

Innovative Approaches for Multi-Stakeholder Engagement in the Extractive Industries



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The Oil, Gas, and Mining Unit series publishes reviews and analyses of sector experience from around the world as well as new findings from analytical work. It places particular emphasis on how the experience and knowledge gained relates to developing country policy makers, communities affected by extractive industries, extractive industry enterprises, and civil society organizations. We hope to see this series inform a wide range of interested parties on the opportunities as well as the risks presented by the sector.

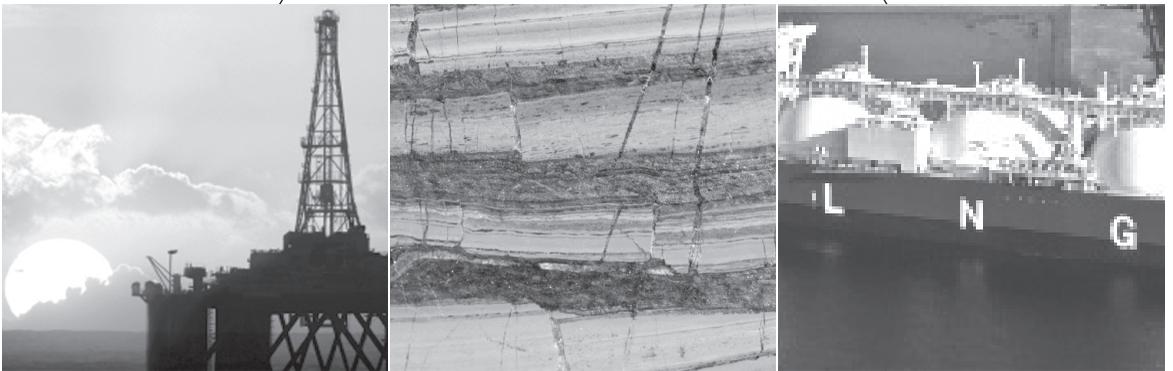
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Introduction

By Michael Jarvis, Mauricio O. Ríos Ibañez, and Julia Mensah

Background

Extractive industries (oil, gas, and mining) have the potential to generate significant wealth for developing countries and to serve as important catalysts for growth. They generate large revenues—through royalties, taxation, and exports—and create employment.

In some cases, however, resource wealth is associated with political turmoil, deteriorating standards of living, civil conflict, and elite capture. This phenomenon is widely described as the “resource curse” and has been attributed to a number of factors, including weak political institutions and incentives.

In 2002, to better address these issues and to respond to growing civil society concerns about the negative effects of resource extraction, the World Bank Group initiated a review of its role in the extractive industries. This review included internal evaluations, as well as an independent stakeholder consultation process known as the Extractive Industries Review (EIR).

The management’s response to the EIR and accompanying evaluations signaled a critical turning point in the World Bank Group’s engagement in the sector, which had hitherto focused primarily on exploration and development activities, sector policy reform, and commercialization of state-owned enterprises. The EIR called on the World Bank Group to place stronger emphasis on the *governance* dimensions of resource extraction, explicitly requiring governments, companies, and civil society to adhere to transparency and accountability standards. Improved governance in the sector was viewed as essential to mitigating the risks of corruption, revenue misuse, environmental degradation, and human rights violations—all problems that were traditionally linked to the sector.

Although an emphasis on good governance is not new, this central role for governance is unprecedented. Joined with a new “value chain” approach, it is helping the World Bank Group venture into previously

uncharted territory by: (i) fostering greater innovation in supporting client needs at the country level; and (ii) facilitating multi-stakeholder dialogue and problem solving on complex governance challenges in the sector. The latter has opened up new avenues for World Bank Group assistance, particularly in leveraging its strengths as a convener, facilitator, and knowledge broker.

Supporting good governance in resource-rich countries

In an effort to better document and showcase the variety of ways in which country teams are working with different actors on the often-sensitive topic of good governance in the oil, gas, and mining sectors, the World Bank Institute and the World Bank Oil, Gas and Mining Unit (SEGOM) initiated an internal case story competition in 2011. The competition was part of a broader effort, supported by the Governance Partnership Facility, to examine the role of the World Bank Group in promoting good governance in the extractives sector. It also sought to create a platform for internal discussion and reflection on innovative approaches and a way forward.

Through the competition, staff had an opportunity to share their experiences in resource-rich countries, explain the innovative multi-stakeholder approaches used to address complex issues, and distill lessons learned. By documenting these experiences, the units hoped to begin to develop a wealth of knowledge, which could then be leveraged to support country teams grappling with similar issues, particularly in new and emerging producers.

This publication presents four of the finalist case studies, selected on the basis of project: (i) scalability; (ii) replicability; (iii) innovation, and (iv) level of multi-stakeholder collaboration. Each case study focuses on one main initiative or project:

- The *Energia, Ambiente, y Poblacion* (Energy, Environment, and Population—EAP) Program: This program brings together governments from the Andean countries, the oil and gas industry and indigenous organizations, providing an innovative supranational forum for tripartite dialogue and consensus building over the development of the Amazon hydrocarbon sector.
- The Extractive Industries Transparency Initiative (EITI) in the Context of Fragile States: EITI works with governments, companies, investors, international organizations, and civil society to manage a process of publication and verification of company payments and government revenues from oil, gas, and mining. In fragile and

conflict-affected countries, it can act as an effective force in building stability.

- **Strengthening Social Accountability to Improve the Impact of Mining Canon:** This is a project to increase Peruvian public demand for accountability and good governance from the authorities, via operational units known as MIMs (from the Spanish for “Improving Municipal Investment”), so that extractives revenues benefit the poorest in society.
- **The Uganda Sustainable Management of Mineral Resources Project:** A pioneering program to help artisanal miners improve their arduous working conditions and poor incomes. By training officials, miners, and communities, and providing small grants to community groups, the project strengthened governance, transparency, and capacity in the extraction of mineral resources.

The success of each of these initiatives and projects rests on the principle of helping stakeholders to develop trust for one another—an element vital to sharing the benefits of resource extraction and accelerating sustainable development, but one often missing among stakeholders in resource-rich contexts where there are great rewards at stake.

Key Lessons

Key lessons from these initiatives and projects include:

- *Create an effective forum for communication.*
To reduce conflict over natural resources and their extraction requires the creation of an objective, neutral space for institutionalized dialogue and consultation among all stakeholders. For example, EITI positions itself as an honest broker and provides financing for regular collaborative efforts by a multi-stakeholder group to promote transparency in extractives industry revenue flows. To ensure all stakeholders have a fair say, the EAP participants have agreed that their tripartite dialogues must have the required representation from each party at local, national and regional levels.
- *Build stakeholder capacity.*
Ensure all parties are equipped to take part in dialogue on an equal basis. Capacity building and training programs around the extractive industries and transparency are often needed, especially to enable civil society and indigenous peoples’ organizations to participate fully in activities such as consultations and participatory monitoring.

For example, MIMs worked to empower groups most able to have an impact in promoting social accountability, while EAP carried out training for indigenous leaders on project cycles in the hydrocarbon sector. Uganda's artisanal miners received holistic training that covered not only better mining practices but also business skills and environmental protection.

- *Provide credible information.*

Open access to reliable data and information is a key element in building stakeholder trust. Without official, independently verified data in the public domain, it can be difficult—if not impossible—for different parties to engage in constructive dialogue. EITI therefore ensures the publication of reports containing all declared revenue and payment flows, reducing the potential for mistrust. The MIMs use Peru's access to information law to publish communication materials and reports on municipal investment of royalties from resource extraction, reaching different audiences through a variety of channels, from the media to community visits.

- *Show stakeholders how they stand to gain.*

All stakeholders need to feel they gain something useful from engaging with others and are not simply exposing themselves to criticism or potential loss of power. Projects need to achieve a balancing act, being sufficiently critical of stakeholders when appropriate, but not antagonizing them so they feel threatened and react by withholding information or attacking the initiative. In Peru, for example, MIMs encouraged municipal authorities to disclose information by carrying out surveys showing that mayors' performance rating is positively correlated with how willing the public perceives them to be to publish data. In multi-stakeholder meetings at the outset, EITI emphasizes the key interests of the different stakeholders who will be served by the process. Extensive pre-project consultation with Uganda's artisanal mining communities earned their trust and willingness to develop and take part in the program.

These initiatives also show how such approaches can have influence beyond their immediate scope—both in terms of geography and activity. EITI, for example, has provided stimulus for cooperation over peace-building among neighboring countries, as shown by Liberian support for Sierra Leone's lagging EITI implementation process. The Uganda artisanal mining project laid foundations for the development of a national strategy for the advancement of the sector. Such initiatives can also act as a springboard for related activities beyond conflict

prevention and mitigation, to further develop stability around resource extraction. The institutionalized frameworks for dialogue and cooperation that these initiatives establish—and the trust they build—can serve as a foundation for efforts to promote good governance and take a preemptive approach to preventing corruption. In this way, they are able to help channel the potential impact of EI away from fueling conflict and toward sustainable development.

Broad-Based Training and Small Grants:

Changing Lives of Artisanal Miners and Mining Communities in Uganda

By Christopher Gilbert Sheldon

Working in dangerous, arduous conditions, Uganda's artisanal miners (men and women) made a very poor living. Although practitioners worked independently, the Artisanal and Small-Scale Mining (ASM) sector made an important contribution to Uganda's mineral economy. When the country's government sought to modernize its mining industry, the World Bank took part in a sector review that identified necessary reforms. Uganda's government subsequently formulated a National Minerals Policy, and the Bank designed a pioneering project—based on multi-stakeholder input—to support its implementation. Between 2003 and 2011, the Uganda Sustainable Management of Mineral Resources project trained officials, miners and communities, to strengthen governance, transparency and capacity in the management of mineral resources. Its particular emphasis on the improvement of ASM and community development in mining areas transformed the lives of miners and their families, promoting socially and environmentally sound progress. This helped drive the creation of a government strategy to formalize and support the previously ignored ASM sector.

Context

In the late 1990s, to take advantage of renewed interest in mining in Africa, the Government of Uganda sought to transform its mineral sector into a private sector-driven “modern and viable mining industry.” In collaboration with the World Bank, the country's Ministry of Energy and Mineral Development led a review that identified key constraints to sector development, and made recommendations for necessary improvements. A National Minerals Policy, approved in 2001, provided a formal

framework for reform of the mineral sector. This policy was consistent with the World Bank's 2000 Country Assistance Strategy for Uganda, which emphasized the promotion of broad-based private-sector-led growth as one of its core elements.

In response to the policy, the Bank initiated the Sustainable Management of Mineral Resources project, to assist Uganda's government in implementing its mining strategy. The project's aims were twofold:

- To accelerate sustainable development and reduce poverty by strengthening governance, transparency and capacity in the management of mineral resources. This would be carried out with particular emphasis on community development in mining areas and improvement of small-scale and artisanal mining
- To promote socially and environmentally sound development of the minerals sector based on private investments

While Uganda's mining industry includes several large-scale investors, artisanal and small-scale miners produce more than 90 percent of metallic minerals (including gold), industrial minerals (such as gypsum and limestone), and building minerals (such as clay and sand). In Uganda, ASM provides a source of livelihood for nearly 200,000 people, both women and men.

Artisanal miners usually work alone, without collective organization or support. Most barely make a living, and they work in appalling conditions. Limestone miners inhale lime dust and lose a third of their lime through soiling in dirty earth furnaces. Clay miners beat mounds of clay with sticks to remove the air, then make one brick at a time in a single wooden frame. Women salt miners stand waist-deep in abrasive saline water, damaging their skin for US\$2 a day. They have been heavily affected by climate change, seeing their salt pans flooded and incomes fall as a result of heavy rains. Artisanal miners have no training and receive little reward. Forests are depleted to supply wood for brick and limestone furnaces.

Nearly half the Ugandans who work in ASM are women. Their participation varies from 10–25 percent in agriculturally productive areas to up to 90 percent in highly impoverished regions. Women generally face more difficulty than men on several fronts:

- Obtaining mining licenses (especially as this involves travel to government ministry headquarters)
- Combining long ASM working days with domestic responsibilities

- Being bypassed by awareness-raising campaigns about the welfare of ASM workers
- Differences in regard to women’s ability to work as miners, participation in decision-making processes, ownership of radios, language proficiency and literacy

When the project began, the need to support artisanal miners—both women and men—to improve their working practices was acute. This would enable them to develop and diversify their productive capabilities and increase their incomes.

Project Design

The World Bank designed and supported the Sustainable Management of Mineral Resources project with specific community development and ASM components. These comprised:

- *An outreach and training program*
This aimed to raise artisanal and small-scale miners’ awareness of regulatory provisions, mining rights, and environmental and technical issues, and to encourage the creation of mining associations and cooperatives to formalize mining activities.
- *A small grants program*
Community members received small grants to pilot safer, environmentally friendly, and more lucrative small-scale income-generation practices in mining communities. To receive a grant, they had to form a group and be further trained in financial management and procurement.

Project design was not driven by any particular theory of change, but implicitly embraced the World Bank’s then-novel “value-chain approach” for supporting extractive industries. This marked the evolution from a historic emphasis on increasing investment to one promoting sustainable development—e.g., through sound mineral legislation, well-enforced regulation, efficient revenue management, and sustainable socioeconomic benefits. In order to prevent blockages anywhere along the value chain, the project involved stakeholders at each stage, from government officials through to mining-community members (including women) and miners themselves. Stakeholders were consulted over project design and supported in its implementation, ensuring they felt ownership of the work and responsibility for the outcomes.

The project had three main innovative strands:

- *Promotion of local community development:* Several years before such development was mainstreamed into the World Bank's mining-sector work, the project focused not just on miners, but on entire mining communities.
- *Emphasis on holistic training:* When miners described the training they received, they spoke more about community organization, financial management, and marketing than technical mineral processing. The trainers won communities' trust, which allowed them to promote new approaches on gender, health, safety, and the environment.
- *Funding for community projects:* The distribution of small grants supported mining-community ideas on how to improve their quality of life.

Outreach and training program

A project team led by the World Bank's Social and Environmental Unit conducted intensive, highly participatory consultations across a wide range of stakeholders, including artisanal miners, their communities, mining-industry executives, and local and central government officials. These multiple perspectives were fed into the development of an extensive training program to address adverse environmental, safety, and social effects frequently associated with informal small-scale mining. The training covered a wide range of ASM-related topics—including mining methods, legal and regulatory issues, business skills, occupational safety and health, and community development—and was delivered to 200 local government officers, local leaders, miners' leaders, and NGO staff.

Materials included a comprehensive ASM handbook, a toolkit for baseline studies of ASM in mining areas, and a facilitators' guide for community-based training workshops. The team also designed a two-week training-of-trainers (ToT) curriculum and delivered two ToT workshops on improving ASM in Uganda, reaching more than 180 stakeholders from 18 strategic mining districts. More than 1,000 artisanal miners (40 percent of them women) from 17 key mining areas subsequently attended workshops run by the trainers, where they learned practical mining-related skills, from improved methods to better safety and marketing practices.

The project also organized a national conference for key sector stakeholders on improving ASM. This generated a National Strategy for the Advancement of ASM in Uganda, including recommendations for legal

and institutional reform, a costed action plan, and performance indicators for monitoring and evaluation.

The training has resulted in significant livelihood improvements for Uganda's artisanal miners. They now sell their products at increased profits, thanks to greater awareness of market prices, selection of better quality stone and clay inputs, and pooling individual production to attract buyers and sell at a higher price. As a result, average ASM incomes rose from US\$3 per day in 2006 to US\$5–7 per day by late 2011. Miners also enjoy improved working conditions and occupational safety—e.g., supporting shafts with timbers, wearing dust-masks, and not undercutting pit walls in stone quarries.

The project led to the formation of 50 ASM associations to enhance production and marketing efforts. Clay miners, for example, now use machines to increase productivity and produce high-value bricks and energy-efficient stoves, which they market from a main-street shop instead of a pit in the bush. One group improved their production from 500 bricks a day to 2,000. Some of these associations operated so successfully that they formed joint ventures with international mining companies.

ASM revenues are now used in better ways, such as increased savings and investment in other businesses, from agriculture to motorcycle taxis. Several miners' groups founded Village Savings and Loan Associations to provide security for members through small loans that they could use to pay for housing, school fees, or family emergencies, for example. Community leaders reported enhanced family and community savings after the project and a decrease in drinking, as miners became aware of the limited nature of the resources and were equipped with business and planning skills. The ASM training also raised awareness of the need for proper disposal of human waste, restoration of mining sites, and growing trees for firewood used in kilns. Miners' lives have been transformed.

Small grants program

By distributing small grants, the project aimed to support ideas that emerged from the training on how to improve quality of life for miners, their families, and their communities. The grants helped miners and community groups improve livelihoods and occupational safety, and reduce the environmental damage caused by ASM. As a pilot, 18 small grants were awarded to groups such as miners' collectives and churches, worth a total of 200 million Ugandan shillings (US\$90,000). Recipients were trained in management, governance, procurement, and gender

equity. As a result, women constituted about 40 percent of the grant entities' membership, with management committees often made up of more women than men. Grantees contributed 30 percent of their subproject cost in kind. Governance challenges were addressed by building a sense of shared accountability for results and by supporting the organizational structure and processes through appropriate training. The second tranche of funding was disbursed only once accountability and governance standards had been assured for the first.

Nearly half of grantees reported average to significant benefits from the program, including increased productivity, incomes, and creditworthiness. Community organizations have planted tens of thousands of trees to rehabilitate the environment and provide sustainable fuel for lime furnaces. One church congregation planted 13,000 acacia trees, bought a water pump for dry season irrigation and a community water tank, and created local jobs to maintain the planted area and guard it from elephants. Elsewhere, 30 limestone miners who previously worked alone came together and used their grant to build a clay brick furnace to produce high-quality lime for industry. Their collective bargaining power has raised prices, enabling them to create a savings scheme. The salt-mining women used their grant to purchase hoes, spades, pegs, and grass to rebuild their salt pans. They now earn enough money to send their children to school, and have bought a tent with their profits to rent out for local events. This provides an income during the wet season, when salt production is low.

The grants scheme laid the foundations for mainstreaming ASM into national and local economic development. Local governments in mining areas began to collect revenue from ASM operations, which is expected to provide an incentive for mining to be integrated into district and sub-county development plans. Lost royalties from informal, unlicensed ASM operations had been estimated at up to US\$3.6 million in 2011. The project resulted in a dramatic increase in the issue of licenses. Against a baseline of 100 and a target of 300, more than 950 ASM licenses were issued between 2005 and the end of 2011. Almost 400 were granted in 2011 alone, and an additional 139 were issued in the first quarter of 2012.

Uganda's output of cement and limestone also rose significantly. Both are produced mostly by ASM operators, suggesting that the project's activities drove these increases. Between 2003 and 2010, cement production almost tripled, from 500,000 to 1.4 million tons, and limestone production more than doubled, from 226,000 to 635,000 tons.

Lessons Learned

The success of the Uganda Sustainable Management of Mineral Resources project lay in the fact that it involved and benefited miners, wider communities, and government at local and national levels. Its implementation provided several key lessons:

a) *Take a holistic, multi-stakeholder approach.*

The project highlighted the need to approach mining sector development from different, interrelated angles. Multi-stakeholder consultation and involvement were keys to its success, ensuring that at every stage of the value chain, stakeholders' knowledge was used to help shape and implement the solutions. Effective development requires—in parallel—reform of the sector's institutional and regulatory framework, capacity building of government officials to improve governance, and training of small-scale miners to redress adverse environmental, social, and economic conditions typically associated with informal mining.

b) *Include a dedicated gender element.*

The project reduced restrictions on women's participation in the mineral sector, both in practice and in the new draft mineral policy. Without an overt, specific gender element, it would not have reached as many women miners and community members and ensured their participation in its training and small grants management. The project accomplished gender mainstreaming through extensive, participatory consultations and training. Its impact on communities' standard of living testifies to the importance of ensuring women's voices are heard in ASM improvement programs and that they are given the skills to improve their working lives. This gender sensitivity and emphasis on equitable access, control and benefit from mineral resources represented uncharted territory at the time. These elements culminated in 2009 in the formulation of a national "Guidance Strategy for the Promotion of Gender Equity in Mining in Uganda," to supplement the country's ASM strategy by emphasizing gender-specific needs.

c) *Make realistic estimates of costs, timing, and financing requirements.*

Several factors contributed to delays in project implementation. These could have been anticipated. They include:

- Delays were caused by complex procurement procedures and the need to harmonize Uganda's national public procurement guidelines with the procurement guidelines of the project's four financiers (World Bank, African Development Bank, International

Development Association, and Nordic Development Fund). Subsequent preparation of a simplified Community Procurement Manual was delayed by lengthy discussions as to whether communities should be carrying out procurement.

- Contract prices were under-budgeted, due to inflation and under-estimation of quantities. Several grantees were unable to complete their activities as planned because of double-digit inflation, which rendered the grant amounts insufficient to cover actual subproject costs.
- There was no contingency for delays beyond project control—e.g., a nearly one-year delay in the Ugandan Parliament’s approval of an Additional Financing Credit approved by the World Bank’s Board of Directors in September 2009.

As a result of these delays, the project closing date was extended twice by a total of 30 months, from June 2009 to December 2011.

Replicating Success

By recognizing the importance of ASM in reducing poverty and accelerating sustainable rural development, the project made a groundbreaking contribution toward the advancement of Uganda’s ASM sector. It paved the way for formalization and legalization on the national level—prerequisites to enhanced local royalty collection and improved environmental, safety, and social conditions. Building on international best practice, the project developed and began to implement a strategic multi-stakeholder approach that engaged policy makers, national and subnational governments, and mining communities in tackling ASM operations. This inclusive approach across the value chain was central to improving artisanal and small-scale miners’ livelihoods.

Uganda’s new ASM policies—which emerged from the project—must be embedded and implemented before the sector’s impact on local and national development is sufficiently recognized. However, the project’s creation and partial implementation of a blueprint for the advancement of ASM constituted crucial pioneer work. Its multi-stakeholder approach, combining training and grants, could be applied to artisanal mining sectors in other locations and countries. It could also help transform different sectors in which individual small-scale artisans or producers lack acceptable working conditions and knowledge to organize and earn a living wage. The project thus laid an important foundation for further work in this field.

The EAP Tripartite Dialogues:

Energy, Environment, and Population in the Sub-Andean Basin

By Alonso Zarzar Casis

The *Energía, Ambiente, y Población* (EAP) Program is a World Bank initiative developed to address the challenges presented by the oil and gas industry in the culturally and ecologically sensitive Amazon Basin. It brings together governments from the Andean nations, the oil and gas industry, and indigenous organizations, providing an innovative forum for tripartite dialogue and consensus building over the development of the hydrocarbon sector in these countries.

Context

Culturally varied and now-vulnerable indigenous societies have lived in the fragile, biologically diverse Amazon rain forest for thousands of years. In such a context, the development of high-standard extractive industries is extremely challenging in logistical, environmental, and social terms—both for the industry and for governments that must monitor it. The authorities must enforce environmental, social, and human rights legislation, including international treaties such as International Labour Organization Convention 169, which protects the rights of indigenous peoples, as well as their own regulations concerning free, prior, and informed consultation with indigenous populations.

In response to these challenges, the World Bank created EAP (meaning in Spanish “Energy, Environment, and Population”) as a sustained effort to build trust among the stakeholders involved in oil and gas industry development, and help them better understand and address each other’s needs.

Project Design

Through dialogue and initiatives, EAP aims to promote development of the hydrocarbon industry in a way compatible with the sustainable development of the Amazon region. Its overall objective is to raise the social and environmental standards of the oil and gas industry in this vulnerable context, through the creation of trust and mutual understanding among governments, industry, and indigenous peoples. Through meetings and conferences, EAP offers them a unique space for communication and analysis at the regional level, so they can jointly review difficulties and challenges experienced by the oil and gas industry in managing its environmental and social impacts. By sharing participants' experiences and enabling comparative analysis, it aims to help parties find concrete solutions. These in turn can be applied at the national level by each of the participating nations.

Involving five countries (Bolivia, Colombia, Ecuador, Peru, and Venezuela), EAP is the only forum in the Andean region that brings together governments, industry, and indigenous peoples at the supranational level. It allows them freedom to discuss, agree, and plan specific activities to improve the social accountability of the oil and gas sector. The initiative was inspired by the “Harvard Dialogues on Oil in Fragile Environments” developed during the 1990s, in which the World Bank was represented. These aimed to promote better understanding among the oil industry, international conservation NGOs, and multilateral institutions—and specifically to discuss the most pressing issues around oil extraction in fragile environments such as the Amazon Basin. However, the dialogues lacked adequate participation by governments and representatives of indigenous peoples.

In response, the World Bank's Oil and Gas Department and the Social Development Unit of its Latin American and Caribbean division launched EAP in 1999. These units have since promoted and supported it, although program ownership lies with its three main actors:

- Indigenous leadership of the Amazon Basin, represented by the *Coordinadora Indígena de la Cuenca Amazónica* (COICA), as well as the national federations, including non-members of COICA
- Governments of the Andean countries represented by OLADE (*Organización Latinoamericana de Energía*) and their ministries of energy and the environment, as well as state institutions responsible for indigenous affairs

- The oil and gas industry in the Amazon Basin (both private and public companies), represented by ARPEL (*Asociación Regional de Compañías del Sector de Petróleo, Gas y Biocombustibles en América Latina y el Caribe*)

The decision-making process lies with these actors, while the role of the Bank has been to promote the process, provide technical guidance, act as a facilitator, and raise financial support through international development assistance. With two phases (1999–2003 and 2007–10), the EAP tripartite dialogue is among the longest standing of the Bank's programs in terms of engagement with high-level indigenous leadership (a total of nine years in an 11-year span). The first EAP phase ended because of a request from COICA to make the program a space for negotiating national agreements. This was not possible owing to the regional nature of the tripartite dialogues, which lacked national jurisdiction. The second phase was launched after internal elections to the COICA board, resulting in new members requesting that the EAP be reopened. On both occasions, the Bank consulted government and industry actors before taking steps to close or relaunch the program.

The EAP program began by creating a small committee with representatives from the three actors, responsible for preparing a draft working agenda. This was to be discussed and approved annually at a plenary session held in rotating host countries. EAP is based on several principles to which all parties agreed. These include recognition of each party's interests and respect for their internal decision-making processes; ensuring effective representation of each party; voluntary participation, and consensus-driven selection of issues, work dynamics and processes.

The EAP framework has provided an innovative *modus operandi* by which the three main actors in the hydrocarbon sector have identified the most critical issues they face collectively, in terms of the interests, visions, and concerns of each party. In response to the key governance challenges facing oil and gas exploration in the Andean Amazon, the tripartite dialogue identified nine priority issues to address through studies and proposals:

1. Institutional strengthening of the involved parties
2. Mechanisms and processes for consultation with indigenous peoples
3. Participatory monitoring of the industry's environmental and social impacts
4. Oil rent distribution and benefit sharing
5. Compensation principles and methodologies

6. Management and resolution of conflicts
7. Regulation of protected areas regarding oil and gas activities
8. Sustainable development at the local level
9. Treatment and solution of environmental liabilities

During its two phases, the program managed to complete the first four tasks successfully. The remainder remained unaddressed, as sufficient funding could not be raised from donors. During the second phase, at COICA's request, the EAP program itself was subjected to consultation with indigenous leaders representing local federations. This was an unexpected development, but fortunately government and industry actors agreed, as long as they were allowed to participate in the consultation process. Consultations took place in Colombia and Peru in 2010, including representatives of local indigenous federations for the first time. As a result, the three actors agreed:

- The tripartite dialogues must have the required representation at each instance (local, national, regional) and whenever possible there should be continuity in participants.
- Dialogues at all levels should reach agreement by consensus, which should be binding, including compliance schedules that would enable parties to meet their responsibilities.
- The tripartite dialogues should continue, including precise recommendations reached by consensus on the way these should be prepared and conducted.

Despite the difficulty involved in reaching binding consensus on all agreements, the inclusion of local indigenous representatives made the agreed-upon framework a significant step forward in oil-industry accountability to the populations it affects. The program identified the priority issues mentioned above, through analytical and comparative papers and publications (including publications from the Bank's Energy Sector Management Assistance Program (ESMAP), covering social and environmental aspects). It also delivered workshops and capacity-building programs on:

- Environmental and social regulations of oil and gas operations in sensitive areas of the Sub-Andean Basin
- Project cycles in the hydrocarbon sector (training for indigenous leaders)

- A study on oil rent distribution in Bolivia, Colombia, Ecuador and Peru
- Analysis of the free, prior and informed consultation processes with indigenous peoples in Bolivia, Colombia, Ecuador and Peru
- Proposals for the participatory monitoring of the oil and gas industry in Bolivia, Colombia, Ecuador and Peru

EAP aimed for recognition as a mechanism for the prevention and resolution of conflicts in areas where the industry operates. It also intended that the recommendations emerging from improved consultation and participation of indigenous peoples would become and remain industry standards for the Amazon Basin. So far, only the Colombian and Peruvian tripartite dialogues are being shaped according to EAP principles and dynamics. However, EAP has been helpful in creating references and standards regarding:

- The consultation process with indigenous peoples in the region, through analysis of existing consultation processes and countries' legal frameworks
- Participatory monitoring of the oil and gas industry, through the analysis of actual participatory monitoring and countries' legal frameworks
- The creation of trust between the three main actors, through 11 years of open dialogue, workshops and regional tripartite conferences and meetings
- Building understanding among indigenous leadership about how the oil industry operates, through workshops and scholarships
- The establishment of procedures and mechanisms for the realization of the national tripartite dialogues, in particular in Colombia and Peru

Lessons Learned

Although not all countries are yet applying EAP principles internally, key lessons have emerged from the process to date. These include:

a) Broaden the scope for dialogue.

The recommendations for improving the tripartite dialogues are sound and must be applied to the search for solutions to the numerous and sometimes violent ongoing social conflicts in the extractive industries in the region.

b) Promote adequate government funding.

It is essential that governments allocate more funds to complete and

disseminate precise regulations for consultations with indigenous peoples before issuing oil licenses. These should establish adequate norms for maintaining interactive tripartite dialogues at regional, national and local levels.

c) Encourage a united approach by each government.

Each government should develop strategies that enable it to act in the consultation process under a unified voice, so that divergent viewpoints between ministries (such as for energy and the environment) can be overcome. This will require collaboration between different ministries, sector entities, and provincial and local authorities.

d) Ensure independent consultation.

In order to maintain objectivity and prevent conflicts of interest, the consultation process should be conducted by a government entity that does not belong to the hydrocarbon sector (e.g., the environment ministry or a related agency).

e) Build indigenous capacity.

Capacity building and training programs are badly needed to enable indigenous peoples' organizations to participate actively in the consultation process, as well as in the participatory monitoring of the oil and gas industry.

Despite the serious challenges EAP faced in consensus building during its implementation, it reached recommendations both for improving the national tripartite dialogues and for seeking solutions to the numerous and sometimes violent social conflicts in the region's extractive industries. These recommendations were summarized by participants in the last EAP Regional Meeting in Bogota in November 2010: "The tripartite dialogues are means to exchange information, meet the concerns of the parties, discuss common problems and reach consensus that will serve as a model for improving regulations and practices under which businesses operate and, generally, improve industry contributions to sustainable development and the quality of life of Indigenous Peoples in the Amazon region."

Replicating Success

The EAP faces ongoing challenges in relation to its sustainability and its goal of reaching the whole Sub-Andean basin. It therefore needs to maintain momentum and increase the funding it receives for agreed-to activities, as well as new ones. It also needs to support the leadership in each

of the three parties and enhance the role of governments and the quality of their intervention.

These challenges can be properly addressed only with sufficient funding and commitment from the three actors, but in particular from governments and the World Bank. So far, EAP funding has been provided entirely by international development agencies (the Canadian International Development Agency and the Norwegian Trust Fund).

It is clear that such a tripartite experience can and should be considered for other extractive industries that face significant challenges in the region, such as mining, or even for less invasive interventions such as hydropower or wind power. The tripartite dialogues have been proved useful in setting up an agreed-upon working agenda, a common set of principles to govern interactions between the main actors, and a shared set of goals that can contribute to the sustainability of the sector and the wellbeing of local communities.

In particular, this type of program should be implemented whenever indigenous peoples are affected. Through the tripartite dialogues, indigenous peoples can represent themselves without the intervention of brokers; their voices can be heard directly, and their interests given careful consideration. At the same time, they can be part of a wider discussion on the sustainability of the sector and issues of corporate social responsibility. The dialogues are therefore an effective way to shape interaction between the main actors. They represent an opportunity to deal consensually with issues ranging from consultation to compensation, from participatory monitoring to sustainability, and from entrepreneurial partnership to poverty alleviation.

Combating the Resource Curse:

The Role of the Extractive Industries Transparency Initiative in Fragile and Conflict-Affected States

By Georg Caspary and Verena Seiler

Misuse of funds from the extractive industries is at the root of many conflicts in resource-rich countries—most famously, several wars fought in part over access to oil in the Middle East and wars fueled by “blood diamonds” in West Africa. The Extractive Industries Transparency Initiative (EITI), launched in 2002 at the World Summit on Sustainable Development in South Africa, and endorsed by the World Bank in 2003, has provided tangible governance improvements in these countries. It works with multiple stakeholders—a coalition of governments, companies, investors, international organizations and Civil Society Organizations (CSOs)—to manage a process of publication and verification of company payments and government revenues from oil, gas and mining. Implementing EITI in these countries means tackling the very root of these resource-related conflicts, which bears a number of challenges. Lessons drawn from the EITI experience in conflict-affected countries may inform implementers of other World Bank programs in similar conflict-affected contexts.

Context

About 3.5 billion people live in countries rich in oil, gas, and minerals. With good governance, the exploitation of these resources can generate large revenues to foster economic growth and reduce poverty. However, when governance is weak, such resource revenues may result in corruption and potentially even conflict, as groups fight over access to these resources or the associated revenue. This can make poverty deeper and

more widespread than before the resources were discovered. Natural resources may also help finance one or several of the warring factions, thus leading to political instability and weak state structures.¹ Several EITI implementing countries have experienced resource-related conflicts in the past, including Liberia, Sierra Leone, Timor Leste, Iraq, and Afghanistan, among others.

EITI facilitates oversight and control by civil society over wealth generated by natural resources. It limits corruption, thus reducing the risk of post-conflict countries relapsing into fighting. In this way, EITI contributes to wider peace and reconciliation processes in post-conflict situations.

Project Design

EITI aims to strengthen governance by improving transparency and accountability in the extractives sector. It is a global standard that promotes revenue transparency and has a robust yet flexible methodology for monitoring and reconciling company payments and government revenues at the country level. The so-called ‘reconciliation’ process consists of an independent auditor collecting, for a given period, government data on payments from extractive industry companies and company data on payments to government. Theoretically, these data should match. Where they do not, the discrepancy will have to be explained (e.g. a government and companies may each have ‘categorized’ certain payments differently). Where no convincing explanation to a discrepancy between receipts and payments can be found, civil society will demand answers with respect to what happened to the relevant funds.

Each implementing country creates its own EITI process, which is overseen by participants from the government, companies, and national civil society. The international EITI Board and the International Secretariat are the guardians of the EITI methodology globally. The World Bank Group and other donor agencies provide technical and financial assistance to almost all countries implementing EITI across five continents. The Group administers the Multi-Donor Trust Fund and supports EITI-implementing countries by making specialist advisers and consultants

¹ The World Bank uses the term “fragile states” for countries facing particularly severe development challenges: weak institutional capacity, poor governance, and political instability. Often these countries experience ongoing violence as the residue of past severe conflict. Ongoing armed conflicts affect three out of four fragile states. <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/STRATEGIES/EXTLICUS/0,,contentMDK:22230573~pagePK:64171531~menuPK:4448982~piPK:64171507~theSitePK:511778,00.html>

available to governments, sharing international best practice, and providing grants to governments to help support EITI implementation. More precisely, the World Bank helps at the country and global levels in several ways:

- At the level of implementing countries, it builds consensus for EITI among stakeholders at the start of the process and throughout; provides technical and financial support for EITI implementation, and ensures that the process leads to EITI “compliant” status (validation).
- At the international level, it ensures knowledge dissemination and sharing of best practice; delivers hands-on EITI implementation training, and provides support for subregional collaboration and learning.

A fundamental principle of the initiative is its participative multi-stakeholder approach. CSOs and extractive industry (EI) companies are actively involved in governing the process. In post-conflict situations, it is often particularly difficult to bring on board all the stakeholders necessary for project implementation. There might be deep mistrust between stakeholders—especially if the extractive industries played an important role in the conflict—making companies and governments particularly reluctant to disclose their payment and revenue flows. CSOs are also often weakened and traumatized by their former relationship with governments. The World Bank therefore works particularly with civil society to ensure it feels capable of participating in EITI. It does so by financing and delivering training—with partners—both on the general effectiveness of CSO work and on the specifics of financial transparency and the extractive industries.

EITI frequently succeeds in getting stakeholders to participate where previous governance efforts have not. It does so by emphasizing the key interests of the different stakeholders who will be served by EITI. This is usually done in multi-stakeholder meetings early in the process, in which the World Bank presents EITI and what it can offer to each set of stakeholders. Frequently local civil society and international companies with strong existing transparency structures react positively, whereas local companies are often worried about the high reporting burden EITI brings. The key in these cases has been to highlight the specific advantages to be gained by each group from EITI implementation:

- CSOs such as members of the international Publish What you Pay coalition or national chapters of Transparency International usually have a natural interest in EITI, because it makes governments and

companies more accountable to the country's citizens and is a crucial step toward the broader sharing of the gains from natural resources.

- *Governments* can use EITI implementation to demonstrate to their own people the benefits derived from large and sometimes controversial EI projects, to improve creditworthiness and to achieve a recognized stamp of approval for good governance. The continuing improvement of sector governance is emerging in almost all EITI countries. It is especially visible in reforming countries such as Mongolia and Ghana.
- *Companies* can prove via EITI that they are contributing financially to the development of the country. In Liberia, for instance, EITI implementation allowed Arcelor Mittal Liberia to show publicly that it contributes 75 percent of the total tax and royalties from the oil, gas, mining, and forestry sectors, and is meeting all tax and royalty requirements.

Such arguments need to be tailored to specific country circumstances. In Sierra Leone, for example, the process was driven mostly by a strong civil society, while in Equatorial Guinea it was driven by large western oil companies that did not want to be seen operating in an opaque environment. Ultimately, when each stakeholder understands how its own interest is served by EITI implementation, they all begin to understand their common interest in it as well—namely, that common ownership of natural resource data avoids capture of these resources (and ultimately of the state) by factions prone to fighting with each other. EITI also provides them with a remarkably stable discussion platform. For instance, despite the remaining social and regional fissures in Iraq, representatives of the Kurdish areas were successfully brought into the process through continued dialogue. As a result a specific chapter on the Kurdish Region was integrated in the Iraq EITI Report. Kurdish representatives and Iraq's nascent CSOs see the benefit of actively engaging in EITI because it serves as a convening forum where few, if any, alternatives exist for such dialogue, and as a springboard for concrete actions on transparency and better governance.

Lessons Learned

Working with fragile states, the World Bank team assisting EITI countries with implementation has had to adapt to the sensitive context in which these projects operate. The EITI structures proved to be particularly well-suited to function under the difficult conditions faced by fragile and

conflict-affected states. The team's experiences revealed several lessons behind the EITI's success:

a) *Create a platform for institutionalized dialogue.*

In post-conflict situations, distrust still exists among stakeholders, particularly those from opposing sides during the conflict. EITI provides a neutral platform for institutionalized dialogue and can facilitate—as an honest broker and through financing—regular collaborative efforts by a multi-stakeholder group. This can be done, for example, by providing initial capacity building (notably for CSOs) about the extractives sector and financial transparency issues, by overseeing the collection and comparison of revenue and payments data, and by identifying gaps in implementation that might hinder eventual successful EITI validation of the country. The multi-stakeholder platform helps strengthen democracy, restore shattered trust, and prevent a relapse into civil war. In this way, EITI becomes a vehicle for encouraging stability and sustainability in post-conflict situations. It is credited recently with having contributed to maintaining a level of stability in several prominent post-conflict countries, including Afghanistan and Iraq.

b) *Provide a credible source of verified data, building stakeholder trust.*

In post-conflict situations—in particular where the conflict was about “who gets what” in terms of natural resources—reliable official data concerning the EI sector is rarely available in the public domain. Without having the data verified by an independent body, it is difficult, if not impossible, for the different parties to have a constructive dialogue.

To reduce the potential for recriminations and mistrust, EITI ensures the publication of reports containing all declared revenue and payment flows. In order for stakeholders with divergent interests to cooperate on sensitive subjects, there must be unambiguous and reliable data to serve as a basis for dialogue. EITI places immensely rich data and information in the public domain, but for this to be possible, all stakeholders must agree on an independent auditor or reconciler to validate the sensitive data. This ensures that its accuracy is guaranteed and that all discrepancies will be questioned and disclosed, allowing for joint planning over how natural resource proceeds can be used toward peace-building and poverty reduction.

c) *Take a preemptive approach to prevent corruption.*

In post-conflict situations, corruption often remains a huge problem—especially in resource-rich countries. Traditional anti-corruption measures rely on commissions or courts, which carry great potential

for conflict by “cornering” perpetrators, who may respond with bribery—or worse, recourse to arms.

EITI reduces the opportunity for corruption by obliging companies and governments to disclose revenue flows, rather than going after corruption retroactively. Given this stabilizing function, EITI has sometimes been the only remaining platform for cooperation in a country during conflict. This has been the case in Madagascar, where EITI is regarded as a bastion of multi-stakeholder cooperation and transparency in a time of opacity following the 2009 coup. For example, a US\$100 million bonus paid by a Chinese company (Wisco) to the government for an iron ore mining research permit had been the center of much speculation since the beginning of the crisis, and was disclosed without discrepancy in the latest report.

d) Provide stimulus for cooperation over peace-building among neighboring countries.

Conflicts over natural resources often involve neighboring countries. Even in post-conflict situations, lingering grievances may prevent deeper efforts toward peace building. To create a basis for further cooperation and even regional integration, EITI allows discussion of precise, technical topics (such as the management of the natural resource sector) and provides a platform for regional knowledge sharing. Such cooperation on a similarly technical topic—coal and steel—allowed for regional cooperation between former warring countries in postwar Europe in the 1950s. This paved the way for regional integration, leading to the European Union. Such regional cooperation is essential for a stable political environment. Countries more advanced in EITI implementation can help others, as was the case with Liberia’s assistance to Sierra Leone in 2010–11. Several encounters and study tours for EITI implementers from both countries helped Sierra Leone understand how to move forward successfully, so its EITI implementation eventually gathered pace.

e) Be a springboard for relevant related governance efforts.

In post-conflict countries, resource governance problems may go well beyond the need for transparency of revenue flows, into other realms of the EI value chain—the “chain” of stages by which natural resources are turned into development (see figure).

The institutionalized EITI implementation framework—multi-stakeholder group, independent reconciler, capacitated CSOs and reliable

Extractive Industries Value Chain: Five Stages for Turning Natural Resources into Development



data on revenue flows—can be used to intervene subsequently at other levels of the extractive industries value chain. Thus, EITI often becomes a springboard for broader reform, as was the case in Liberia, which went far beyond EITI to pass a comprehensive natural resource management law. Whether to extend EITI—and to which levels of the EI value chain—is a country-specific decision. This can eventually lead to more transparent negotiations of contracts between the government and companies operating in the extractive industries, or to better monitoring of EI firms’ activities.

Replicating Success

After more than 10 years in existence, EITI has been successfully implemented in a number of resource-rich fragile and conflict-affected states (including Liberia, Sierra Leone, Afghanistan, Iraq, and Timor Leste). EITI has accompanied several of them on the path to functioning, relatively stable democracies.

There are, of course, instances where the path has been rockier. In some fragile and conflict-affected states, such as Chad, EITI implementation has become so slow as to call into question its eventual success. There, the government has for many months not released data to the audit firm, even long after EI companies had done so. Yemen, despite having achieved compliance, has for a long time experienced a difficult dynamic between CSOs and the government, which also slows EITI progress.

However, EITI’s considerable contribution to good governance in several of the most fragile and conflict-affected countries has helped it become an internationally recognized brand. As Negbalee Warner, EITI National Coordinator in Liberia, points out, “. . . through this process, suspicion and distrust are being reduced, helping to defuse the tensions that led to conflict in the past.” As an increasing number of countries

successfully implement EITI, this lays the groundwork for the next steps of good governance, such as transparent contract awards and licensing, which further scale up the initiative.

The World Bank is currently designing assistance strategies for EITI implementation at the subnational level by applying the initiative's principles and criteria to provincial or district revenue flows. In essence, this means the adjustment of the data-reconciliation methodology to revenue and payment flows between national and subnational levels (rather than between governments and companies, as in the traditional EITI data reconciliation methodology). Revenue sharing between federal and regional levels is often a sensitive issue due to the geographic concentration of natural resources. EITI methodology makes transparent the resource flow, in turn allowing for an informed discussion about wealth sharing between national representatives and representatives from the respective resource-rich regions. This is crucial for stability, as regional representatives often believe their region does not get a fair share of "its" resource wealth, leading to grievances or even violent independence movements. As shown in Indonesia, with the independence war in Timor Leste and more recently in Aceh, subnational EITI holds significant potential to help stabilize the conflict-prone regions of implementing countries.

Promoting Dialogue and Building Trust in Peru:

Strengthening Social Accountability to Improve the Impact of Mining Canon

By Fernando Ruiz Mier

Extractive Industries (EI) have contributed significantly to Peru's growth in the 2000s, with oil, gas, and mining projects generating substantial government income. A notable portion of these revenues are transferred to municipal governments in extractive regions, which contain many of the country's poorest communities. Invested well, these royalties could lift such communities out of poverty. However, local governments often lack capacity to invest the revenues in projects providing tangible benefits for their citizens. Instead, the contrast between the wealth from EI and local poverty helps fuel social conflict.

To reduce inequality and increase the social impact of local government investments, the International Finance Corporation (IFC) saw a vital need to strengthen public demand for accountability and good governance from the authorities. In response, in 2005, it launched an initiative to promote accountability in Peru, so that extractives revenues would benefit the poorest in society. The project, "Strengthening Social Accountability to improve the impact of Mining Canon," provides stakeholders with the information, tools, and training to facilitate open, informed discussion of how resources are invested, and to monitor investments to ensure accountability and effective results.

Context

Over the period 2006–09 a significant portion of Peru's royalties and taxes from oil, gas, and mining, amounting to approximately US\$4 billion, were transferred to municipal governments located in 10 key extractive regions. Royalty transfers ("mining canon") to extractive regions are expected to average about US\$1 billion a year for some

time—and potentially to increase, given the significant investment being made in extractives in Peru.

Many communities in municipalities that receive royalty transfers are among the country's poorest. They are often located in remote areas and lack access to basic services, with a high percentage of their populations malnourished. The royalties received by municipalities represent a great opportunity: Invested well, these resources can lift communities out of poverty and have a significant impact in improving people's lives. Yet the contrast between the wealth generated by EI and the prevalent levels of poverty helps fuel social conflict. Local governments, for the most part, lack the necessary skills and procedures to invest the revenues in projects that provide tangible benefits for residents.

Often, a lack of good information, competence, and interest on the part of local authorities means investments do not respond to people's most pressing needs, or are not undertaken in the most cost-effective and efficient manner. Rarely do the authorities inform the public about how resources are being used. Civil society's limited capacity to make its voice heard and to hold municipal officials accountable contributes to weak governance. In turn, this means that potential benefits that could accrue to communities from EI activities are not fully realized. In general, stakeholders have limited access to information about royalties and municipal investment, and their participation in municipal decisions has been very limited or nonexistent. They are often not able to exercise their right to information (enshrined in Peru's freedom of information law), nor engage in any significant manner with their local authorities. In particular:

- *The general population* shows a low degree of understanding of royalties and municipal investment and is not widely aware of its right to request information from the authorities. People feel distanced from their local government and do not know how to engage municipal authorities or make their collective voice heard effectively.
- *Opinion leaders* are ill-informed and have shown little interest in following municipal decisions and engaging the authorities. While they have been concerned about resource use, they lacked clear understanding of the situation and did not see their potential role as drivers of change.
- *Surveillance committees* (oversight groups established by law to monitor investment projects) are not well organized, lack resources, do not know how to oversee municipal investment, and have no support. They have often been ineffective or ignored when trying to obtain information from the authorities. Discouraged, most do little.

- *Local media* generally do not recognize the opportunity that royalty transfers represent for the municipality to address pressing needs. Coverage of canon transfers and municipal investment is sparse and the little information provided is often distorted and presented with a sensationalist slant. Local journalists have little knowledge of the nature of mining canon transfers and of municipal investment, and little incentive to cover those topics. More importantly, journalists do not see the role they could play as drivers of change contributing to good resource use.
- *Local authorities* rarely inform their populations about royalty transfers or the state of municipal investment. The prevailing view has been that the less is known about municipal resource management, the less will have to be explained to the population and political opponents.

IFC therefore saw a vital need to strengthen public demand for accountability and good governance, in order to increase the responsiveness and accountability of local governments, and increase the positive social impact of their investments.

Project Design

In response, IFC in 2005 began a pilot initiative to promote social accountability in Peru. It was launched to help ensure that payments made to the authorities by a particular investment client (a mine) could be used in a way that benefited the local population. This later turned into a wider-ranging project, “Strengthening Social Accountability to Improve the Impact of Mining Canon.” The project focused on providing the information, tools, and training to facilitate a more open, informed discussion of how resources are and should be invested. It also addressed the necessary degree of oversight from society to ensure accountability and effective results.

IFC led the initiative, developing methodologies and tools, convening local institutions and helping them get organized. The project established operational units known as MIMs (from the Spanish, *Mejorando la Inversión Municipal*—Improving Municipal Investment). These were made up of representatives from 30 well-known local civil society organizations in five regions in Peru (Cajamarca, Ancash, Tacna, Moquegua, and Puno). The IFC sought to involve well-established local institutions that represented different groups and could help bring technical credibility to the initiative. It took care to include groups that could contribute to the discussion from different perspectives, including academic, entrepreneurial, and professional. Local institutions from universities and regional

chambers of commerce, to professional associations (such as economists, engineers, lawyers) and NGOs were involved.

Their purpose is to enhance communities' capability to demand accountability from 12 local governments, and to promote better relations between civil society and local authorities in order to improve transparency and accountability. Operated by small technical teams of young professionals (employed by the project), with the support of volunteers, the MIMs' role is to engage the authorities, the public and the media in open, transparent dialogue about the use of mining canon resources. With IFC support, the MIMs collect and disseminate information, and help build key players' capacity to use it for the social good. Their key activities include:

- *Systematization and dissemination of information*: To promote increased awareness and understanding of royalties, municipal investment, and the public right to information, the MIMs prepare a variety of publications and communication materials targeting different groups. These include bulletins, information sheets, educational material, cartoon strips and citizen report cards. They reach different audiences through a variety of channels, including public events, the media (press, radio, and TV), a website and an online newsletter, and visits to leaders and communities (involving theater, games, and displays such as bulletin boards).
- *Building key players' capacity*: The project also focused on empowering groups within the population most able to have an impact in promoting social accountability. MIMs work with:
 - Local leaders: Providing updated information through regular visits, so they are aware of their role in helping ensure good use of resources and have an informed voice that can influence municipal decision-making effectively.
 - The media: Providing training workshops and a constant flow of information to increase understanding of royalties and municipal investment, and to provide journalists with tools so they can contribute more effectively to increased accountability.
 - Surveillance committees: Helping them organize into networks, adopt a common monitoring methodology for reporting, and act as a group so they are more effective when engaging local governments.
 - Civil society groups (including women's organizations): Helping them to provide feedback and voice opinions on municipal service

provision (such as water, education, waste management, security, and social programs).

- o Local authorities: Providing them with feedback via surveys on the population's perception of municipal management, investments and accountability, and citizen report cards with people's evaluation of service provision. The MIMs also channel direct questions from the population on the use of royalties.

The project is innovative in its engagement of Civil Society Organizations (CSOs) from sectors generally not involved in this type of project, such as academia, the professions, and businesses. It also makes extensive use of surveys to monitor how access to information, understanding of royalties and investment, and people's recognition of their right to information are evolving. Surveys help track the population's perception of the local government's performance, in particular in its transparency and willingness to disclose information. Two particular innovations stand out:

- *Providing feedback to mayors*

The project has provided channels for the population to make its voice heard, and for the authorities to receive feedback. Survey results give them information on how they and their management of investment are perceived. Citizen report cards provide information on how the public sees key services. By channeling questions from the population to their mayors (collected via the Internet, at public events and during community visits), the project enables the authorities to respond to and understand people's concerns. "At first we thought we had to defend ourselves from MIM's publications. Now we understand these are survey results and unfortunately this is the way people think of us. MIM provides us with a decision-making tool," says one local official in the municipality of La Encañada.

- *Leveraging comparisons to introduce improvements*

MIMs compare results across municipalities to provide a reference that helps civil society interpret information. Rankings on how municipalities perform in different categories are published in order to motivate the authorities to improve their performance. Based on the feedback provided from this "Good Governance" index, one district in Cajamarca updated its website to list all current investment projects and budget allocations. An official summed up the municipality's attitude: "We have the willingness to improve, but sometimes we don't know

how. Thanks to institutions like MIM, we can make the necessary improvements.”

The initiative has been embraced by communities and CSOs, allowing MIMs to position themselves as the authoritative source of information on municipal investment. People now approach the MIM offices for information and are receptive to MIM teams’ output. On several occasions, people have confronted the authorities (sometimes publicly), contrasting their information with that provided by the MIMs. In most such cases, municipal officers have rectified the information they provided. Interest in social accountability has increased among key stakeholders, who see MIMs as a reference source on topics related to royalties, municipal investment and social accountability. Changes include:

- *Better informed citizens:* Survey results show that the population’s understanding of basic concepts of royalties has increased in all 12 municipalities. At the start of the project, men had higher grades than women in each. This was reversed in two municipalities, with the gap closing in another seven. In eight municipalities, the population’s awareness of the right to request information has increased. Almost 7,000 people have signed up for the MIM Network of Informed Citizens, so they can receive information prepared by the MIMs electronically.
- *A proactive media:* The media has started to play a more active role, providing the public with relevant and timely information on royalties and municipal investment. Although initially it showed little interest and wanted payment to publish information produced by the MIMs, it has increasingly kept the public informed about municipal investment, based on press releases and educational materials. MIM members now package information to be of more use to the media (releasing smaller amounts, more often, and with key angles). The project also held capacity-building workshops for the media on royalties and municipal investment. In response, the media has produced more than 3,800 news items. MIMs help journalists not only by reducing the cost of accessing and processing information, but also by identifying and highlighting aspects of general public interest. MIM representatives give regular media interviews, while agreements have been signed between MIMs and radio stations for the free broadcasts on mining canon and municipal investment.
- *Responsive municipal authorities:* Led by the mayors, the response from municipal authorities has started to change. Their initial defensiveness is being overcome as they realize that the MIM approach does not

seek to criticize them, but rather to present information in a balanced and impartial manner. Sometimes this includes criticism from communities, but it opens up an opportunity for the authorities to explain their behavior and address people's concerns. Mayors now respond to questions from the population channeled by MIMs and provide more information, showing greater willingness to account for their actions. The municipality of Carhuaz organized a public accountability meeting in response to a request by the population, channeled by the MIM. And at a public meeting in Independencia, the mayor stood up, pulled out a piece of paper with 19 questions from the public presented to him by a MIM and proceeded to answer them. In a clear demonstration of transparency and openness, he said, "I would like to thank the MIM for keeping us informed about people's perceptions."

The MIMs have resulted in a greater municipal willingness to provide information—driven, among other things, by an active media and a population with a better understanding of its right to information. Surveys show that in 11 of the 12 municipalities, there has been an increase in the percentage of people who think their municipality provides adequate information on investment and use of resources. More than 70 percent of local leaders consider that municipalities are providing more information on investment and 85 percent see the MIM project as a contributing factor. Meanwhile the authorities have started to realize that informing the public can be beneficial, providing them with opportunities for valuable feedback and enabling them to explain their actions. They participate regularly in events and discussions validating MIM information, giving explanations and responding to citizens' concerns.

Lessons Learned

Despite these successes, the project provides a number of useful lessons, many of which have led to modifications or adjustments during its implementation. These include:

a) *Have a permanent presence.*

To promote sustainable accountability, it is important to ensure that information is produced and distributed regularly, so that the MIMs become an established, trustworthy source. Being independent and fair are key, but it is also necessary to have a fairly constant presence. Initially, the MIMs put out information on a quarterly basis, but this made it hard to generate ongoing discussion about municipal investment and resource use. When this was supplemented by a brief

weekly report summarizing key findings, media interest and coverage increased, contributing to wider recognition of the initiative. This short report is produced by each MIM and distributed electronically to the media and a large list of interested parties. It has proven extremely useful to have constantly available information that can be picked up by the media to fuel public debate and remind people of the initiative.

b) Enlist media support.

The media can be a key partner in efforts to promote accountability and good governance at the local level. A strong working relationship has been built on trust and recognition of both parties' needs. It is important that the media sees value in this relationship. By supplying independent, accurate, and fair information, the MIMs have become a credible source to underpin the media's work. The project also provides specialized training workshops—rated highly by participants—and story content the media finds useful, covering topics of general interest and reducing the cost of finding information.

c) Show the authorities the benefits.

Any initiative overseeing and reporting on investment and the use of resources by local authorities involves a balancing act. It needs to be sufficiently critical when appropriate, but cannot be aggressive or risk antagonizing the authorities so that they feel threatened and react by restricting the information they provide or attacking the initiative. Local authorities need to feel they gain something useful from the initiative and are not just criticized. The project achieves this by providing citizen feedback—collected through surveys and meetings—and by providing advice that helps the authorities recognize that greater transparency pays. For example, surveys showed that mayors' performance rating is positively correlated with the degree to which they are perceived as open to disclosing information.

Replicating Success

While these changes are encouraging, it takes time for a culture and practice of accountability to be established. To ensure that an attitude open to disclosure and dialogue takes root, with authorities being held accountable, it was judged that the project needed to be maintained for a period. This led to a new, follow-up project under the name of MIM-Peru, undertaken in partnership with the Canadian International Development Agency (CIDA). This expanded the work from 12 to a total of 30 municipalities and ran until March 2013.

The new project was structured around the idea that some of the activities introduced by the MIMs will continue in some form once the project ends. In order for this to happen, the work performed by the MIMs must be clearly recognized and valued by their communities. The initiative will be sustainable only to the extent that necessary financial resources are secured and the institutions involved maintain their commitment.

To ensure financial stability, it will be necessary to reduce costs so the initiative can be financed locally (IFC will explore the possibility of having government assign a small fraction of royalties to this type of approach. Other options, such as establishing a mechanism for local companies to contribute as part of their CSR activities, are also being considered). To reduce costs, activities will also have to be reduced to those that prove most effective. A suitable arrangement needs to be found to ensure institutional sustainability—although this may not necessarily resemble the MIM model used by the project. In general, however, the idea is for local institutions to absorb the initiative, possibly with MIMs taking a different form. By holding on to key principles of openness and transparency, while exploring different mechanisms for their delivery, the project aims to ensure that it will leave a sustainable legacy of social accountability in communities across Peru.

Extractive Industries for Development Series

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A Decomposition Analysis of 161 Countries

The World Bank Oil, Gas, and Mining Unit

The World Bank's role in the oil, gas, and mining sectors focuses on ensuring that its current interventions facilitate the extractive industries' contribution to poverty alleviation and economic growth through the promotion of good governance and sustainable development.

The Oil, Gas, and Mining Policy Division serves as the Bank's global sector management unit on extractive industries and related issues for all the regions of the world. It is part of the Sustainable Energy Department within the Sustainable Development Network.

Through loans, technical assistance, policy dialogue, and analytical work, the unit leads a work program with multiple sector activities in more than 70 countries, of which almost half are in Sub-Saharan Africa. More specifically, the Oil, Gas, and Mining Unit:

- Advises governments on legal, fiscal, and regulatory issues and on institutional arrangements as they relate to natural resources, as well as on good governance practices.
- Assists governments in setting up environmental and social safeguards in projects in order to promote the sustainable development of extractive industries.
- Helps governments formulate policies that promote private sector growth and foreign direct and domestic private sector investments.
- Advises governments on how to increase the access of the poor to clean commercial energy and to assess options for protecting the poor from high fuel prices.

In essence, the Oil, Gas, and Mining Policy Unit serves as a global technical adviser that supports sustainable development by building capacity and providing extractive industry sector-related advisory services to resource-rich developing country governments. The unit also carries out an advocacy role through its management of the following global programs:

- The Extractive Industries Transparency Initiative (EITI) Multi-Donor Trust Fund, which supports countries in implementing EITI programs.
- The Global Gas Flaring Reduction (GGFR) Public-Private Partnership, which brings governments and oil companies together to reduce gas flaring.
- The Gender and Extractive Industries Program, which addresses gender issues in extractive industries.
- The Petroleum Governance Initiative (PGI), which promotes petroleum governance frameworks, including linkages to environmental and community issues.
- The Extractive Industries Technical Assistance Facility (EI-TAF), which facilitates "rapid-response" advisory services on a demand-driven basis to build capacity for extractive industry resource policy frameworks and transactions.



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