artisanal mining production and processing chain. Such mining is usually characterized by poor social and environmental conditions.

An Advisor agreed that the artisanal and small scale mining sector was a very difficult sector, and that governance and oversight was generally the key to ensuring acceptable outcomes. This was intrinsically difficult to ensure in poor countries, often post conflict, with weak governance and few better livelihoods. Another Advisor concurred and gave the example of the Kyrgyz Republic where the issues included lack of understanding, poor legal framework and sometimes criminal involvement. Approaches need to be tailor made for each case.

An Advisor asked what the driver for the initiative was. In the case of gold mining initiatives, for example, some retail jewelry chains were promoting the concept of clean gold because this had value in the consumer market place. This was more difficult to realize in the case of industrial materials. If standards were established, it was difficult and expensive to ensure that they were being adhered to. This was more likely to be feasible in the case of large scale industry but may be difficult for small scale mining. A number of attempts over the years had not succeeded.

Another Advisor welcomed the German Government’s initiative but was also concerned about how the costs of the initiative could be borne in practice. It may need a concerted approach by consumer governments to ensure that the standards were not by passed in the market. It was observed that in some respects, there was a danger in giving the wrong signals about artisanal mining. In some cases, such mining did not cover its overall costs including environmental and social costs, and the most effective approach could be to enforce regulations that constrain it. In this respect it was noted by one Advisor that this could be true of larger scale industrial mining in some cases, too.

### ***Session 4: Progress on the Gas Flaring Initiative***

Staff gave a summary of progress on the Gas Flaring Reduction Partnership. Gas flaring globally accounts for the equivalent of 400 million tons of CO<sub>2</sub> a year and the partnership, launched at the World Summit on Sustainable Development in 2002, aims to support government and industry efforts to reduce it. Funding for the initiative that has 25 partners comes from industry and governments. In recent months, countries such as Russia and several in the Middle East were showing greater interest in joining. As well as promoting data collection, knowledge

dissemination and policy change, the initiative had an objective of supporting projects that would contribute to a net CO<sub>2</sub> reduction of 32 million tons by 2012.

Advisors noted the importance of reducing flaring in terms of wasted resources and the prospective climate change impacts. It was noted that the reasons for gas flaring varied from case to case. Government policy changes and the development of markets to effectively use gas that was now being flared was crucial. In some cases it was argued, government legislation may be needed to enforce minimum flaring even in the absence of economic markets. An Advisor noted the potential importance of carbon markets and gave the example of countries being approached by investors keen to take advantage of the potential of gas flaring reduction as a way of accessing such markets

### ***Session 5: Extractive Industries in Peru and the World Bank Group***

Staff presented an overview of recent World Bank Group activities in extractive industries in Peru that fell into three broad categories: World Bank policy related work, IFC Advisory Services and IFC investments. Included in the review was an overview of recent IFC projects including its investment in the Yanacocha gold mine and activities to help ensure broader and more sustainable impacts there. Staff presentation was followed by one outlining the activities of the IFC/MIGA CAO's office in Peru over a number of years.

An Advisor followed these overviews with a presentation that focused on some of the issues concerning resource development in Peru including the "resource curse" issue resulting from a high level of dependency on EI; weak regulatory/oversight capacity; human rights issues especially concerning those of Indigenous Peoples, the potential for conflict and issues concerning the development of oil and gas on territorial lands. In this respect reference was made to recent reports by the Human Rights Ombudsman of Peru.

In connection with oil and gas development and the Amazon basin, the Advisor's presentation noted that the Camisea project had resulted in negative impacts on the environment and communities. Local governments who were receiving revenues had limited capacity to spend them effectively. Civil Society believed that the Camisea development and the proposed Peru LNG project were effectively integrated projects and needed to be treated as such. In addition, these projects were likely to be followed by others – as indicated by recent exploration awards – and development needed to be carried out within the framework of any overall regional/national plan. Any WBG support for the project should take account of the issues outlined and in particular should consider the issues of broad community support and sequencing of investment in the context of weak capacity at national and local levels.

An Advisor referred to the presentations as providing a balance of perspectives. The issue for the World Bank Group was when to engage. It was not clear what withdrawal or non-engagement would achieve although sometimes there may be a case for conditionality. Developments in Peru were generating taxes and other benefits and the economy was growing. Capacity would need to be strengthened along with this. This was echoed by other Advisors.

In the context of the development of the Peru LNG project, staff noted that it would be three years before revenues would flow from that project and efforts could be made in the interim to develop capacity at the local government level where revenues were now being received from the Camisea project. Peru was engaged in the EITI process.

An Advisor queried the role of civil society in terms of its early engagement in the project. In the case of international NGOs, it was explained, the motivation was to help identify and support local concerns. Many NGOs were not opposed to extractive industries development as such, but were concerned that it was done right and did benefit local communities. The World Bank Group did have a potential role in this respect if it used its leverage to improve conditions and did not engage where it was not able to do so.

An Advisor stressed the importance of full engagement with local communities and the need in some cases to help increase their capacity to participate fully in projects. Another Advisor stressed the importance of not overlooking environmental issues and the need to increase government capacity in this respect. Staff commented these suggestions were good ones, but the key issue for the World Bank Group was how far it could go and how could it most effectively help address issues. In this respect the example of Zambia was quoted by an Advisor as a case where the World Bank had worked with the government over a number of years to increase capacity in a number of areas relevant to mining development.

The need for appropriate community development plans was considered essential by an Advisor. This should not represent a significant amount of additional resources by a developer and should be a condition for IFC engagement. Against that, IFC leverage over governments was likely to be low but it should continue to work to increase capacity at the local government level where it could, and help ensure that funds generated by resource developments in Peru were used well.

In further discussion, a number of Advisors considered that the World Bank had not been sufficiently engaged with the government of Peru in respect to mining and other resource development issues. The sector was so important that Bank engagement was important.

In summing up, Advisors considered that the key lessons from the discussion were: engagement by the full World Bank Group to help address issues in the resources sector; engagement should be sooner rather than later; IFC should understand the political decision making process and aim to leverage its presence to ensure good policy responses; support for weaker stakeholders, such as local communities and civil society in the process was essential; the need to understand what government, including local government wants to achieve; be prepared to walk away if ultimate objectives of sustainable development cannot be secured; and finally, IFC needed to be prepared to be involved in difficult projects but also to develop strong relationships with local communities and civil society as a part of its engagement.

### ***Session 6: The Intergovernmental Forum on Mining***

An Advisor provided an overview of the role and composition of the Intergovernmental Forum on Mining that was supported by the Canadian Government. The group now consisted of more than 20 African and 8 Latin American countries as well as Canada, Kazakhstan, Russia, UK, USA and West Germany. The forum was intended to provide a venue for governments to share experiences and best practices about the development of their mining industries. An Advisor, while commending the Forum on its objectives and coverage, raised the issue of the duplication with other similar initiatives such as the World Mine Ministers Forum and other regional groupings. It was also noted that it was not a forum that included space for civil society.

### ***Session 7: The Zambian Mining Industry***

An Advisor gave a presentation about the development of the Zambian mining industry, and in particular since the privatization process. Overall, the outcomes had been very successful with

copper production having grown rapidly in recent years, and looking likely to regain past peaks in the near future. The country's first nickel mine was now being developed. An issue that was now emerging was that of taxation and royalty rates. Against a backdrop of very high prices, the low rates put in place in the privatization process, when prices were very low and the industry's economic prospects looked poor, were now seen as too low. As a result, government was in the process of negotiating with investors for increases in rates and to bring forward the payment of taxes.

In response to questions, it was advised that royalties would now be about 3% and the overall government tax take would be around 40%. While the new investors had not wanted to take up the traditional responsibility for extended community costs and infrastructure, most investors had extensive community corporate social responsibility programs that were benefiting local people.

In response to a question about the role of the World Bank, it was advised that this was generally seen to have been positive, notwithstanding the difficulties about the process of privatization. The Bank was continuing to work with government to address social and environmental legacy issues. Looking forward, whilst the mining sector was now providing a major boost for the economy, the country realized the need to diversify, and tourism and agriculture were two key sectors in this respect.

#### ***Session 8: The Information Clearing House Project for EI Community Development***

Staff from IFC's community development facility (CommDev) gave a presentation on the development of an information clearing house that would provide a flexible source of information about issues relating to the development of communities around extractive industries projects. There were a number of questions and suggestions from Advisors. In response to a question as to whether companies would be providing funding, it was explained that this was not the case at the moment, but it was an objective to seek support in various forms from all stakeholders. An Advisor suggested that the clearing house should also include lessons and experience from the former Soviet Union region.

It was also suggested that lessons in this sector may be relevant in other sectors such as forestry and vice versa. In response to an Advisor's question, it was advised that currently most funding from CommDev was intended to be used to help leverage resources already being employed in World Bank Group projects, but a certain proportion of funds was being used for other projects where there was a significant development impact and alternative partners to implement activities.

#### ***Session 9: The Petroleum Governance Initiative***

Staff presented an overview of the Petroleum Governance Initiative (PGI) that was being funded by the Norwegian government under its Oil for Development Initiative. The objective of the initiative was to provide additional resources to allow World Bank Intervention in oil development related governance issues and thereby increase the potential for oil development to foster sustainable development. The PGI was currently putting together a source book on oil and gas governance. A number of Advisors felt this would be useful – if user friendly and if focused on “how to do”.

In addition PGI was supporting work in a number of countries to provide early, practical advice and support. In response to an Advisor's comment that sometimes it appeared that countries seemed to be getting too much advice, it was agreed that this was an issue especially with

emerging oil producers. Coordination among donors was essential to be effective. Another Advisor quoted the example of his country where oil was likely to be developed soon for the first time, and where support from Norwegian advisors had been extremely useful.

### ***Session 10: Meeting Review and Next Steps***

In discussion of the Advisory Group meetings, Advisors agreed that once a year was a reasonable frequency for meetings, but if particular issues came up more frequent meetings might make sense and alternatively views could be canvassed by email. In general, it was felt that Washington or an alternative that was relatively convenient for travel would be the best location for meetings. Some Advisors felt that at times meetings organized around site visits could be productive, although others were concerned about time involved and the objectives of such visits

An Advisor asked for early distribution of papers (even if in outline) in order for views to be canvassed among Advisors contacts and constituencies as appropriate, and thereby increase the usefulness of contributions by Advisors. There was no reason why the World Bank Group could not ask Advisors to prepare contributions on specific topics. There was a feeling among some that the focus should continue to be on World Bank Group activities but that, in future, fewer issues should be covered but in more depth. An Advisor suggested that ways be found to raise the profile of the group and ensure that its deliberations were better publicized.

It was agreed that efforts would be made to recruit another civil society member and a member from the oil industry to replace two of the Advisors who had left during the year as well as looking again at the potential for members from other areas such as labor organizations, resource rich developing country governments, smaller/service companies.

### ***Lunch with the Executive Vice President of the International Finance Corporation***

At the conclusion of the meeting, advisors attended a lunch hosted by the Executive Vice President of IFC along with senior World Bank Group officials. One consistent theme raised by Advisors in discussions was the need for the World Bank Group to be more consistently engaged in supporting governments in resource rich countries with governance and capacity building.

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

Somit Varma, Director, Oil, Gas, Mining and Chemicals Department, World Bank Group  
Meg Taylor, Compliance Advisor/Ombudsman, Compliance and Ombudsman's Office, IFC/MIGA  
Atul Mehta, Director, Latin America Region, IFC  
Lance Crist, Senior Manager, Oil, Gas and Chemicals, IFC  
Bill Bulmer, Senior Manager, Mining, IFC  
Kalada Harry, Senior Manager, Portfolio, Oil, Gas, Mining & Chemicals, IFC  
Paulo de Sa, Manager, Policy Division, Oil, Gas & Mining, World Bank  
Clive Armstrong, Lead Economist, Oil, Gas, Mining & Chemicals, IFC/World Bank  
Omar Chaudry, Senior Economist, Oil, Gas, Mining & Chemicals, IFC/World Bank  
Jan Wehebrink, Senior Investment Officer, Oil and Gas Division, IFC  
Yuriy Myroshnichenko, Operations Officer, Policy Division, Oil, Gas, Mining, World Bank  
World Bank  
Francisco Sucre, Consultant, Policy Division, Oil, Gas, Mining, World Bank  
Ted Pollett, Lead Social Specialist, Social and Environment Department, IFC  
Michael Levitsky, Lead Energy Specialist, Policy Division, Oil, Gas, Mining, World Bank  
Eleodoro Mayorga Alba, Lead Energy Specialist, Policy Division, Oil, Gas, Mining, World Bank  
Jill Shankleman, Japan Social and Environmental Challenges Trust Fund, MIGA  
Deniz Baharoglu, Senior Social Sector Specialist, MIGA  
Dafna Tapiero, Manager, CommDev, Oil, Gas, Mining & Chemicals, IFC/World Bank