

Helpdesk Research Report: Donor Approaches to Extractive Industries

Date: 05/02/09

Query: Collect information and provide some analysis of current donor approaches to extractives (oil, gas and mining) management, particularly for improved development outcomes. Please highlight governance aspects where relevant. Donors to include international agencies, development banks and others supporting this sort of work.

Enquirer: AusAID

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Overview

Many donor agencies have developed strategies and policies on a wide range of issues from natural resource management, corporate social responsibility, revenue transparency, energy, to environmental sustainability, which contain some reference to extractive industries (EI). However, this query explores donor policies/approaches only insofar as they deal directly with extractive industry management. Furthermore, this report does not represent a comprehensive mapping of donor activity in EI, rather it provides information on a selection of what are considered to be the most important initiatives.

Donor approaches to extractives management fall broadly under two categories: 1) individual donor strategies and 2) multi-stakeholder initiatives (in particular the Extractive Industries Transparency Initiative (EITI)). Before EITI was established in 2002, donor strategies on EI were scarce. Donors tended to conduct their work in isolation and principally through funding civil society organisations, be it for advocacy, research or capacity building. DFID's role in funding Global Witness stands out as one example - originally in relation to the trade in diamonds. As such, it is often revealing to look into how such initiatives are funded and organised. Indeed, according to one DFID advisor, "it may not be immediately obvious that certain initiatives have a DFID link, but we may well be supporting them in one way or another." Thus, multi-stakeholder initiatives are becoming an increasingly important part of donor support to EI. In addition, a number of civil society organisations (CSOs) are also key players in EI work.

From the literature, it appears that the key elements of donor support to extractive industries include:

- Governance, with a focus on revenue and expenditure transparency
- Technical assistance, capacity building and institutional support
- Exchanging knowledge and expertise
- Advocacy (including strengthening political will in host countries)
- Mainstreaming international standards into national policies

- Engaging in partnerships
- Ensuring that extractive industry benefits reach poor people
- Protecting the rights of people affected by extractive industry investments
- Environmental protection

A study of donor support to EI in Africa (AfDB 2008) found that the World Bank was by far the largest donor of relevant governance-related assistance, with about 70% of the survey total. After the World Bank, the largest donors were the European Commission (12%), Norway (9%), and the African Development Bank (6%). Nevertheless, it is worthy of note that some donors channel some of their assistance through World Bank trust funds (notably the UK and Norway), and these funds do not appear in the bilateral totals.

In terms of the impact area of donor support in Africa, approximately 42% of projects could be classified as resource management, 13% as financial, 12% as economic, and less than 1% each as purely environmental or purely social. Approximately 17% of projects could be classified as policy dialogue, 12% as institutional support, 7% as capacity building, and less than 1% as diagnostics. Thus, it would appear that, in Africa at least, governance and institutional support are the key priorities, whilst social and environmental issues receive less attention.

Multilateral and bilateral donors

Much of the World Bank's work on EIs is channelled through EITI, of which it is a major stakeholder. As such, the most recent World Bank adjustment in its approach to the management of extractive industries sector and revenues can be seen through the "EITI ++" (see next section). In terms of its own policies, the World Bank Group (WBG) management response to the 2003 Extractive Industries Review¹ stated that future investments in extractive industries would be selective, with greater focus on the needs of poor people, and a stronger emphasis on good governance and on promoting environmentally and socially sustainable development. Nevertheless, the response received widespread criticism from civil society for failing to adequately respond to and implement the review's recommendations. In particular, with regard to governance issues, it has been argued that the ways in which the Bank Group has supported mining for example, actually undermine state capacity and weaken potential links between mining and development, paying scant attention to themes such as regional development, mining–agriculture linkages, environmental protection or social impacts.

Further evaluations of the WBG's activities in EI have found that whilst on the whole, projects have produced positive economic and financial results, environmental and social safeguards remain a challenge, and that the Bank must tailor assistance to the quality of governance, instead of prioritising increasing investment.

The African Development Bank (AfDB) is also a key player in EI. Like the World Bank, many of its activities are channelled through, or related to EITI, and prioritise transparency, governance, and corruption. The Bank's engagement in EITI and supplementing initiatives has been structured around providing technical and financial assistance to willing Regional Member Countries (RMCs), expanding the Bank's support for good governance, promoting advocacy to strengthen the political will among RMCs, and mainstreaming EITI principles in the Bank's own natural resource operations.

Other significant donor approaches to extractives management include:

- United Nations Conference on Trade and Development's (UNCTAD) research, best practice, and capacity building work in the mining, oil and gas sectors

¹ The Extractives Industries review is no longer accessible on the World Bank website and so has not been included in this report. The Bank's management response, however, has been included.

- Norad's Oil for Development programme, which is built around the three integrated themes of resource management, environmental protection and revenue management.
- the UK Department for International Development's (DFID) involvement in a variety of multi-stakeholder initiatives

A number of recommendations are proposed in the literature with regard to donors support for EIs. These include:

- providing additional resources as well as better monitoring of the effectiveness of existing assistance programmes.
- strengthening policy and institutional frameworks
- strengthening capacities of government agencies to address economic, social and environmental concerns
- developing more participatory and inclusive mechanisms in decision-making processes
- investing in physical and social infrastructure, upstream and downstream industries and sectoral linkages
- promoting multi-sector policy dialogue and coherence
- focusing on prevention, policy dialogue, and support for improving governance in fragile states
- improving accountability and transparency
- ensuring that foreign investments are directly coupled with transfer of skills and technology
- promoting low-carbon development and bridging the financial gap for adaptation with existing or new financial instruments

Multi-stakeholder Initiatives

The Extractives Industries Transparency Initiative (EITI) has been described as the first significant institutional framework for addressing governance issues in donor support to extractive industries. Originally hosted by DFID in 2002, EITI is a coalition of governments, companies, civil society groups, investors and international organisations. The initiative was initially important in raising awareness among donors. Now a great deal of donor work on extractive industries takes place through EITI-related activities.

The initiative is centred around an agreed set of criteria for all countries wishing to implement the EITI, including regular publication of payments and revenues received by governments from oil, gas and mining companies. Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate. The EITI also runs a Multi-Donor Trust Fund to support transparency initiatives in countries that have signed on to EITI.

There is much debate about the effectiveness of EITI. Whilst it is widely acknowledged that EITI has brought together a broad platform of stakeholders, there appears to be an increasing lack of clarity about what it means in practice. One weakness is that EITI is ultimately a voluntary approach to revenue transparency, and disclosure of data is often aggregated. Another problem is that it only deals with one very small aspect of governance (payment transparency). As such, it has been argued that as long as donors restrict their efforts to EITI related activity, the focus will remain very narrow.

A number of civil society groups have made recommendations to address these weaknesses, including:

- ensuring that rhetorical commitments are matched by concrete actions
- ensuring genuine and active civil society participation
- providing adequate technical and financial support to implement EITI
- disaggregating data

- institutionalising EITI in statutory law
- mainstreaming EITI aims and approaches into other mechanisms.

Partly in response to some of the criticism it has received, there has been movement on the creation of EITI++, with an expanded remit. This approach takes EITI to the next level, by also requiring verification that the disclosed payments are accurate and conform to the underlying mining or production sharing contracts. Nevertheless, it is argued that there remains a need to support non- EITI-related efforts to ensure independence and to cover other aspects of extractive industries. In this respect the Revenue Watch Institute, Global Witness and Publish What You Pay (PWYP) are regarded as important non-governmental actors.

Alongside EITI a number of other multi-stakeholder initiatives operate, especially in the mining sector. Many of these act as fora for sharing information and resources:

- Good Practice - a multi-donor initiative which provides guidance on good practice at mining and metals operations around the world.
- Communities and Small-Scale Mining (CASM) - a global networking and coordination facility on artisanal and small-scale mining in developing countries
- Global Dialogue on Mining/Metals and Sustainable Development and the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development
- Mineral Resources Forum (MRF) - an information resource for issues related to mining, minerals, metals and sustainable development
- Kimberley Process - a joint initiative to stem the flow of conflict diamonds
- Diamond Development Initiative - aims to promote better understanding of artisanal diamond mining

Multilateral and Bilateral donors

African Development Bank, 2008, 'Governance of the Extractive Industries in Africa: Survey of Donor-Funded Assistance', AfDB, Tunis

The objective of this survey was to establish a baseline for categorisation of governance related Extractive Industry (EI) support, and to provide an overview of this type of support for African countries during the period 2004-2006, with the aim of helping improve the basis for future decisions regarding such support.

Key findings:

- The World Bank is by far the largest donor of relevant governance-related assistance to the EI, with US\$162.8 million, or about 70% of the survey total. After the World Bank, the largest donors are the European Commission (12% of the total), Norway (9%), and the African Development Bank (6%).
- The main recipient is Nigeria (30% of the expenditure commitment total), followed by DRC (9%), Uganda (9%), Mauritania (8%), Zambia (8%), Ghana (6%) and Mozambique (5%).
- Approximately 80% of World Bank assistance and 40% of African Development Bank (AfDB) assistance is in the form of loans. If loans were excluded, the EC would be the largest donor.
- Approximately 22% (\$35 million) of the relevant World Bank portfolio is budget support
- Some donors channel assistance through World Bank trust funds. This accounts for about 3% (\$5 million) of the World Bank's portfolio relevant to the survey. The largest donors to relevant World Bank managed trust funds are the UK and Norway.

Classification of activities:

- Impact area dimension: approximately 42% of projects (in terms of expenditure commitment) could be classified as resource management, 13% as financial, 12% as economic, and less than 1% each as purely environmental or purely social.
- Activity type dimension: approximately 17% of projects could be classified as policy dialogue, 12% as institutional support, 7% as capacity building, and less than 1% as diagnostics.
- Stage of intervention dimension: approximately 82% of projects could be classified as pre-extraction, 14% as post-extraction, and about 4% as a combination of the two.

United Nations Conference on Trade and Development, 2007, 'World Investment Report 2007: Transnational Corporations, Extractive Industries and Development', UNCTAD, Geneva

<http://www.unctad.org/Templates/WebFlyer.asp?intItemID=4361&lang=1>

The UNCTAD 2007 World Investment Report analyses the latest trends in foreign direct investment (FDI) with a special focus on the extraction of oil, gas, and metal minerals. The Annex to Chapter VI (pp 189-191) provides some examples of how different donors support EI (see below). It argues that there is a need for additional resources as well as better monitoring of the effectiveness of existing assistance programmes. Key areas include strengthening policy and institutional frameworks, capacities of government agencies to address economic, social and environmental concerns, enhancing transparency, revenue management, and the development of more participatory and inclusive mechanisms in decision-making processes:

- UNCTAD disseminates information about good practices and experiences through the Mineral Resources Forum (www.natural-resources.org/minerals) and promotes best practices and policies related to environmental management and social issues related to mining (www.goodpracticemining.com). UNCTAD also assists member states in developing their oil and gas industries (upstream and downstream) and is developing guidance on good practices and capacity-building. It offers tailored programmes to assist government officials to ensure accurate and transparent revenue disclosure. Finally it is engaged in the Resource Endowment Initiative (<http://www.icmm.com/page/1409/resource-endowment-initiative>) – with the International Council on Mining and Metals (ICMM) to analyse how some countries and companies have successfully dealt with the “resource curse.”
- The World Bank Group focuses on policy advice, capacity-building and governance issues, including revenue and expenditure transparency. The Bank group is involved in a number of global initiatives including EITI, the Gas Flaring Reduction Partnership (<http://go.worldbank.org/NEBP6PEHS0>) and the Community and Small Scale Mining Initiative (<http://www.artisanalmining.org>).
- The International Finance Corporation (IFC) and the Multilateral Insurance Guarantee Agency (MIGA) provide a range of financial products such as loans and equity investments and political risk insurance. They encourage greater transparency and work with investors to broaden the development impacts of projects.
- The Commonwealth Secretariat has assisted many Commonwealth governments to reform and modernise the regulation of their oil, gas and mineral industries.
- The Asian Development Bank has undertaken 16 technical assistance projects related to reform of extractive industries in six countries. The Bank has also provided regional technical assistance to study gas transmission and natural gas pipelines in the Central Asian region.
- The Inter-American Development Bank has provided six grants for two countries and for four regional operations to strengthen regulatory frameworks and harmonise markets in the oil and gas sectors.

- Canada has supported mining, oil and gas development programmes particularly in Latin America. The Canadian International Development Agency (CIDA) supports the EITI.
- The Government of France promotes capacity-building in the extractive industries mainly through training and technical assistance notably to Francophone countries.
- Norway offers various forms of short- and long-term assistance to petroleum-rich developing countries through its Oil for Development Initiative. Between 1994-2004 assistance focused on competence- and capacity-building on petroleum resources, financial administration and the environment.
- South Africa offers various forms of assistance related to extractive industries in several African countries.

Holliday, G. and Mainhardt-Gibbs, H., 2007, 'Quick Reference Guide to Policies on Extractive Industries. Revenue and Contract Transparency at the International Financial Institutions', Bank Information Center, Washington D.C.

www.bicusa.org/proxy/document.9825.aspx

This paper summarises the policies covering revenue and contract transparency in the extractive industries of several IFIs – the World Bank, the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), the African Development Bank (AfDB), the Asian Development Bank (ADB), the Inter-American Development Bank (IDB), and the International Monetary Fund (IMF). It concludes that although IFI policies covering revenue and contract transparency have been greatly strengthened – largely due to CSO pressure – there remain some gaps and weaknesses.

Some of the recurring criticisms in the guide include:

- endorsement of only voluntary approaches to revenue transparency (e.g through EITI)
- disclosure of aggregated rather than disaggregated revenue payments
- limiting contract disclosure to certain projects
- inconsistency in explanations of revenue transparency requirements
- lists of exceptions with regard to public disclosure of information
- failure to endorse EITI (e.g. IDB) or to translate support of EITI into policy action (e.g. ADB)

See also:

Mainhardt-Gibbs, H., 2004, 'Revenue Transparency in the Extractive Industries - The Role of International Financial Institutions', Bank Information Center, Washington D.C.

http://www.bicusa.org/Legacy/Revenue_Transparency_in_EI.pdf

World Bank Group

World Bank, 2004, 'Evaluation of the World Bank Group's Activities in the Extractive Industries. Factoring in Governance', World Bank Operations Evaluation Department, Washington, D.C.

[http://lnweb90.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/EDB3D7F75F336DEF85256F0F00775E53/\\$file/extractive_industries_wp_governance.pdf](http://lnweb90.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/EDB3D7F75F336DEF85256F0F00775E53/$file/extractive_industries_wp_governance.pdf)

This report reviewed the World Bank's assistance to the EI sector in six countries from 1993 to 2002. In particular, the evaluation reviewed the documentary record to assess whether the Bank is factoring governance into its approach to the EI sector through governance Economic Sector Work (ESW), governance-informed Country Assistance Strategies (CAS) and sectoral strategies, and the subsequent design of projects.

Whilst recognising the limited scope and retrospective nature of the evaluation (e.g. it does not consider innovative new work that is currently under development), the report suggests that the Bank must develop a selective strategy in which the objectives of assistance are tailored to the quality of the borrower's macro and sectoral governance. Doing so is likely to require a shift in the Bank's support to EI sectors, prioritising support to governments to maximise the benefits, and control the risks and costs of EI sectors, instead of prioritising increasing investment. Specifically, this report concludes that:

- More governance diagnostic work should be conducted.
- A sectoral assistance strategy should be developed, tailored to the governance capacity of the borrower.
- The sectoral assistance strategy, with a reference to the ESW upon which it relies, and any assumptions concerning governance risk, should be made explicit in the CAS or accompanying document.
- Monitoring and evaluation should ensure a link between the Bank's knowledge of governance challenges, a strategy that considers governance risks, and project design.
- The evaluation of the net development benefit of a proposed project should take existing governance constraints explicitly into account. Given that strengthening governance is time-consuming, uncertain and beyond the Bank's control, the conservative (and probably more realistic) approach would be to take governance constraints as fixed over the life of the project when estimating the expected net development benefits.
- The Bank should not promote EI investment in countries whose governments currently lack the capacity to benefit from or manage such investment.
- If the quality of macro-governance is sufficiently poor to call into question the net development benefit of EI projects, the CAS should address governance as a priority.

World Bank, 2003, 'Extractive Industries and Sustainable Development. An Evaluation of World Bank Group Experience', (Volume I: Overview), World Bank Operations Evaluation Department, Washington, D.C.

[http://lnweb90.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/FB2A79B1EB4B9A4D85256D7A00750357/\\$file/Extractive_Industries_Evaluation_Overview.pdf](http://lnweb90.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/FB2A79B1EB4B9A4D85256D7A00750357/$file/Extractive_Industries_Evaluation_Overview.pdf)

This evaluation asks how effectively the World Bank Group (WBG) has assisted its clients in enhancing the contribution of the extractive industries (EI) to sustainable development. It concludes that, on the whole, its EI projects have produced positive economic and financial results. However, compliance with its environmental and social safeguards remains a challenge. Whilst its guidelines for the mitigation of adverse environmental and social impacts have been used and appreciated widely and it has begun to address the challenge of country governance, the WBG can do much to improve its performance in enhancing the EI sector's contribution to sustainable development and poverty reduction. There are three main areas for improvement:

- Formulate an integrated strategy: The WBG has not devoted enough attention to the developmental needs of the poorly performing resource-abundant countries, many of which experienced negative growth during the 1990s. The WBG needs to formulate and implement integrated strategies which recognise that successful EI projects should not only provide adequate returns to investors but also provide revenues to governments, mitigate negative environmental and social effects, and benefit local communities. The strategies also will need to address governance squarely and help to ensure that EI revenues are used effectively to support development priorities.
- Strengthen project implementation: Given the potential environmental and social impacts of resource extraction and the controversy surrounding the sector, rigorous implementation of safeguard policies is a minimum requirement for it to operate in a world concerned with sustainable development. These need to be in line with evolving good practice. In addition, the WBG needs to define, monitor, document, and report on the

- economic, social, and environmental impacts of its projects more systematically. Specifically, the distribution of benefits needs to be monitored and evaluated explicitly.
- Engage the stakeholders: The WBG has inadequately addressed some areas—notably governance and revenue management. The WBG’s performance in these areas can be enhanced by improving consultation with stakeholders, including local communities, and by reporting on key sustainability indicators systematically and transparently. The WBG also should vigorously pursue country-wide and industry-wide disclosure of government revenues from extractive industries.

World Bank Group, 2004, ‘Striking a Better Balance - The World Bank Group and Extractive Industries: the Final Report of the Extractive Industries Review: World Bank Group Management Response’, World Bank, Washington D.C.

<http://www.ifc.org/eir>

This World Bank Group management response to the 2003 Extractive Industries Review states: “Our future investments in extractive industries will be selective, with greater focus on the needs of poor people, and a stronger emphasis on good governance and on promoting environmentally and socially sustainable development. When requested, we will also continue to advise and help governments create appropriate policy and regulatory frameworks for the sustainable development of their countries’ resources. In addition, we will take major steps to increase our own support, as well as to encourage and advocate for more global support, for economically viable renewable energy and other clean fuels.”

The following is a summary of some of the specific responses to the Review’s recommendations:

- Strengthening governance and transparency: All future Country Assistance Strategies (CAS) will address relevant extractive industry issues, the sequencing of activities in extractive industries (EI) will be based upon governance capacity and risks and the Bank Group will require revenue transparency as a condition for new investments in EI
- Ensuring that extractive industry benefits reach the poor: We agree to work with stakeholders to develop consistent indicators of the benefits of extractive industry projects on poverty reduction and use these to help identify and track project outcomes. We will establish independent monitoring mechanisms in our largest projects, and encourage the development of capacity in communities to monitor projects that affect them.
- Mitigating environmental and social risks: IFC’s safeguard policies are in the process of being revised and updated to improve their clarity, accessibility, and implementation. We will expand disclosure of information about the impact of Bank Group’s extractive industry investments and ensure prompt disclosure of relevant information to communities about projects that affect them.
- Protecting the rights of people affected by extractive industry investments: The Bank Group will only support extractive industry projects that have the broad support of affected communities. We will require a process of free, prior, and informed consultation with affected communities that leads to the affected community’s broad support for the project. For new projects, we will implement the use of security forces to protect extractive industry project sites— in line with the US/UK Voluntary Principles on Security and Human Rights.
- Promoting renewable energy and efficiency to combat climate change: We will set an initial target to increase our renewable energy and energy efficiency portfolio commitments by 20 percent annually over the next five years. This target will be reviewed on a regular basis. We are ready in the coming months to convene or participate in a “steering group” that can help frame a broader agenda on renewable energy. We will commit to reporting our annual performance in supporting renewable and energy efficiency programs against the figures of other leading organizations. We will aim to

- provide sector specific information. We will increase staff capacity, resources and incentives.
- Ongoing learning and review: A working level advisory group on EI will be established to provide input and perspectives to the Bank Group on extractive industry issues. We will make progress reports to our Board on the Bank Group's work in the EI sector every year—and make them public.

World Bank, 2007, 'World Bank Mining Activities in Africa: Policy Framework and Country Experience', presented at the AfDB-WBG Experience-Sharing Meeting, Tunis, February 12-13

<http://www.afdb.org/pls/portal/url/ITEM/2980EF8BFAA51B4EE040C00A0C3D4D52>

This presentation outlines the World Bank Group's policy framework on mining activities in Africa. Section 2 (pp 10-14) includes criteria for a successful policy framework:

- A satisfactory macro framework is indispensable
- Government must be reasonably credible and legitimate--it is crucial to be able to avoid political economy traps in which elite groups capture a disproportionate share of benefits
- Political institutions must allow for effective participation and the ability to make transactions over time—no 'winner-take-all' mentality
- Benefits must be widespread at both the national and local levels
- Local capacity building for both governance and transferable occupational skills development must be a continuous and adaptive process
- Long-run capacity building for implementation, monitoring, evaluation and enforcement is institutionalised
- Stakeholders have a flexible and adaptive approach to new developments in the sector

Bank Information Center, Center for Science in Public Participation, Earthworks, Oxfam International and WWF International, 2007, 'Undermining Communities and the Environment: A Review of the International Finance Corporation's Environmental, Health and Safety Guidelines for Mining', Bank Information Center, Washington D.C.

http://www.earthworksaction.org/pubs/IFC%20Mining%20Guidelines_20070904.pdf

This report assesses the International Financial Corporations (IFC's) environmental, health and safety (EHS) guidelines for large-scale mining projects. The reviews shows how these EHS guidelines have significant gaps and omissions, including the failure to specify the performance levels or quantitative measures necessary to protect local communities and environments impacted by these projects. In some cases the guidelines do not even meet the mining industry's existing "best practice" standards. The report argues the EHS guidelines should set out a minimum standard for the mining sector. The IFC's EHS guidelines should clearly state that mining projects require minimum standard based on the reports recommendations.

The report also highlights a lack of ongoing monitoring and evaluation following the completion of the project in order to evaluate the impact of mining activities on the environment, health and livelihoods. It also suggests that in the assessment phase, potential impacts should be made available to the communities that will be affected and should have access to resources for technical resources and supporting information. The report urges the IFC to rethink its support for the mining sector and commit immediately to:

- redrafting the mining sector guidelines with the involvement of independent experts and civil society
- reporting on the positive and negative impacts of each of its mining investments on a project-specific basis.

Bebbington, A., Hinojosa, L., Bebbington, D. H., Burneo, M. L. and Warnars, X., 2008, 'Contention and Ambiguity: Mining and the Possibilities of Development', *Development and Change*, vol 39, issue 6, pp 887–914

<http://eoffprint.aptaracorp.com/cgi-bin/offal?aid=10405wC2331hEnq1477zF>

According to the section of this paper entitled: 'Convergences, Divergences' (pp 8-11), there is some degree of agreement around the importance the institutional context for the successful management of extractive industries. Whether mineral expansion triggers the resource curse effect or rather fosters growth is deemed to depend on the quality of institutions. Nevertheless, the authors contend that while the multilaterals, the industry and others may acknowledge that 'governance matters', they are ultimately driven by an intense pressure to continue, indeed expand, investment in extractive industry.

For example, the World Bank Group has continued to support programmes that reform investment and mining codes, ease profit repatriation, reduce and fix tax and royalty rates, and support basic geological surveying in order to generate more base data on the basis of which companies can make decisions as to where to invest. Meanwhile, the IFC (the International Finance Corporation) already has investments in several very large mines. Some of this investment growth occurs in contexts where the Bank's own governance sensitive analysis would suggest it should not. As such, there appears to be little proclivity to slow-down investment in extractive industry or demand increased *ex ante* conditions before disbursement

According to authors, it is often argued that that even if in-country governance conditions are not ideal, it is better for the bank in question to be involved in extractive industry investment because from the inside they will be able to make things better. Others, on the other hand, argue that the ways in which the Bank Group has supported mining actually *undermine* state capacity and *weaken* potential links between mining and development. Reforms have been designed merely to increase investment, and have paid scant attention to themes such as regional development, mining–agriculture linkages, environmental protection or social impacts. In short, reforms have weakened the ability of African states to perform precisely those management, monitoring and surveillance roles that elsewhere the Bank suggests are essential.

African Development Bank

African Development Bank, 2008, 'African Development Bank Support to Extractive Resource Governance', Information Note: Memorandum to the Board of Directors, AfDB, 15 December

This Information Note provides an update on the African Development Bank's support to Regional Member Countries' (RMCs) efforts at improving transparency and accountability in the governance of natural resources and revenues. Special attention is paid to improving the governance of natural resources and, in particular, the extractive industries through the Bank's support for the Extractive Industries Transparency Initiative (EITI) and the new EITI++. The Bank's engagement in the EITI and supplementing initiatives has been structured around the following approach:

- Providing technical and financial assistance to RMCs that have demonstrated political will by endorsing the EITI, but lack implementation capacity;
- Expanding the Bank's support for good governance of the extractive industries at various stages of the governance chain, in particular by providing technical and financial assistance to RMCs participating in the EITI++;

- Promoting advocacy and outreach activities to strengthen the political will among resource rich RMCs to improve governance of their natural resources and extractive industries; and
- Mainstreaming EITI principles in the Bank's own natural resource operations, including developing a comprehensive policy for the Bank's engagement in natural resource management.

African Development Bank, 2007, 'African Development Report 2007: Natural Resources for Sustainable Development in Africa' AfDB, Tunis

http://www.afdb.org/portal/page?_pageid=473,30695219&_dad=portal&_schema=PORTAL

This report includes in depth analysis of natural resource management in Africa. Of particular interest here are Chapters III and VI.

Chapter III (pp83-87) outlines the African Development Bank's strategy for engagement in Extractive Industries in Africa. Since the 1990's, the Bank has shifted its interventions to promoting initiatives (institutional capacity building and policy reforms) that encourage private investment in the sector and direct investments in private sector operations. In addition, recent reforms have sought to address public financial management in resource-rich countries and stressed pro-poor public expenditures and job creation for vulnerable groups. The Bank's EI activities prioritise transparency, governance, and corruption. The AfDB formally endorsed the Extractive Industries Transparency Initiative (EITI) in October 2006.

Support activities in the EI sector include:

- modernising mining cadastre and geological surveys, to make them useful information tools for potential investors;
- strengthening the environmental management capacity of EI sector institutions;
- training stakeholders, government staff and others involved in the management of the sector.
- conducting a survey of donor-funded technical assistance for building capacity in EI governance in Africa, with the objective of identifying gaps and overlaps.
- conducting a study on EI governance in Africa, focusing on the scope of the African resource boom
- carrying out global advocacy for improving EI sector governance in Africa and creating political will and institutional capacity among RMCs to endorse and implement the EITI
- exchanging knowledge among oil, gas, and mining specialists from the World Bank, NORAD, and the AfDB.
- plans to establish an African Legal Support Facility to provide technical support for EI laws and regulations in RMCs, training workshops for legal and financial advisors and technical legal support during EI contract negotiations.

Chapter VI of the report (pp 194-198) identifies a number of critical issues for other donors, including:

- **Enhancing the Development Impact of Africa's Natural Resources:** Investing in physical and social infrastructure; using available raw materials to establish downstream industries and side stream sectoral linkages; establishing industries to supply the natural resource sector with inputs, and achieving sectoral linkages; supporting technical development and innovation; facilitating the monitoring of natural resources and data compilation
- **Policy Dialogue and Budget Support:** Promoting multi-sector policy dialogue and coherence; emphasising financial budgetary discipline; fostering the contribution of natural resource wealth to economic growth, social equity, and poverty reduction; facilitating economic diversification; strengthening natural resource management

- capacity; supporting the management of windfall rents; ensuring that spending plans and appropriations are subject to more stringent monitoring.
- Fragile states: Focusing on prevention, policy dialogue, and support for improving governance; remaining engaged and building a knowledge base; focusing on post conflict/crisis reconstruction; fostering stabilisation, graduation, reform, and normalisation; addressing the risk from slippage.
 - Institutional Issues and Governance: Improving accountability and transparency; supporting central governments in effective planning and management; shoring up relevant local institutions and civil society organisations; strengthening regional bodies.
 - Africa-Asia Trade Partnership: Ensuring that foreign investments are directly coupled with transfer of skills and technology; ensuring that Asian firms provide capital goods and intermediate inputs; building capacity to strengthen Africa's technical knowledge; ensuring that there is no free riding.
 - Environment and climate change; Promoting low-carbon development; bridging the financial gap for adaptation with existing or new financial instruments, and the specific challenges that these will pose for resource-rich African countries.

United Nations Economic Commission for Africa and African Development Bank, 2007, 'The 2007 Big Table. Managing Africa's Natural Resources for Growth and Poverty Reduction.', summary report, 1 February

<http://www.uneca.org/thebigtable/documents/2007BigTableSummaryReport.pdf>

The 2007 Big Table brought together representatives from eleven African countries, four OECD countries, and regional and international organisations (ECA, AfDB, AUC, IMF, OECD-DAC, and World Bank) as well as representatives from research centres, the private sector, and NGOs. The following compact for future action was agreed:

- a. Require G-8 endorsement of EITI and encourage more African countries to implement it
- b. Expand the scope of EITI to include other natural resources, upstream and downstream issues, and environmental stewardship.
- c. Extend the Kimberley Process Certification Scheme to other minerals.
- d. Expand the scope of the APRM process to include governance of natural resources.
- e. Encourage the establishment of independent oversight bodies to monitor implementation of natural resources projects at the country level.
- f. Mainstream the natural resources sector into the second generation PRSPs.
- g. Build Africa's capacity to utilise environmental trading systems and mechanisms
- h. Encourage AfDB and other institutions to participate in natural resources projects.
- i. Facilitate the development of African Junior Resource Companies
- j. Strengthen Africa's capacity to harness renewable resources
- k. Devise mechanisms for sharing benefits between regions in the same country
- l. The establishment of a study group to review Africa's mining codes
- m. A joint programme to elaborate codes and standards for natural resources exploitation
- n. The establishment by AfDB of a grant facility to help Africa's emerging oil and other natural resources producers in contract negotiations;
- o. The establishment by ECA of a peer-learning group on natural resources management.
- p. Tailor-made and targeted capacity-building
- q. Undertake better profiling of emerging global players and engage them.
- r. Build or strengthen partnerships and coalitions at all levels
- s. Call on the international community to support Africa's effort to map and create inventories of its natural resources.
- t. Scaling-up awareness-raising programmes on the potential of sustainable development projects in Africa.

Norad

Norad: Oil for Development Initiative

http://www.norad.no/default.asp?V_ITEM_ID=10094

The Oil for Development (OfD) initiative aims at assisting developing countries with petroleum resources in their efforts to manage these resources in a way that generates economic growth, promotes the welfare of the population as a whole, and is environmentally sustainable.

OfD is built around three integrated themes. Principles of good governance, transparency and accountability are a fundamental part of the three themes:

- Resource management: Strengthening of local institutions; development/assessment of petroleum legal frameworks; framework for exploration and production of petroleum; resource databases; strategies for transparent licensing and tendering processes; policies to stimulate technology development and the involvement of local industry.
- Environmental protection: Build environmental management capacity within the sector; basic legislation, rules and regulations covering environmental dimensions of the petroleum sector; minimise discharges from activities; environmental impact assessments; manage gas flaring and other national/global climate challenges that are directly related to the petroleum industry.
- Revenue management: Design, management and control of tax regime for the extraction of oil and gas (Government take); transparency and accountability around payments by oil companies (EITI); planning and execution of government budgets; management of the financial savings (oil fund)

Multi-stakeholder initiatives

Extractive Industries Transparency Initiative

EITI: The Extractive Industries Transparency Initiative

<http://eitransparency.org/node>

The Extractive Industries Transparency Initiative (EITI) aims to strengthen governance by improving transparency and accountability in the extractives sector. The EITI sets a global standard for companies to publish what they pay and for governments to disclose what they receive. It is based around a mutually agreed set of criteria for all countries wishing to implement the EITI:

1. Regular publication of all material oil, gas and mining payments by companies to governments (“payments”) and all material revenues received by governments from oil, gas and mining companies (“revenues”) to a wide audience in a publicly accessible, comprehensive and comprehensible manner.
2. Where such audits do not already exist, payments and revenues are the subject of a credible, independent audit, applying international auditing standards.
3. Payments and revenues are reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator’s opinion regarding that reconciliation including discrepancies, should any be identified.
4. This approach is extended to all companies including state-owned enterprises.
5. Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate.

6. A public, financially sustainable work plan for all the above is developed by the host government, with assistance from the international financial institutions where required, including measurable targets, a timetable for implementation, and an assessment of potential capacity constraints.

The EITI now also runs a Multi-Donor Trust Fund incorporating the World Bank, UK, Germany, the Netherlands, Norway, France, Australia, Belgium, Canada, Spain, the USA and the European Commission. The goal of the EITI Multi-Donor Trust Fund (EITI-MDTF) is to broaden support for the EITI principles and process through the establishment of extractive industries transparency initiatives in countries that have signed on to EITI through programmes of cooperation among the government, the private sector, and civil society.

World Bank, 2008, Potential for scaled-up WBG contribution in natural resource management. EITI in the context of the extractive industries (EI) value chain', Oil Gas Mining and Chemicals Department, Policy and Operations Unit (COCPO) briefing paper

This EITI briefing outlines the "EITI Plus" approach, which takes EITI to the next level. It goes a step further than disclosure - by also requiring verification that the disclosed payments are what they should be, i.e. are accurate and conform to the underlying mining or production sharing contracts. Such audits have so far occurred in Nigeria and Ghana, but it is expected that other EITI member countries will follow suit. "EITI ++" denotes a further extension of the process, for instance process issues on how the oil sector is organized and works in key areas like oil sales, physical audits, and licensing. This version of EITI has been applied in Nigeria, which has been, to date, the leader in EITI implementation and driving the process forward.

The current World Bank Oil Gas Mining and Chemicals Department (COCPO) strategy for supporting EITI in countries is to press for EITI to be mainstreamed and embedded into national systems for managing the EI sector and its financial flows, so that EITI does not remain as stand-alone initiative, but is fully integrated into country programmes. Together with the Bank's Africa Region, three concrete action steps are planned in COCPO:

- Structure and canvass funding for a technical assistance facility which enables rapid-response advice to governments in key aspects of EI management, especially in contracting, laws and distribution of benefits
- Working with partners to develop codes of conduct for African countries, as best practice on natural resource management
- Actively engage with (target) EITI countries, to build political commitment to move ahead on comprehensive and systematic improvements in EI governance and institutional capacity to make this happen.

Revenue Watch Institute, 2008, 'EITI - Beyond the Basics, RWI, New York

<http://www.revenuewatch.org/news/121008.php>

This report outlines the key areas where EITI can be customised, and different approaches be taken. It also provides case studies of the options taken by different countries and makes recommendations on how to develop an EITI programme that goes "beyond the basics." The key message is that those involved in implementing or overseeing EITI programmes should not be afraid to shape and build upon the basic EITI standards according to their own circumstances. The benefits of EITI—effective sector management; increased revenues; improved governance; indicators of a better investment climate—are likely to accrue to those countries which implement more robust EITI programmes.

Revenue Watch Institute, 2006, 'Eye on EITI: Civil Society Perspectives and Recommendations on the Extractive Industries Transparency Initiative', RWI, New York
http://www.soros.org/initiatives/cep/articles_publications/publications/eiti_20061011/eye_20061019.pdf

This report presents civil society insights into the realities of EITI implementation in specific countries and presents recommendations on what is needed to ensure success. Recommendations include:

- Ensuring that rhetorical commitments are matched by concrete actions
- Ensuring genuine and active civil society participation
- Providing adequate technical and financial support to implement EITI
- Disaggregating data
- Institutionalising EITI in statutory law
- Mainstreaming EITI aims and approaches into other mechanisms.

Global Witness, 2005, 'Making it Add Up: a Constructive Critique of the EITI Reporting Guidelines and Handbook', Global Witness, London
http://www.globalwitness.org/media_library_get.php/230/Making%20it%20add%20up.pdf

This report addresses a number of issues that are perceived to be of greatest concern either relating to the Extractive Industries Transparency Initiative EITI Source Book (SB) or to the Draft Reporting Guidelines (RG). The report highlights that while the EITI has brought together a broad platform of stakeholders, the success of the EITI as a concept is increasingly threatened by the lack of clarity about what it means in practice.

Other multi-stakeholder initiatives

The World Bank and International Finance Corporation: Oil, Gas and Mining Sustainable Community Development Fund (CommDev)

www.commdev.org

CommDev promotes partnerships among communities, local governments, and extractive industry companies to jointly develop solutions that reduce poverty. Commdev supports IfC investment projects by providing funding for:

- Design of community development strategies
- Stakeholder engagement
- Participatory planning for community development and monitoring
- Development of corporate foundations with community participation
- Capacity building of local and regional government to manage royalty flows
- Small business development for supply chains of extractive industry projects and local economic development plans
- Environment, gender and HIV/AIDS prevention programmes

Good Practice: Sustainable Development in the Mining and Metals Sector
<http://www.goodpracticemining.com/about.php>

Good Practice is a joint initiative of the International Council on Mining and Metals (ICMM), the UK Department for International Development (DFID), United Nations Conference on Trade and

Development (UNCTAD) and United Nations Environment Programme (UNEP). It aims to provide a resource for guidance on the implementation of good practice at mining and metals operations around the world. The website supports support the implementation and effective achievement of the [ICMM Sustainable Development Principles](#). It also encompasses a host of additional issues lying outside the scope of these principles.

Communities and Small-Scale Mining (CASM)

<http://www.artisanalmining.org/index.cfm>

CASM is a global networking and coordination facility with a stated mission to “to reduce poverty by improving the environmental, social and economic performance of artisanal and small-scale mining in developing countries.” CASM is currently chaired by the UK's Department for International Development (DFID) and is housed at the World Bank headquarters in Washington, D.C.

CASM is resourced by a multi-donor trust fund, and receives its core funding from the UK and the World Bank, supplemented by programme support from Japan, amongst others, Canada, France and the US. Several companies, trade associations and charitable funds, such as Tiffany & Co Foundation, also contribute finances to CASM's work programme.

Global Dialogue on Mining/Metals and Sustainable Development and the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development

http://www.globaldialogue.info/wn_e.htm

Co-sponsored by South Africa and Canada, the Global Dialogue was designed to fulfil the priorities for the mining, minerals and metals sector as identified in the Johannesburg World Summit Plan of Implementation. As a result, in February 2005, the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development came into effect when twenty-five national governments had confirmed their membership.

Mineral Resources Forum (MRF)

<http://www.natural-resources.org/minerals/index.htm>

The Mineral Resources Forum (MRF) is run by United Nations Conference on Trade and Development (UNCTAD) in partnership with United Nations Environment Programme (UNEP), and receives financial assistance from the Government of the Netherlands. MRF is an information resource for issues related to mining, minerals, metals and sustainable development. It seeks to engage a diverse set of users from governments, mining, mineral and metal companies and other concerned civil society institutions, and to promote an integrated, inter-disciplinary approach to mineral issues and policies. The MRF is designed to accommodate a broad and growing range of technical and socio-economic issues that arise during the life cycle of mineral resources.

Kimberley Process

<http://www.kimberleyprocess.com/>

The Kimberley Process (KP) is a joint government, industry and civil society initiative which aims to stem the flow of conflict diamonds – rough diamonds used by rebel movements to finance wars against legitimate governments. The Kimberley Process Certification Scheme (KPCS) imposes extensive requirements on its members to enable them to certify shipments of rough diamonds as ‘conflict-free’. As of November 2008, the KP has 49 members, representing 75 countries, with the European Community and its Member States counting as an individual participant.

Diamond Development Initiative

<http://www.ddiglobal.org/>

The Diamond Development Initiative (DDI) works to bring NGOs, governments and the private sector together to promote better understanding of artisanal diamond mining, and to find possible solutions for:

- Government regulation and mining regulation;
- Distribution and marketing channels;
- Organisational aspects of artisanal production;
- Legitimate and transparent distribution channels;
- Organisation among artisanal miners;
- Free and open markets for artisanally mined diamonds.
- To promote wide participation in the process, including governments, donors, industry and development organisations.

See also: The Madison Dialogue: <http://www.madisondialogue.org/index.html>

Selected non-governmental initiatives on extractive industries

Revenue Watch Institute (Open Society Institute)

<http://www.revenuewatch.org/index.php>

The Revenue Watch Institute is a non-profit policy institute and grant-making organisation that promotes the responsible management of oil, gas and mineral resources for the public good. RWI is funded through the Bill and Melinda Gates Foundation, the William and Flora Hewlett Foundation, and the Open Society Institute, along with several other donors.

Publish What You Pay

<http://www.publishwhatyoupay.org/>

Publish What You Pay (PWYP) is a global civil society coalition that helps citizens of resource-rich developing countries hold their governments accountable for the management of revenues from the oil, gas and mining industries. PWYP campaigns for the mandatory disclosure of company payments and government revenues from the oil, gas, and mining sector. The coalition also calls for the disclosure of licensing arrangements and extractive industry contracts.

Global Witness

<http://www.globalwitness.org/>

Global Witness aims to expose the corrupt exploitation of natural resources and international trade systems, to drive campaigns that end impunity, resource-linked conflict, and human rights and environmental abuses. Global Witness is also a key member the Kimberley Process and the Extractive Industries Transparency Initiative (EITI).

Global Reporting Initiative

<http://www.globalreporting.org/Home>

The Global Reporting Initiative (GRI) has developed a framework which sets out the principles and indicators that organisations can use to measure and report their economic, environmental, and social performance. The cornerstone of the framework is the Sustainability Reporting Guidelines. The third version of the Guidelines – known as the G3 Guidelines - was published in 2006. The framework includes a sector supplement on mining and metals:

<http://www.globalreporting.org/NR/rdonlyres/E75BAED5-F176-477E-A78E-DC2E434E1FB2/2454/DraftFinalMiningandMetalsSectorSupplment.pdf>

Alliance for Responsible Mining

<http://communitymining.org/index.php>

The Alliance for Responsible Mining is an independent, global-scale initiative established in 2004 to enhance equity and wellbeing in artisanal and small-scale mining (ASM) communities through improved social, environmental and labour practices, good governance and the implementation of ecosystem restoration practices.

Additional resources

Canadian Network on Corporate Accountability, 2006, 'Summary Critique of Standards Relevant to Extractive Industries', Halifax Initiative, Ottawa

<http://www.halifaxinitiative.org/updir/Compendiumsummariefinal.pdf>

This compendium of international corporate social responsibility (CSR) principles provides a brief description of a number of selected CSR standards and policies relevant to the extractive industry, followed by summary overview of existing critiques both substantive and procedural of those standards, and a list of sources for further information.

Additional information

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