



Recent Trends in Extractive Industries and World Bank Response

Inter-Governmental Forum
Geneva, November 1 to 4, 2010
Gotthard Walser, The World Bank

Overview

Recent Developments in the Extractive Industries

- Role of Emerging Players
- Flexible Fiscal Regimes
- Renegotiation and Nationalization
- Sustaining Community Benefits
- Regional and National Development

World Bank Response

- World Bank Group – Oil, Gas and Mining Policy Division
- EITI+ +/Value Chain approach
- Lending, Non-lending, and Global Partnerships

Part I - Recent Developments in the Extractive Industries

Commodity prices have gone through the full cycle, but the mid-term fundamentals remain the same:

- ❑ Governments remain key players in fostering enabling environment for sustainable development of the sector
- ❑ Companies struggle to have access to new resources, but continue to value stable and transparent countries
- ❑ Good governance on expenditures is key to maximize contribution to the economy

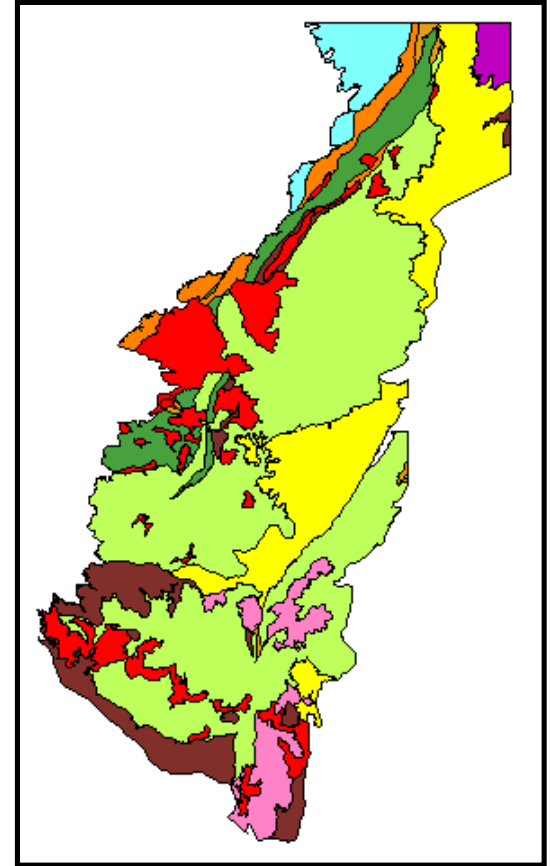
What's New?

- ❑ Demand from emerging markets (BRICs) is expected to remain strong over the medium term
- ❑ BRIC companies are increasingly investing in extractive industries abroad and changing the traditional playing field
- ❑ Despite the rise in fiscal revenues, many governments still believe profits aren't shared equitably in high price period
- ❑ Resource nationalism remains high, but sometimes fed on unrealistic expectations
- ❑ Avoiding local conflict, particularly around mining areas, will play an increasingly important role in success of extractive industries ventures
- ❑ Climate change agenda puts spotlight on use of fossil fuels

What's New?

- ❑ Last but not least, the importance of governments geo-data acquisition and management is increasingly recognized to reduce “knowledge asymetry” and promote more equitable sector investments

(ref Prof. Collier's: underground value of 1 square kilometer represents USD125,000 in OECD countries and USD25,000 in African countries)



Role of Emerging Players

- ❑ Important transfer of power from traditional western companies to firms headquartered in BRICs (mining) and national oil companies (petroleum)
- ❑ Non-traditional companies have different financial models and perceptions of risk than western firms; former often invest where latter are reluctant (under new models)
- ❑ In the long-run, the perception of risk and profitability of the two groups should converge; similarly for corporate behavior with respect to the environment and social responsibility

Governments Want a Better Upside from Investments

Taxation: predictable flexibility

- ❑ Mining sector saw negotiation of new frameworks to share revenues during good times, e.g., resource rent taxes, windfall profits taxes, sliding scale royalties and renegotiation of “unfair” contracts

Risk-Sharing in the Upside & Downside

Countries turned to state-owned equity participation, nationalization to increase upside

- ❑ Companies historically bore most risk (except very large downturns)
- ❑ Then governments began to share in upside 'risk' (sliding royalties; extraordinary profits tax)
- ❑ Movement to equity stake means more sharing of downside risk
- ❑ Decentralization of revenues implies intra-governmental risk sharing

Sustaining Community Benefits

Countries calling for more local economic development: more jobs, increased local content, more integrated infrastructure development

- Viable society/community/environment after closure
- Development of alternative livelihoods, diversification of economy; development of infrastructure that will support other industries
- Transferrable skills development
- Capacity building for local governance, environmental management
- Distribution of revenues: how much back to the community?
- Some new players lack experience in dealing with host communities in developing countries

Avoiding the “Paradox of Plenty”

Goes beyond sector policy:

- ❑ National strategy and integrated policies
 - Role of extractive industries in national development strategy
 - National level political institutions - integrated approach
 - Sector policy and governance

- ❑ Prudent macroeconomic policies
 - Policies to promote macro stability, within well-defined medium-term expenditure framework
 - National investment plans - infrastructure, social investments
 - Development funds - all revenues/expenditures through Treasury/budget
 - No stand alone entity with discretionary spending power

Part II: World Bank Response

- ❑ World Bank Group Role: Oil, Gas and Mining Policy Division
- ❑ EITI++/Value Chain Approach
- ❑ Lending and Non-lending Activities
- ❑ Global Programs and Partnerships

World Bank Group Role Extractive Industries Review

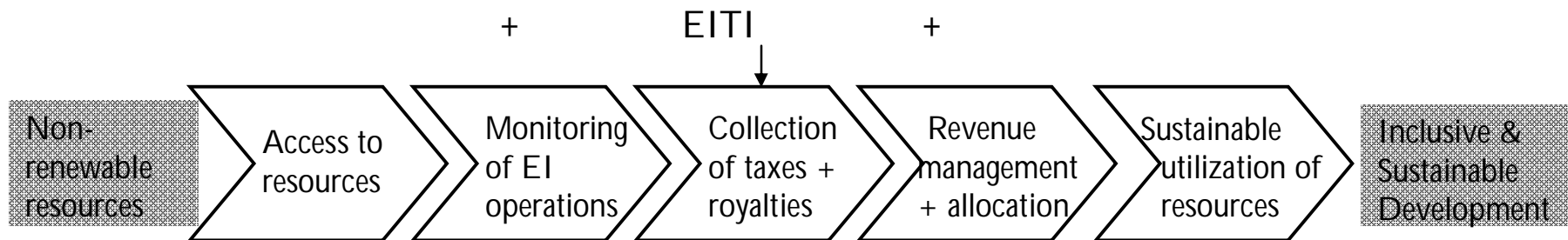
- ❑ Strengthen governance and transparency
- ❑ Ensure that extractive industry benefits reach poor people
- ❑ Mitigate environmental and social risks
- ❑ Protect the rights of people affected by extractive industry investments

World Bank Oil, Gas and Mining Policy Division

- ❑ World Bank oil, gas, and mining sector expertise housed in Oil, Gas and Mining Policy Division
- ❑ Focus on three strategic areas:
 - Extractive Industries Sector Governance
 - Climate Change and Energy Security
 - Sustainable Development
- ❑ Specific emphasis is put on
 - Fostering social dimensions and partnerships with CSOs
 - Mainstreaming gender and key global programs into operations
 - Developing a business line on mining-related infrastructure
- EITI++ provides overarching, guiding principles
- Assistance is provided via lending operations, technical advisory services, analysis/publications, and global programs and partnerships

EITI++: Sound Governance along the Value Chain

- EITI++, or the **value chain approach**, is a comprehensive, integrated approach to the management of extractive industry resources, to help resource-rich countries to leverage natural resource wealth for sustainable development



- The EITI++ approach has been used successfully by the Government of DRC to design a TA Project; now being applied in Cameroon and Mauritania

Achieving Better Governance along the Value Chain

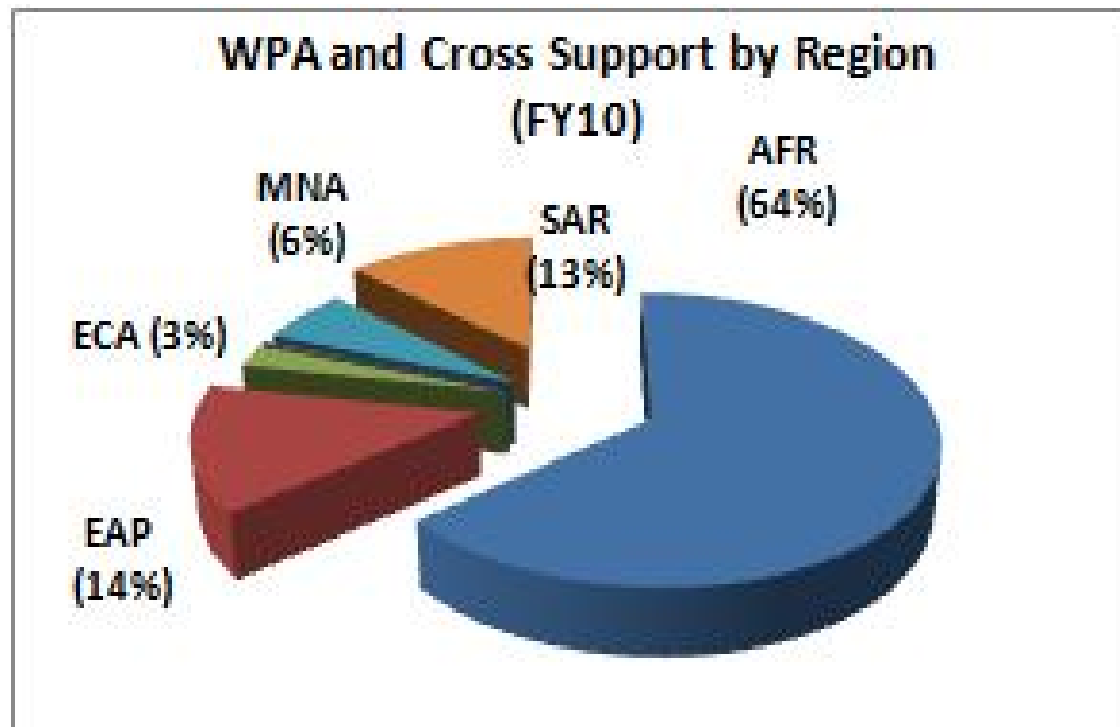
- ❑ Satisfactory legal, fiscal, and regulatory frameworks
- ❑ Capacity building to put in place modern licensing systems and institutional frameworks, institutional capabilities to ensure investor compliance with applicable laws and regulations, and to protect investor contractual rights
- ❑ Transparent and efficient revenue collection capabilities to maximize the generation of revenues over time
- ❑ Adequate revenue management for sustainable socioeconomic development
- ❑ Benefit sharing agreements with regions/communities
- ❑ Satisfactory environmental and social protection framework and procedures to make local communities benefit from operations

Mitigating Social and Environmental Risks

- ❑ Environmental, health, and safety regulations
- ❑ Environmental Impact Assessments (incl. baseline data), Environmental Management Plans, Mine Closure and Oil Decommission Plans
- ❑ Social Impact Assessments, including identification of affected communities members and vulnerable groups (gender, youth)
- ❑ Generating community benefits by broadening economic opportunities (linkages): Regional Development Plans, Community Consultation Frameworks, Community Development Plans
- ❑ Enhanced Oversight, Monitoring and inspection capacity
- ❑ Assistance in prudent local government use of revenues
- ❑ Introduction of more environmentally friendly artisanal mining techniques

A Strong Focus on Africa

- Our Unit provides global expertise and operational support in more than 70 countries around the world, with a strong focus to Africa



Supporting the Value Chain: Lending Operations

- The Oil, Gas and Mining Policy Unit delivers assistance *inter alia* via lending TA operations - the Unit currently manages 18 projects, and is working with several countries on preparation of others

Oil, Gas and Mining Policy Unit Lending Operations (incl. Supplemental/Additional Financing)			
Actual		Plan	
Zambia Copperbelt (FY03)	Madagascar Suppl. (FY07)	Pakistan Thar Coal to Power	Africa Mineral Governance (regional project) - possible countries to be included: -Burkina Faso -Cote d'Ivoire -Guinea -Sierra Leone
Madagascar Mining TA (FY03)	Mongolia Mining TA (FY08)	Balochistan Mining TA	
Mauritania Mining TA (FY04)	PNG Mining TA II(FY08)	Mongolia Mining TA II	
Uganda Mining TA (FY04)	Uganda AF (FY09)	Cameroon Mining TA	
Nigeria Mining TA (FY05)	Tanzania Mining TA (FY09)	Malawi Mining TA	
Afghanistan Nat. Resources (FY06)	Afghanistan AF (FY09)		
Mauritania Suppl. for Petrol (FY07)	DRC Mining TA (FY10)		
Liberia Mining TA	Lao Hydro Power for Mining		

- The Unit supports other World Bank teams on oil, gas, and mining components of lending operations: Botswana, Ghana, Kosovo, Mali, Philippines, Rep. of Congo, Romania, and Sao Tome & Principe

Supporting the Value Chain: Lending Operations (2)

Typical lending operations are delivered through technical assistance projects (TA) that support key aspects of the Bank's Oil and Mining Sector Reform (EIR) agenda:

- ✓ Creation of suitable legal and regulatory frameworks
- ✓ Institutional capacity building
- ✓ Collection of geological data
- ✓ Sustainable development through environmental management systems and social benefits to local communities and economies
- ✓ Support of artisanal and small-scale mining

Supporting the Value Chain: Technical Advisory Assistance

In addition to lending operations, the Unit provides technical advisory assistance to many countries on issues along the value chain, for instance most recently in:

▣ **Mining:** Angola, Albania, Armenia, CAR, Cameroon, Colombia, Ethiopia, India, Niger, Solomon Islands, Philippines, Saudi Arabia, Yemen

▣ **Petroleum:** Bangladesh, Bolivia, Cambodia, Rep. of Congo, Cote d'Ivoire, Ghana, Palau, Peru, Sudan, Vietnam, West Bank and Gaza

Analytical Work/Publications

The Unit also has an active program of knowledge management, including most recently in the following areas:

- ❑ **Mining:** Mining Together, Mining Cadastres, Financial Surety for Mine Closure, West and Central Africa Aluminum Study, Experience with Mining Foundations, Local Economic Development, Country-specific Mining Sector Reviews
- ❑ **Petroleum:** Higher Oil Prices and the Poor, Survey of Petroleum Environmental Management, Downstream Petroleum Markets in SSA, Oil Refineries in SSA, Allocation of Petroleum E&P Rights, National Oil Companies, Gas for the Poor, Country-specific Petroleum Sector Analysis
- ❑ **Global:** EITI++/Value Chain Approach, Decommissioning of Oil, Gas and Mining Operations, Petroleum and Mining Fiscal Regimes, Engagement with Civil Society in Extractive Industries

Global Programs and Partnerships

The World Bank Oil, Gas and Mining Policy Unit manages 5 Global Programs and Partnerships:

- ❑ Extractive Industries Transparency Initiative (EITI)
- ❑ **Extractive Industries Technical Advisory Facility (EI-TAF)**
- ❑ Global Gas Flaring Reduction Partnership (GGFR)
- ❑ **Communities and Small-scale Mining Partnership (CASM)**
- ❑ Petroleum Governance Initiative (PGI)

Extractive Industries Technical Advisory Facility (EI-TAF)

New multi-donor trust fund, EI-TAF objectives include to:

- ❑ Address country demand for “rapid-response” advisory services in the oil, gas, and mining sectors, particularly to address issues in the ‘upstream’ portion of the value chain;
 - ❑ Contribute to global knowledge management in extractive industries sector governance through the gathering and dissemination of good practices in EI sector governance
- EI-TAF assistance aims to level the playing field between client countries and EI firms and help to ensure that resource-rich developing countries, and ultimately their citizens, benefit from the exploitation of their extractive resources



Communities and Small-scale Mining Partnership (CASM)

- ❑ CASM's objective is to reduce poverty by improving the environmental, social, and economic performance of artisanal and small-scale mining in developing countries
- ❑ Is a network, coordination, and knowledge clearing house facility
- ❑ After 10 years of successful activities, CASM is now in the process of re-inventing itself to adjust to the realities of the second decade of the century
- ❑ **Follow up on www.artisanalmining.org**

Conclusion: Some of the WB Present Key Focus of Attention:

- ✓ Implement the EITI++ value chain approach to design mining policy and implementation in client countries
- ✓ Contract and community agreement model
- ✓ Integration of gender issues in mining
- ✓ Rapid support to governments regarding contracts negotiations and policy implementation(EI-TAF)
- ✓ Revenues distribution mechanisms and capacity at local level
- ✓ Political economy analyses and economic governance guidance in EI sector
- ✓ Geo-data acquisition and management

Thank you!

