SUMMARY OF THE WORLD BANK GROUP EXTRACTIVE INDUSTRIES ADVISORY GROUP MEETING: November 24-25, 2008

The 4th meeting of the World Bank Group (WBG) Extractive Industries (EI) Advisory Group was held in Washington, DC on November 24th and 25th, 2008.

The following members of the Advisory Group participated: Hon. Mercy Almona-Isei, Mr. Ian Gary, Dr. Sixtus Mulenga, Dr. Hans Peter Schipulle and Mr. Leon Rajaobelina. Apologies were received from Mr. Wu, Mr. Tony Hodges, Mr. Mario Calafell, Dr. Shihad Eldon, and Mr.Herman Mulder. Mr. Wu had advised that because of changes in the nature of his responsibilities, it was no longer appropriate for him to continue with membership of the group.

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

In preparing the agenda for this meeting, the WBG had considered suggestions made by advisors in consultations before the meeting. Sessions on Transparency in Extractive Industries, Mining Development in Madagascar, Certification Systems for Metals and Establishing Broad Community in Extractive Industries were included as a result of members' suggestions.

It was confirmed that, in keeping with past practices, 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.

Session 1: Update on WBG EI Activities

WBG staff presented on trends in the EI sector and later gave an update on WBG activities.

The dramatic fall of commodity prices was the most significant event currently impacting the sector. In the short-term it was predicted that prices may continue to fall but that in the medium to long-term demand will be strong and prices will stabilize. It was noted that share prices in EI related companies are down considerably, that there has been a postponement of several large-scale and capital intensive projects, that smaller companies will find it difficult to find funding and that there is likely to be further industry consolidation. From a government perspective, falling prices will result in lower government revenues. It was also noted that the industry would continue to be impacted by the political, economic and physical implications of climate change.

An advisor commented that falling commodity prices have sent shock waves through the country of Zambia. The government of that country has been meeting with the EI sector to ensure that appropriate steps are taken for the survival of the sector in the country. It was noted that this was seen by many as an opportunity for the private sector and government to work together. Another advisor noted that in the case of Madagascar, which is poised to become a large mining country, some new projects could face difficulties and others be delayed.. It was explained that this would be negative from a political standpoint since the country has placed great emphasis on expanding its mining industry and from an environmental standpoint if corners were to be cut to save money.

One advisor noted that the current economic environment presents an opportunity for the WBG to promote governance reform in countries as they seek WBG loans and advice. WBG staff confirmed that they share the advisors view that this is an opportunity for the WBG to actively promote governance through its engagement with countries.

Another advisor noted that security surrounding EI will become even more critical in times of economic downturns as communities may be more likely to be disappointed with the benefits that they receive. An advisor made the observation that in this regard the timber industry could allow for collaboration and sharing of experiences in how to deal with many of the issues listed by the group.

WBG staff then gave an overview of the WBG's current activities in the EI sector. It was explained that the WBG had a renewed focus on helping ensure that EI did contribute to development. Examples of the different initiatives under way were presented. A brief overview of WBG EI financing during FY08 was also provided. It was noted that while IFC's FY08 EI lending numbers had risen they would most likely fall during FY09. Implementation of the Management Response to the Extractive Industries Review was progressing.

In response to the overview, advisors asked for a forecast of what the lending numbers may look like for FY09, particularly IFC's. WBG staff commented that demand for the WBG's policy advice would continue to far outstrip supply during the next fiscal year. With regards to IFC, the principal source of financing for new investments, it was noted that the focus of next year's lending would be first to help existing clients and then to focus on how IFC could help smaller companies and those operating in IDA countries.

One advisor expressed the view that IFC should take a long term view and position itself to go to countries and help them build up a sector. Security surrounding EI was again brought up and it was noted how crucial properly dealing with environmental, social and development issues was to curtailing security threats to projects.

Session 2: Transparency in Extractive Industries

This session included presentations by WBG staff, two advisors and the author of a recent civil society paper on WBG and IMF approaches to revenue transparency in their operations, on issues related to transparency in EI. WBG staff stressed that transparency was an integral part of their work and key to achieving good governance in countries.

An overview was given on EITI by WBG staff. It was noted that EITI has a strong organizational structure and is making progress in a number of countries around the world. WBG staff pointed out that actions on the national level are crucial for the success of EITI and that the WBG is putting its effort into just this area. However, it was stressed that WBG resources are limited. It was also noted, and agreed by many advisors, that the EITI process is more important than just publishing numbers in that it gets people talking and puts processes in place that should eventually help country governance in a wider sense than just EI. One advisor pointed out that validation is a large part of the EITI process and that it will be a test of the initiative to see how many countries meet the 2010 deadline for external validation. This was seconded by another advisor who feared that some countries were simply putting on a façade and may not be ready in any reasonable time period to have their work validated.

The EITI discussion was followed by a presentation by one of the advisors on Zambia's experience implementing EITI. It was stressed that in Zambia the process had strong support from the government and the private sector. Lessons that could be applied to other countries included that EITI needs to have support from the very top of the government, that it needs to be done using a multi-stakeholder approach and that it needs to be implemented in the context of the country at hand. For example, Zambians value dialogue greatly so their implementation involved a great focus on this. One of the other advisors asked if the process had met much resistance along the way. The response was that since the mining industry was largely driving the effort most people were very positive to it. Another advisor reminded the group that many countries do not have a culture of transparency and it takes a strong national leader to usher in and "sell" the process and benefits of transparency.

Next an advisor gave the perspective of Germany, a donor country to EITI, in supporting transparency at a country level. The advisor stressed that it was important for countries to consider a phased approach to EITI because an overloaded process can cause great frustration for all stakeholders. Stakeholders also needed to accept that a more phased approach to EITI did not mean that initially limited results could not be validated. Countries were advised to consider adding sectors such as forestry to EITI as they may also contribute large revenues to governments in some countries. It was stressed that donors needed to work together to ensure that technical assistance, that is so greatly needed at the beginning of the EITI process, is coordinated and meets real needs and is not forced on a country. Following the presentation a discussion was had on embedding EITI into broader country reforms and the advisors expressed the view that the WBG could add value by providing guidance on how social contracts between individuals and companies should be established and how companies and governments should deal with tribal and local government vs. national government claims to resources.

A representative from civil society presented the findings of a joint Bank Information Center/Global Witness report on WBG and IMF EI transparency implementation. The report concluded that while the WBG (particularly IFC in its requirement for project disclosure and the Bank in its support for EITI) have taken tangible steps to promote transparency it was inconsistent and not always comprehensive in its approaches. A key point of the report was that the WBG did not adequately address the issue of contract transparency and civil society engagement. A discussion was held around the topic of contract transparency with many advisors and WBG staff commenting that it was a very complex issue and that it is often governments that refuse to make contracts public. One advisor and the civil society representative argued that while this is currently the case, the WBG should be taking steps to show governments the value of making contracts public. WBG staff noted that while the WBG does not have a blanket requirement for contract transparency it strongly encourages it and committed to using its voice within EITI to raise the possibility of including contract transparency within EITI.

The discussion continued with a presentation by a WBG staff member on IFC's experiences in requiring companies to disclose revenues paid to governments. This was the first year the results of the requirement were reported on. While all clients had publicly disclosed the information it was felt by IFC that the quality of disclosure was not consistent and steps were being taken to give clients a template which would improve the quality of the reporting. One advisor felt that companies should report payments made as a result of specific projects as opposed to aggregated information from all company operations in a country. IFC staff advised that, while originally the focus had been on project level disclosure, this had not always proved practical or meaningful. Companies sometimes, for example, had several projects in a country and sometimes the major parts of their taxes were based on aggregate profit figures. Further, IFC sometimes finances overall corporate investment programs rather than one specific project. In these cases, IFC required all of an investor's payments in the country to be made public. One advisor pointed out that a piece of legislation pending in the US Congress would require all companies listed on a US stock exchange to begin reporting information similar to what IFC is requiring.

Session 3: Discussion of the WBG's Enhanced Approach to Issues across the Whole EI Value Chain

This session focused on a new WBG approach that is intended to consistently address all areas of the EI value chain in a country. WBG staff explained that the approach captures much of the work that the WBG sector and regional departments have been carrying out and ensures that all teams are coordinated and working in a team to help the country address its EI needs. The WBG is considering piloting the new approach in Mozambique and Madagascar.

One advisor asked how this approach is different from how the WBG currently carries out its work. WBG staff responded that while the nature of the work is not necessarily new, putting the work of separate WBG departments and government ministries into a bigger framework will allow people to see how their area of responsibility is linked to the bigger mission of using EI revenues to alleviate poverty and can help identify the most urgent priorities and gaps and avoid inconsistent approaches.

Another advisor expressed support for the work but concern that the name "EITI++" that has been used for it was misleading and could lead to some countries confusing the two related but very different initiatives. Another advisor expressed that this would lead countries implementing EITI to think they needed to also implement EITI++, or that they should not bother with EITI. In response, another advisor felt that the name was useful and that it allowed countries to use the momentum of EITI to launch the bigger reforms implied by EITI++. The advisors' support and concerns where noted by WBG staff.

One advisor asked if a country would need to demonstrate that it was ready to implement a holistic approach such as the value chain approach before IFC would invest in the country. WBG staff responded that a country did not need to commit to a formal program but that it needed to show a commitment to taking steps that would improve governance in the country. IFC's decision to invest or not in a country was the outcome of an overall evaluation of project benefits and risks including governance risks.

The session ended with a discussion on the formation of a Technical Advisory Group to help the WBG best address EI governance issues and the possibility of a rapid response advisory facility for countries needing immediate help in the EI sector. It was explained that the Technical Advisory Group would be different from the EI Advisory Group in that it would offer academic and technical views on what international best practices should be promoted by the WBG.

The idea of a rapid response advisory facility that could also help countries with contract negotiations was welcome by a number of the advisors. It was explained that many countries do not have information or the skills and experience that they need to properly negotiate with companies. Many advisors expressed a desire for the WBG to help countries properly negotiate in complex deals such as, for example, some recent large mining/infrastructure deals that have been concluded between countries and Chinese companies.

Session 4: Mining Sector in Madagascar

A WBG staff member and advisory group member presented on a collaboration between the WBG and Conservation International in helping set up an innovative community foundation in Madagascar as well as efforts to protect biodiversity in the country.

The use of biodiversity no-go-zones in Madagascar was presented and discussed. One advisor asked if the country had considered putting a value to alternative uses of mining land when considering where to allow mining to happen. It was explained by WBG staff that since biodiversity areas had been created this was likely not to happen. Another WBG staff commented that if an area is not officially a no-go-zone but was an area of special bio-diversity the WBG and other institutions would most likely not support investment in such areas.

A WBG staff member described ongoing work to create a community foundation to be a vehicle for ensuring that revenues from mining will quickly and effectively reach local people. A foundation structure was chosen as the best tool to deliver benefits because it worked within the constraints of the current fiscal regime of Madagascar and could serve as a vehicle for other funds. In response to a question by an advisor as to what community opinion was on the foundation and the engagement of the mining company in it, a WBG staff member advised that poor communication and consultation by the mining company over the last 20 years had resulted in a negative perception of the project but steps have been taken by the company and the authorities to improve community relations. It was also noted that the foundation itself is expected to gradually improve community relations further by contributing to social development and offering an opportunity for community engagement.

Session 5: Certification System for Metals

WBG staff gave a presentation of opportunities for small scale miners to benefit from the growing popularity of fair trade labeled products and a member of the advisory group gave an update on certified trading chains in mineral production.

It was explained that the fair trade market is growing and there is great opportunity for small scale and artisanal miners to increase their income by becoming certified as fair trade producers. An advisor asked what definition was used to label the mineral as fair trade. The response was that fair trade focuses on environmentally and socially responsible small scale producers but that main emphasize is on promoting small scale producers. It was explained that the certification of minerals is far more difficult than gemstones because it is hard to follow a product through the supply chain. On the other hand it is easier to price minerals because the end product is homogeneous, whereas in the case of gemstones the final price will vary greatly depending on how it is cut and polished.

The WBG is supporting pilot projects in Bolivia, Peru, Ecuador and Colombia which should produce the first small scale fair trade certified gold by mid-2009. One advisor noted that it was important to have clear labeling with regards to fair trade and that different NGOs needed to come together and agree on standards. Another advisor asked if most countries have legal frameworks in place to support small scale miners and was told that many times they do not. This is usually because small scale miners export an unrefined product and most countries have laws to support the refining of products domestically in order to increase the economic impact of the minerals. In response to an advisor’s question, WBG staff responded that most large companies were largely supportive of the initiative because it can help improve their relationship with small scale miners and is seen as a risk mitigation tool.

Next an advisor gave an update on a mineral certification scheme that is in the beginning stages of being implemented by countries in Central Africa. The scheme is focused on industrial commodities and certifies specific mine sites. The aim is to ensure minerals come from sources in the countries that will use the revenues for sustainable growth. It benefits both large producers and artisanal miners. The process is using technology to trace the origin of ore so that consumers in other countries can be guaranteed of the origin of the product they are purchasing. A discussion followed on the role and pros and cons of importing governments imposing restrictions on importation of minerals from certain regions that did not appear to be based on sustainable mining.

Session 6: Broad Community Support in Extractive Industries Projects

A discussion on the concept of broad community support (BCS) was introduced by an advisory group member. The advisor noted that social conflicts surrounding EI projects have been increasing in the past years and that many civil society groups feel it is imperative that local communities have a right to decide if they want EI projects in their communities (free prior informed consent). It was also noted that the WBG was stressing broad community support as opposed to the concept of broad community consent. In addition, the advisor wanted greater transparency on how the IFC in particular establishes BCS.

A WBG staff member responded to the opening comments by explaining that when the WBG board was making a decision on the issue they decided against requiring free prior informed consent, where this was not a country requirement, because it was felt that individuals should not be able to stop projects that could help the public at large. Instead, the “broad community support” requirement was established. The staff member then gave a detailed description of how IFC ascertains BCS in its projects by using the Peru LNG project as an example. One advisor noted that establishing BCS essentially comes down to a judgement call by by the senior staff of IFC and that this could prove problematic.

Another advisor suggested that IFC should make its templates and models for establishing BCS publicly available so that other practitioners can benefit from IFC’s expertise in the area. There was consensus among the advisors that IFC should give more detail in its disclosure of projects on how BCS was established. IFC staff agreed that best practice examples should be made public and that the IFC would think about how it could make the BCS process more transparent.

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Session 7: Meeting Review and Next Steps

A WBG Vice President joined the last session of the meetings for a review of the meeting. One advisor stressed the need for the WBG to use its influence to ensure that transparency and proper use of revenues is addressed when it engages with governments. Another advisor highlighted the usefulness of the WBG’s Commdev.org information clearinghouse and encouraged the WBG to share more of its lessons learned generally. Working effectively with China was mentioned by several advisors as an area where the WBG could help governments, particularly in Africa.

One of the advisors representing civil society announced that he would be giving up his membership in the group so that another civil society representative could have the opportunity to participate. The advisor agreed to liaise with WBG staff on a suitable replacement. The WBG thanked members for their contributions and agreed that WBG staff would advise members of the names of new members and suggested dates of the next meeting in due course.

WBG EI Advisory Group – WBG Staff Participants

1. **Rashad Kaldany**, Vice President, MENA and Global Infrastructure, IFC
2. **Somit Varma**, Director, Oil, Gas, Mining and Chemicals Department (COC), World Bank Group (WBG)
3. **Sudhir Shetty,** Director, PREM, World Bank Africa
4. **Lance Crist**, Manager, Oil and Gas, Oil, Gas, Mining and Chemicals Department IFC
5. **Bill Bulmer**, Associate Director, Mining, Oil, Gas, Mining and Chemicals Department IFC
6. **Paulo de Sa**, Manager, Oil, Gas and Mining Policy, Oil, Gas, Mining and Chemicals Department WBG
7. **Deema Fakhoury**, Head Portfolio, Oil, Gas, Mining and Chemicals Department , IFC
8. **Clive Armstrong**, Lead Economist, Oil, Gas, Mining and Chemicals Department, World Bank Group
9. **Omar Chaudry**, Senior Economist, Oil, Gas, Mining and Chemicals Department, World Bank Group
10. **Motoko Aizawa,** Head Policy and Standards, IFC
11. **Patricia Miller,** Manager, Investment Services Support Group, IFC
12. **Chris Sheldon,** Senior Mining Specialist, Oil, Gas, Mining and Chemicals Department WBG
13. **Remi Pelon**, Mining Specialist, Oil, Gas, Mining and Chemicals Department WBG
14. **Josef Skoldeberg,** Research and Communications Analyst, Oil, Gas, Mining and Chemicals Department IFC
15. **Victoria Zabolotnyi,** Research Assistant, COC, Oil, Gas, Mining and Chemicals Department IFC