

## **Report on International Financial Institutions' Assistance for the Extraction and Export of Natural Resources**

### **A. Introduction**

This report describes Treasury policy concerning the extraction and export of natural resources and the amount and type of assistance provided by each international financial institution (IFI) from April 1, 2008, to July 31, 2009, for the extraction and export of oil, gas, coal, timber or other natural resources.

The report is prepared pursuant to subsection 7083(d) of the FY 2009 Department of State, Foreign Operations, and Related Programs Appropriations Act, which is Division H of the Omnibus Appropriations Act, 2009, signed into law on March 11, 2009. (A copy of section 7083 is attached at Tab A.) This report builds on reports previously submitted by Treasury pursuant to similar reporting mandates contained in the FY 2005, 2006, and 2008 foreign operations appropriations acts.

This report also responds to subsections 1112(c) and (d) of the Supplemental Appropriations Act, 2009, signed into law on June 24, 2009. (The relevant subsection excerpts are attached at Tab B.)

The report first discusses the general engagement of the United States, particularly Treasury, in promoting extractive industries transparency. The report provides summaries of the IFIs' activities in support of extractive industries transparency and promoting good governance of extractive industries by resource rich borrowing member countries. The report then describes the twenty-three multilateral development bank (MDB) projects for the extraction and export of natural resources that were approved between April 1, 2008, and July 31, 2009.

### **B. USG Engagement**

The United States has made extractive industries transparency a major objective of foreign and development policy. Treasury takes the lead in USG engagement with the IFIs, which play an important role in promoting fiscal transparency, in extractive and other sectors, in developing and emerging market countries. The Department of State represents the United States on the Board of the Extractive Industries Transparency Initiative (EITI). Through U.S. Embassies and in coordination with the U.S. Agency for International Development (USAID), State leads USG efforts to promote EITI, help countries attain EITI candidate status, and meet their EITI commitments. In June 2009, State submitted a report to Congress on *Progress Made in Promoting Transparency in Extractive Industries Resource Payments* (report attached at Tab C.) There is close coordination on EITI among Treasury, State, other interested agencies such as the Department of Commerce and the Overseas Private Investment Corporation (OPIC), and the private sector and civil society organizations.

Treasury itself works through bilateral channels to promote extractive industries transparency. For example, Treasury has successfully encouraged countries, such as Liberia, to participate in EITI. Senior Treasury staff and advisors have met with EITI stakeholder groups in Azerbaijan,

Peru, and Nigeria to assess country implementation of the initiative. Most recently, in Abuja, Nigeria, in June 2009, Treasury received assurances that Nigeria's FY 2005 audit of revenues would be published in the near future,<sup>1</sup> and that Nigeria is progressing toward completing the EITI validation steps ahead of its March 2010 deadline. Treasury discussed revenue transparency with Azeri officials during the December 2008 meeting of the US-Azerbaijan Economic Policy Council. The outcome was a clearer understanding on our part of how the Azeri government intended to use revenues from its Oil Fund to finance its budget deficit. We also have advanced EITI transparency in the G-8 and regional fora.

Through its Office of Technical Assistance (OTA), Treasury also fields teams of expert advisers in ministries to help countries build capacity in fiscal management, including in audits and reporting, customs and tax administration, and budget and procurement systems. For example, OTA's Revenue Program generally centers its efforts on creating a joint team of customs and tax administration officials with the technical expertise to effectively audit petroleum and mining companies. Activities include comparing tax and other financial records with inventory volumes, establishing physical controls over storage areas, and verifying deductions taken for prospecting costs in order to establish accountability among companies and ensure the government is receiving its due. OTA is winding up approximately two years of assistance in this sector in Azerbaijan and Guatemala, and beginning similar efforts in Mozambique and Niger. OTA has also worked with the Petroleum Revenue Oversight and Control Commission in Chad to strengthen the Commission's technical capacity, improve its budget and procurement systems, and provide general guidance and advice.

Treasury officials consistently stress the importance of resource revenue transparency in Executive Board consideration of MDB projects, replenishment negotiations, country and sector strategies, International Monetary Fund (IMF) Article IV reports, and Poverty Reduction Strategy Papers.

Pursuant to legislative guidance, Treasury has advised the management of the IFIs and the public that it is the policy of the United States to oppose any assistance by such institutions for the extraction and export of natural resources unless the country has in place functioning systems for accounting and reporting on natural resource payments.

All proposed MDB projects for extractive industries are closely reviewed by a team of Treasury analysts that reviews all MDB proposals in coordination with staff from other U.S. government agencies. We recognize that many MDB extractive industry (EI) projects have not adequately addressed the complex challenges posed by these operations, and we have carefully considered the findings and recommendations on these projects emerging from the MDBs' inspection functions and independent evaluation units. Looking ahead, we are pushing for a more proactive approach to EI transparency and broader fiscal transparency in the MDBs, e.g., in the World Bank energy policy, currently under discussion. The Asian Development Bank endorsed EITI in 2008 and, at U.S. urging, committed to additional transparency measures in the energy policy adopted in June 2009. With U.S. encouragement, the African Development Bank is working on a natural resources management policy and also is preparing an operational guidance note on EI

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<sup>1</sup> The audit was published on August 11, 2009.

governance. We are working to integrate EITI principles into the operations of the Inter-American Development Bank (IDB), now that the IDB Board has endorsed the EITI.

Treasury efforts to promote transparency and accountability extend beyond the extractive industries sector. Treasury has encouraged the IFIs to use their analytical and diagnostic tools to help countries identify and address weaknesses in their public financial management systems broadly and their natural resource accounting in particular. Treasury has also urged countries to put in place transparent public financial management (PFM) systems to ensure that all public revenues, including natural resource revenues, are used effectively and accountably.

Following strong U.S. leadership during negotiation of the fourteenth replenishment of the International Development Association (IDA), approved in April 2005, the World Bank agreed to predicate future IDA assistance for any country's EI project which had a significant impact on government revenues upon the recipient government having in place, or being in the process of establishing, a functioning system for accounting for revenues and their use. In addition, to receive IDA assistance for an EI project, the government should also have in place, or commit to establish, a functioning system for the independent auditing of such revenues and the public dissemination of the audit results.

C. **Policy Engagement by the International Financial Institutions (IFIs)**

With the recent approval by the Board of Directors of the IDB, all of the IFIs have now endorsed the Extractive Industries Transparency Initiative (EITI), and increasingly are integrating EITI principles into their operations. As confirmed by a recent Senate report,<sup>2</sup> the World Bank and IMF have both launched efforts to improve accounting and transparency of extractive industries revenues. In addition, the World Bank and the IMF have supported the EITI Secretariat and EITI implementing countries through technical, financial, and policy advice. The IMF has issued and refined a Guide on Resource Revenue Transparency to supplement its diagnostics and provide best-practice standards on countries' public revenue and expenditure systems in resource-rich countries. The Guide describes EITI implementation criteria and steps needed to achieve them. The World Bank and the regional development banks have encouraged borrowing member countries to commit to extractive industries transparency, including by joining EITI and implementing its criteria. For instance, the World Bank and the International Finance Corporation (IFC) have financed activities to strengthen EI transparency in Peru. The African Development Bank supported measures to improve the accounting and reporting of oil and gas revenues in Tunisia, even though it is not an EITI candidate country. However, application of EI transparency principles within MDB-financed projects remains uneven, and the attention given to transparency considerations is not always well-documented, posing a challenge for Treasury staff to assess the extent to which projects meet the policy standards we have set.

Below are summaries, by institution, of IFI support for extractive industries transparency.

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<sup>2</sup> *The Petroleum and Poverty Paradox: Assessing U.S. and International Community Efforts to Fight the Resource Curse*, Report by the Minority Staff to the Members of the Senate Foreign Relations Committee, October 16, 2008.

### **African Development Bank (AfDB)**

The AfDB endorsed the EITI in October 2006. AfDB's Operations Policy Department is preparing a comprehensive policy for AfDB engagement in natural resource management, to be presented to the Board in 2009, which will mainstream EITI principles into the Bank's own natural resource operations. To date, support for EITI has included technical and financial assistance to member countries that have demonstrated political will by endorsing EITI but lack implementation capacity, and promoting advocacy and outreach activities to strengthen the will of resource-rich member countries to improve governance of natural resources and extractive industries.

In May 2008, the Board approved a "Governance and Strategic Directions Action Plan 2008-12" to strengthen transparency and accountability in the management of public resources at the country, sector, and regional levels, including through the support of regional norms and standards of good financial governance. Through implementation of the action plan, the Bank is scaling up its involvement in the EI sub-sectors, mainstreaming EITI principles into its own sector operations, allocating staff and budget resources to this effort, and promoting good public revenue management. For the period 2007-08, the Bank allocated UA 600,000 (approximately \$900,000) in administrative budget resources to support EITI implementation in several regional countries. The Bank has also provided in-house staff training in EITI implementation and sponsored several experience-sharing and coordination workshops and seminars with partners such as the EITI Secretariat, Norway, the World Bank, and resource-rich countries in Africa.

Treasury has actively supported the AfDB's engagement on extractive industry transparency as part of our overarching support for good governance as one of the Bank's strategic priorities. We have viewed efforts to help countries build capacity to implement EITI principles as a particularly appropriate use of technical assistance resources. The Bank has helped Botswana, the Central African Republic, Liberia, and Madagascar to become EITI candidate countries. The Bank is also providing financing for EITI implementation through the establishment of national EITI Secretariats, the conduct of audits and validations. Capacity building and consultancy support will be required over the medium term for most of these countries as they are moving on to the EITI-compliant stage. In addition, the Bank's outreach activities are aimed at creating incentives for other countries, particularly in the North and Central Africa regions, to endorse the EITI.

At our urging, the Private Sector Department makes sure that its private sector sponsors adhere to EITI standards in countries that have endorsed the initiative. The Bank's progress with EITI implementation is a key performance indicator under the results framework for the AfDF-11 replenishment negotiated by the U.S. and agreed in December 2007.

### **Asian Development Bank (AsDB)**

AsDB management endorsed EITI in February 2008, and actively encourages its developing member countries (DMCs) to adopt EITI principles. A designated EITI focal point in the Regional and Sustainable Development Department serves as the EITI resource for AsDB staff,

and maintains regular contact with the EITI secretariat in Oslo and with other EITI stakeholders. The Bank has participated in global EITI events and has hosted training programs and workshops for AsDB staff, often in coordination with outside groups such as Transparency International and industry representatives.

AsDB recommends that Bank-financed extractive industry projects publicly disclose their payments from those projects to the host government. The Bank has promoted resource revenue transparency in its policy dialogue with the Governments of Pakistan, Papua New Guinea, Indonesia, Timor L'este, Mongolia, Kazakhstan and Kyrgyzstan, several of which are EITI candidate countries. Timor L'este presented its implementation of EITI principles at the AsDB/OECD Anticorruption Initiative's 6th Regional Anticorruption Conference (Singapore, November 26-28, 2008).

Looking ahead, and as a result of USG efforts, the Bank's new energy policy, which was approved by the Board of Directors on June 18, 2009, includes a clear statement in support of enhancing EI revenue transparency.

### **EBRD**

The EBRD endorsed EITI in 2004. The Bank supports the EITI initiative through: (a) the requirement for EBRD projects to comply with EITI if their host countries of operation are implementing countries; (b) the requirement to comply with Publish-What-You-Pay standards (in countries that are not implementing EITI); and (c) the on-going policy dialogue with governments, industry and NGOs in EITI-implementing countries, in coordination with the international and local EITI Secretariats, and other IFIs, in particular the World Bank. The EBRD also helps member countries build capacity to implement EITI principles and develop templates and mechanisms for reporting EI-related revenues.

Among the EBRD's countries of operations, Azerbaijan has become the first country to achieve compliance with EITI standards (in February 2009). The Kyrgyz Republic, a candidate country, was the first country to publicly endorse the EITI, and Azerbaijan was the first country in the world to produce a full EITI data report. Kazakhstan is also an EITI candidate country and has until March 2010 to complete validation. The EBRD has played an important role in these developments in the region through financing major oil and gas projects in Azerbaijan, the financing of the Kumtor mine in the Kyrgyz Republic, and through policy dialogue (including representation on the UK EITI Core Group) with governments in the region, and in particular the governments of resource-rich countries such as Kazakhstan and Mongolia.

In financing EI projects, the EBRD aims to incorporate best practices with respect to transparency, revenue management, and lasting benefits for the local population. The EBRD's energy operations policy states that:

Natural resource projects need to be well managed to avoid the 'resource curse' that has befallen many other resource-rich countries. The EBRD will finance projects designed to yield a lasting benefit for the local population and adhere to best international transparency and revenue management standards. Going forward, the Bank will require

project sponsors to publicly disclose their material project payments to the host government as a minimum revenue transparency condition. In countries where governments have signed up to the Extractive Industry Transparency Initiative (EITI), the Bank will continue to play an active role to support its implementation, requiring project sponsors to follow its applicable methodology principles and criteria.

Where governments have not yet signed up to EITI or adopted international best practices for resource revenue management, such as those recommended by the IMF, then the Bank will encourage endorsement by governments and require its project partners to implement measures that will raise transparency and governance to levels of this best international practice.

### **Inter-American Development Bank (IDB)**

Since the Board's approval of the Camisea Gas Pipeline project (which involved gas transport rather than extraction), the Bank has increased its expertise in EI issues. Examples of this include the follow-on Peru LNG project, approved in December 2007, and the New Sustainable Energy Matrix project in Peru, a \$150-million loan approved in January 2009 that is a centerpiece of the IDB's Country Strategy for Peru.

Since the Bank established the Sustainable Energy and Climate Change Initiative, which now houses twenty staff, EI issues have become increasingly mainstreamed in country and policy dialogues. In the past two years, there have been numerous loan and grant programs aimed at improving countries' accounting and transparency regimes related to EI payments and receipts. For example, regular public meetings related to the Camisea Gas Pipeline project in Peru (the latest held on March 20, 2009) have strengthened collaboration among the Government of Peru, project sponsor companies, civil society and the IDB in monitoring royalty payments and have led to the central government's distributing funds to decentralized regional and municipal governments.

Since the IDB's realignment, there are a number of divisions with expertise in EI-related issues - the Energy Division, the Infrastructure and Corporate Finance Divisions, and the Institutional Capacity of the State Division. The Legal Department, Office of the Auditor General, Risk Management Office, Environment and Safeguards Unit and the Office of Institutional Integrity all have jurisdiction over EI issues within the context of administering the Bank's Anti-Corruption Framework and various controls and safeguards related to use of Bank resources in IDB-financed projects.

Treasury worked closely with the Board and Management of the Inter-American Development Bank to overcome their resistance and secure the Bank's endorsement of EITI on July 29, 2009. We will be watching closely to make sure the Bank puts these principles into practice. The Office of the U.S. Executive Director has also stressed the importance of EI transparency and accountability in direct communication to management and the Board of Directors, as well as in the context of country strategy discussions (e.g., Guyana country strategy) and project discussions (e.g., Peru New Sustainable Energy Matrix).

## **International Monetary Fund**

While the IMF does not provide financing for the extraction and export of natural resources, it is an important source of data and analytical work through its Reports on Standards and Codes (ROSCs). The IMF has developed a code of good practices on fiscal transparency that is the basis for its assessment of countries' public financial management systems (published as Fiscal ROSCs). Treasury was very supportive of the 2007 move to strengthen this methodology and link it more closely to the Fund's Resource Revenue Guide (est. 2005, rev. 2007) which sets a global standard for assessing the quality and capacity of countries' systems for managing their natural resources wealth.

As of end-2007, the IMF had completed fiscal transparency ROSCs in almost 90 countries, many of them with substantial resource revenue wealth. Since 2008, Fiscal ROSCs have been published for Kenya, the Kyrgyz Republic, and Namibia, and one is under preparation for Cameroon. Treasury raises the importance of resource revenue transparency in Board discussions on other IMF reports, as we did recently with the Kazakhstan Article IV report and the request for a financing program on the part of Sao Tome & Principe.

The Fund also provides advisory and technical support in areas such as: managing petroleum and mining revenues (Bolivia's 2008 Article IV staff report), implementation of EITI (2009 Second Review under Liberia's Three Year PRGF Arrangement), and strengthened public financial management (Ghana, 2009 Memorandum of Economic and Financial Policies). Looking ahead, the IMF is in the process of establishing a natural resources trust fund that will provide additional analytical work, advisory services, and technical assistance to help countries manage their natural resource revenues.

## **World Bank Group**

The World Bank Group is involved in lending and non-lending activities in oil, gas and mining in over 50 developing countries. The Bank and its private sector arm, the International Finance Corporation (IFC), do not finance extractive industries projects unless the companies commit to disclose revenues paid to the government. The IFC's Social and Environmental Sustainability Policy promotes transparency of revenue payments from extractive industries projects to host governments. Accordingly, IFC requires that: 1) for significant new extractive industries projects, clients publicly disclose their material project payments to the host government (such as royalties, taxes, and profit sharing) and the relevant terms of key agreements that are of public concern, such as host government agreements and intergovernmental agreements; and 2) from January 1, 2007, clients of all IFC-financed extractive industry projects publicly disclose their material payments from those projects to the host government(s). In 2008, IFC worked with clients to review their practices and developed a Web site to facilitate access to the information made public by companies. To date, nine extractive industries clients are using the Web site to disclose their payments to host governments. Beginning in 2009, IFC clarified its reporting requirements for clients and will require disclosure in a more consistent form for all companies.

The Bank has supported efforts to build transparent and effective fiscal and regulatory frameworks and participated in global programs, such as the Petroleum Governance Initiative. The Bank has developed a toolkit to help civil society have meaningful input into the design and implementation of mining projects. Each year, the Bank prepares a report on the implementation of the Management Response to the 2004 Extractive Industries Review (EIR), assessing progress in meeting the EIR's social, environmental, and transparency commitments. The Bank's annual Extractive Industries Week brings together experts from governments, development partners, and civil society organizations to discuss the challenges of EI development and look for ways the sector can promote economic growth and reduce poverty.

The Bank has been a central source of financing, technical assistance, and advisory services to EITI. The Bank has helped over a dozen countries implement their EITI commitments, while supporting efforts, more broadly, in the areas of fiscal management, legal and regulatory reform, and institutional development. The Bank administers the EITI multi-donor trust fund (MDTF), and has developed a matrix to measure and track MDFT-funded activities. The Bank continues to support the work of the EITI Secretariat, and a memorandum of understanding is in place regarding activities of the Bank in support of EITI.

At the request of the U.S. Executive Director, the World Bank's Oil, Gas, and Mining Department has worked with senior management of the Bank to increase awareness of revenue transparency issues and to mainstream this awareness into country assistance strategies for resource-rich client countries. In addition, at U.S. urging, the World Bank's Independent Evaluation Group is completing a comprehensive review of the controversial Chad Cameroon Pipeline Project in which the Bank had piloted a new model for oil revenue management. We are awaiting the findings, which will be publicly released upon completion of the study.

**D. MDB Projects that Financed Extractive Industries Projects**

The report describes in some detail 23 multilateral development bank (MDB) projects for activities related to extractive industries.<sup>3</sup> The United States supported 16 of these projects. In nearly all cases, there were some elements of good transparency practices, although no project achieved full consistency with the criteria laid out in the reporting section of this legislation. Those criteria are whether the MDB explicitly considered the extent to which the country has functioning systems for accurately accounting for payments to the government by companies involved in the extraction and export of the natural resources, independent auditing of accounts receiving such payments and widespread public dissemination of the findings of such audits, and the verification of government receipts against company payments.

In considering extractive industry projects, Treasury analysts review project documents for evidence that the MDB considered the extent to which the government has functioning systems in place to ensure accurate accounting for payments by companies; independent auditing of

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<sup>3</sup> The legislation (attached at Tab A) requires a report describing the amount and type of IFI assistance provided in the preceding 12 months for the extraction and export of natural resources and whether the IFI considered the extent to which the country has functioning systems described in paragraph (d)(1) of the legislation. This report covers the sixteen month period from April 1, 2008 to July 31, 2009. The period ends about one month prior to the due date of this report to allow Treasury time to prepare and submit the report.



accounts and dissemination of audit findings; and to verify government receipts against company payments. If this information is not in the project documents, analysts will engage with Bank staff through the United States Executive Director's office to obtain answers. In addition, Treasury analysts frequently ask about the expected marginal increase in government revenues from the project. Also Treasury analysts meet with Bank staff in person to discuss the above extractive industry issues.

### **1. African Development Bank (AfDB)**

Guinea – The Guinea Alumina Project; \$200 million loan; December 3, 2008: The AfDB approved a \$200 million senior “A” loan and on a “best effort” basis leading a syndication to raise up to \$100 million in “B” loans. Estimated at a total cost of \$6.3 billion, the project and its primary associated facilities consisted of the following components: development of new bauxite mines (production estimated at approximately 9-10 million tons per annum (Mtpa) of non-exportable bauxite); an alumina refinery (with initial capacity of 3.31 Mtpa), steam and power plant (110 MW of electric power); red mud disposal facility; water supply reservoir; employee housing; port facilities (new alumina terminal and container quay); infrastructure improvements (including new 14.5 km access road to the refinery, railroad line improvements and spurs, a port and container terminal; bridge over Tinguilinta River, etc.). Guinea is an EITI candidate country; in the project document, the Bank indicated it is assisting the Government of Guinea to comply with the EITI requirements. Also, the Bank indicated that its participation provides assurance to other lenders that “best practice” will be adhered to on international environmental standards. However, on the basis of environmental and Pelosi Amendment issues, the United States abstained on this project.

Tunisia -- Hasdrubal Oil and Gasfield Development Project; \$150 million loan; October, 22, 2008: The AfDB approved this private sector senior loan as part of the \$1.2 billion financing of the offshore oil and gas field in the Gulf of Gabes. The AfDB reviewed and found acceptable the Tunisian Government's financial management in the oil and gas sector. The annual reports of all national oil and gas activities including audited financial statements are published on the website of ETAP, the national oil company. Royalties and other taxes or revenues derived from the sector can be traced through the fiscal budget. Excerpts from Host Government agreements, concession agreements, et al are generally disclosed in local newspapers and in international specialized magazines like “Oil and Gas Monitor” or “Africa Energy.” While not an EITI candidate country, Tunisia was able to demonstrate that its financial management of the oil and gas sector broadly met the spirit of EITI principles. The United States supported this project because it would reduce the country's dependence on imported oil; support modernization of energy infrastructure; provide business opportunities for the local Tunisian private sector; and generate about 1,200 skilled and unskilled jobs for the local population during construction, and 90 jobs once the facility is in operation.

### **2. Asian Development Bank (AsDB)**

Indonesia – Technical Assistance for Preparing a Regional Road Development Project; \$1.3 million Preparatory Technical Assistance Grant; Initial Project Scheduled for February 14, 2008, and Revised Project Approved May 28, 2008: The AsDB proposed this preparatory technical

assistance grant for approval in February 2008 to examine options to improve roads in Northern Kalimantan and Southern Java. The United States expressed concern to the Bank and other shareholders that a proposed road bisected the Kayan Mentarang National Park and the Betung Kerihau National Park, and that, consequently, the proposed road would likely increase the extraction and export of illegal logging as well as increase wildlife poaching, degradation of natural forests, and forest fires. In response to the strong concerns raised by the United States and other shareholders, the AsDB withdrew and revised the proposal. The revised proposal did not contain the road component through these national parks. The AsDB indicated that the government has in place functioning systems to track company payments but audits are not always made public, nor are the verification of government receipts with company payments disseminated. The United States supported the revised proposal on May 28, 2008, because the road component through the national parks was deleted, rehabilitation of existing roads was expected to reduce transport bottlenecks and help catalyze regional growth, and AsDB Management gave assurances that any investment projects resulting from this technical assistance grant will be in accordance with AsDB's safeguards policies on the environment, resettlement and indigenous people. In March 2009, the Government of Indonesia announced its intention to implement EITI, but has not yet become an EITI candidate country.

### **3. International Finance Corporation (IFC)**

Albania – Bankers Petroleum; \$50 million loan; special purpose \$5 million environmental term loan; and \$10 million equity; May 5, 2009: Bankers Petroleum Albania Ltd. is a wholly-owned subsidiary of Bankers Petroleum Ltd., a Calgary-based oil and gas exploration and production company. The project will consist of the development and remediation of the Patos Marinza oil field in Albania. In addition to the Company's license area, IFC will support the Company (BPA Ltd) and Government as possible in the wider remediation of adjacent sites which have been impacted by oil field operations and managed by the State-owned oil company, Albpetrol, whose operations are currently intermingled with that of the Company. IFC will require that the company publish payments associated with extraction activities to the authorities on an annual basis ("publish what you pay"). Albania is an EITI candidate country and has until May 2011 to complete validation. IFC staff is not aware of hydrocarbon sector revenues being published separately by the Government at this point. Minerals accounted for only 12 per cent of total export revenues in 2008; hence Albania has not generally been considered a resource-rich country. Historically, administrative capacity has been weak and the management of public finances has always been a big problem, especially in tax collection. The fact that the company has agreed to comply with 'publish-what-you-pay' principles has a high potential demonstration effect for other players, particularly Albpetrol (a state-owned oil company), to increase transparency and accountability of revenue flows. It is the understanding of IFC staff that royalties and taxes are paid directly to the central government budget. The project also contributes pre-existing production value and royalties to Albpetrol. As a listed Canadian company, Bankers Petroleum discloses royalties and taxes paid for its Albania project in its financial statements that are publicly available. The United States abstained on this project because some significant environmental impacts had not yet been assessed, and a full environmental impact assessment had not been released to the public. Therefore, the project was not compliant with the environmental disclosure requirements of the Pelosi legislation. *(On March 25, 2009, the United States had supported this project (named the Patos Marinza*

*Environmental Remediation and Development project) at the EBRD based on more limited information on the project's environmental impacts.)*

Argentina – Pan American Energy G San Jorge; \$150 million loan; July 27, 2009: The IFC approved this corporate loan to Pan American Energy (PAE), a joint venture of British Petroleum and Bidas, a privately-owned Argentine firm. The loan will support the continued development and production of Cerro Dragon, an onshore oil field in the south of Argentina. PAE is the second largest exporter of oil and gas in Argentina, after Repsol. Cerro Dragon has been in production for approximately 50 years; the current license held by PAE was previously held by Repsol. The field is located in an arid, desert area with little vegetation and no biologically protected areas nearby. PAE exports approximately 60 percent of its oil production, primarily to Chile and Uruguay. However, PAE discloses its payments to local, provincial and federal authorities through its quarterly financial statements publicly posted with the Argentine Comision Nacional de Valores. At a national level, the Secretaria de Energia discloses production, royalties and terms of PAE's concession contracts. At the regional level in the provinces of Santa Cruz and Chubut, each provincial government discloses payments it has received in aggregate on a quarterly basis and publishes each concession grant on the provincial website and official bulletins. Royalty collection is audited at both federal and provincial levels. The United States supported this investment because it will result in increased domestic hydrocarbon production, helping mitigate Argentina's falling oil output and natural gas shortage. In addition, PAE's continued investment in the San Jorge region will support the ongoing investment the company is making in developing the small and medium enterprise sector in the region.

Burkina Faso – Riverstone; \$4.5 million equity; January 16, 2009: The IFC Board approved this investment to acquire approximately 19 percent of the outstanding shares in Riverstone, a Canadian mining company exploring for gold in Burkina Faso. The IFC investment will support on-going exploration and future feasibility study work. Riverstone wanted IFC's engagement to assist in developing projects in Burkina Faso in line with industry best practices in environmental and social sustainability. Burkina Faso is an EITI candidate country and has until May 2011 to complete validation. Riverstone, at the request of IFC, has committed to publicly disclose all revenue payments to the government, pending the implementation of EITI. The World Bank's Oil, Gas, and Mining Policy Division (COCPD) is helping the Burkinabe Government with EITI implementation. In November 2008, a Bank mission to Ouagadougou met with the National EITI Implementation Group, which included the Minister of Mines and the Secretary General at the Ministry of Finance, to discuss the accelerated implementation of EITI. The United States supported this investment because of its development impact. The emerging mining sector could result in a doubling of Burkina Faso's export earnings, diversifying the Burkinabe economy from agricultural dependency. Also, the project will help to improve corporate and public sector governance.

Burkina Faso – Gryphon - \$1.6 million equity; June 19, 2009: IFC approved this investment to acquire 7 percent of the outstanding shares of Gryphon, a junior mining company focused on gold exploration in Burkina Faso. Gryphon is listed on the Australian Stock Exchange. Gryphon sought IFC's engagement to help in developing its project in line with industry best practices in environmental and social sustainability and also to help the company attract the

required financing as it transitions from an exploration company into a potential developer. As noted above, Burkina Faso is an EITI candidate country and has until May 2011 to complete validation. At the request of IFC, Gryphon has committed to publicly disclose all revenue payments to the government, pending the implementation of EITI. The World Bank's Oil, Gas, and Mining Policy Division (COCPD) is helping the Burkinabe government with EITI implementation. In November 2008, a Bank mission to Ouagadougou met with the National EITI Implementation Group, which included the Minister of Mines and the Secretary General at the Ministry of Finance, to discuss the accelerated implementation of EITI in the country. The United States supported this investment because of its development impact. The emerging mining sector could result in a doubling of Burkina Faso's export earnings, diversifying the Burkinabe economy from agricultural dependency and helping to reduce poverty. Also, the project will help to improve corporate and public sector governance.

Chile – Minera Escondida Limitada; \$25 million loan; December 31, 2008: The IFC Board approved a shareholder loan to Minera Escondida Limitada, a copper mining company in Chile. Escondida was hit hard by falling copper prices and faced a short-term liquidity crisis. To alleviate its temporary cash short-fall, Escondida asked its shareholders (including IFC) to provide a short-term loan facility. IFC made its initial investment in the company in 1998, and now holds a 2.5 percent ownership stake. Chile has not acceded to EITI. However, the World Bank reports that Transparency International ranks Chile 23<sup>rd</sup> out of 180 countries in its Corruption Perception Index. Since 2004, the Government of Chile has been undertaking fiscal and public sector reforms, which include measures to increase fiscal transparency and establish an independent civil service modeled on best practices. The implementation of these structural reforms is scheduled to be completed in 2010. Finally, Minera Escondida discloses a full set of financials, including payments to the government, on its website [www.escondida.cl](http://www.escondida.cl). The United States supported this investment because it will help the company deal with its short-term liquidity shortfall.

Colombia – Greystar; \$25 million equity; March 12, 2009: The IFC approved this investment in Greystar, its first investment in Colombia's mining sector. Greystar, a Canadian-based company listed on the Toronto Stock Exchange, is a junior mining company active in gold and silver exploration in Colombia. IFC financing will allow Greystar to complete feasibility studies, an environmental and social impact assessment, and other associated work to bring the project to the actual development stage. Greystar has exploration licenses that cover approximately 30,000 hectares in the Santander region in Colombia. It has completed a substantial drilling program on its Angostura gold and silver deposits, one of the world's largest undeveloped gold resources. In Colombia, oil, natural gas, and mining tax and royalty payments paid to Government are disclosed at an aggregate level and with a breakdown among commodities (oil, natural gas, and major metals and minerals). The Company has agreed to disclose all payments (royalties and taxes) to the Government, both at central and regional/local levels. IFC is in discussions with the Government and the Company to expand IFC's municipal royalty management program in the petroleum sector to the mining sector. Also, IFC financing will be used to provide capacity building to the two municipalities that would receive royalties in the event of eventual mine development. This capacity building will increase local awareness of government receipts from the mine and also increase the capacity of the municipality to use funds effectively. Mining concession documents are publicly available for review, further enhancing the transparency of

the mining sector in Colombia. Colombia has not yet acceded to EITI. The United States supported this project because it will diversify Colombia's exports and increase export receipts, thus helping to support poverty reduction. In addition, given the Government's practice of disclosing mining taxes and royalties paid and the public's ability to review mining concession documents, there is limited governance and transparency risk to this project's benefits.

Ghana - Kosmos and Tullow; \$215 million loans; February 19, 2009: The IFC Board approved this investment in Kosmos and Tullow, two companies that are developing the Jubilee offshore oilfield, Ghana's first oil discovery. The expensive and inconsistent energy supply is one of the most important long-term constraints on Ghana's flourishing private sector, dramatized by rolling blackouts in 2007. Production from the Jubilee Field will diversify Ghana's energy input sources and reduce Ghana's reliance on oil and gas supplies from its neighbors. The project is expected to produce gas necessary to support about 400 MW of new power generation, equivalent to over 50 percent of power currently consumed in Ghana. The IFC funds will support this large undertaking, costing \$3.2 billion for the drilling of 17 wells, installation of subsea infrastructure including long steel tubes to pump up the oil (starting at 120,000 barrels a day) to a leased floating production storage and offloading facility (FPSO), which will process, store and offload the crude oil into a tanker every week. The project's sponsors will disclose publicly information about revenue payments to the government, consistent with IFC policy.

However, the United States disagreed with the IFC's environmental classification of this project as Category "B". No Environmental Impact Assessment (EIA) for the project was disclosed 120 days prior to the Board date. The United States position was that the project should have been classified as Category "A" by the IFC, and a full EIA should have been presented to the Board and the public. The requirements of the Pelosi legislation therefore were not met. For this reason and because of other environmental concerns, the United States abstained on the project. Ghana is an EITI candidate country and has until March 2010 to complete validation. Ghana has issued three reports covering mining sector payments and receipts, and has committed to extend its EITI program to the oil sector

Mozambique – Baobab Resources; \$5 million equity; October 10, 2008: The IFC Board approved an investment in Baobab Resources, a London-based junior exploration company focused on exploring and developing mineral deposits in Mozambique. IFC's investment will support ongoing exploration and future feasibility study work. The company's current explorations are in the Manica project area, which has produced gold 10 kilometers into neighboring Zimbabwe, and in the Mundonguara copper mine including gold and silver. Mozambique is an EITI candidate country and has until May 2011 to complete validation. With the recent commencement of commercial mining activities, the Government of Mozambique has sought World Bank help with EITI implementation. It is expected that a fair share of the project benefits from the development of a commercial mining operation will accrue to the government in the form of taxes and royalties, in compliance with the country's mining code. At IFC's request, Baobab will publicly disclose all payments, such as taxes and royalties, to the Government once it begins production. The United States supported this investment because of its development impact, including supporting poverty reduction. The Government is actively engaged with the World Bank to establish fiscal and macroeconomic policies and a transparent public budgeting process to ensure that government revenues are targeted at poverty reduction.

Peru – Anglo American Quellaveco S.A.; \$12 million equity; July 11, 2008: The IFC Board approved this investment in Anglo American’s Quellaveco mine concession in the south of Peru which holds copper, molybdenum, and silver deposits. The project sponsor, Anglo American plc of the United Kingdom, is the main shareholder. The IFC has been a shareholder in the project since 1993, and the investment allowed IFC to retain its 18 percent shareholding. The funds will support exploration, development and engineering work needed to complete the revised feasibility study for the concession. The mining sector represents over 6 percent of Peru’s GDP, contributes nearly 30 percent of the Government’s tax revenues, and accounted for 62 percent of the country’s total exports in 2006. In addition, the mining industry in 2007 paid \$1.7 billion in royalties to the mining areas’ municipalities, most of which are in extremely poor rural areas, characterized by economic stagnation, lack of government capacity, low employment opportunities and weak, underdeveloped social capital. The Government of Peru is an EITI implementing country (the only EITI candidate country in Latin America), and has taken measures to improve its transparency regarding EI activities. IFC is involved in several advisory assignments in Peru that aim to improve transparency of revenue flows from the EI sector to the government and also from the central government to local authorities. The United States supported this investment because Peru stands to gain significantly from expanding its mining activities, including reduction of poverty and increased export revenues. Also, IFC believed that the governance risks of the investment were not significant.

Peru – Antares Minerals, Inc. - \$11.2 million equity; June 12, 2009: The IFC approved this investment to acquire 8 percent of Antares Minerals Inc., a Canadian junior mining exploration company focused on the Haqira copper exploration project in the high altitude, frontier region of Apurimac in southern Peru. Antares sought IFC’s engagement to assist in funding its feasibility study and continued exploration of the Haqira mineralization and to provide environmental and technical assistance. There is no mineral production or civil construction in this project. In the event of eventual mine development, IFC would consider providing capacity building to the two municipalities that would receive royalties. As noted in the Peru -Anglo American Quellaveco S.A project discussion above, the mining sector accounts for over 6 percent of the country’s GDP and contributes nearly 30 percent of the Government’s tax revenues. The mining sector represents a significant source of exports and of royalties to the government. The Government of Peru has taken measures to improve its transparency regarding EI activities. IFC is involved in several advisory assignments in Peru that aim to improve transparency of revenue flows from the EI sector to the government and also from the central government to local authorities. The United States supported this project because Peru stands to gain significantly from expanding its mining activities, including reduction of poverty, increased job opportunities, and increased export revenues. Also, IFC believed that the governance risks of the investment were not significant.

Eastern Europe/Central Asia – Lydian Resource Company; \$1.3 million equity; March 12, 2009: The IFC approved this additional equity investment to bring its ownership to 12.9 percent of Lydian Resource Company, a mining company focused on finding and acquiring deposits in Eastern Europe and Central Asia. Lydian holds licenses for three exploration projects in Kosovo. As part of a 50-50 joint venture with Newmont, the second largest gold producer worldwide and Lydian’s largest shareholder, Lydian shares ownership of a gold property in Turkey as well as an undrilled gold property in Armenia. IFC assessed governance in Kosovo,

Armenia, and Turkey based on available internal and external indicators, including the World Bank Institute's governance indicators, the World Bank's Country Policy and Institutional Assessment ranking, and Transparency International's corruption index, as well as from discussions with the World Bank's regional staff, regional economists and the Mining Policy Division. Mine development, if realized, would generate benefits for the host countries through payments made to the governments in the form of royalties and corporate income taxes. The United States supported the project because of the company's activities in Armenia and Kosovo, two frontier economies where the mining sectors have been identified as key sectors for economic development, including support for poverty reduction and job opportunities. Also, Lydian is committed to disclose publicly all payments made to host governments.

Thailand and Indonesia – Salamander Energy Limited; \$25 million equity and \$50 million revolving credit; July 15, 2008: The IFC Board approved this investment in Salamander Energy, an oil and gas exploration firm founded in 2005 and listed on the London Stock Exchange. The funds will cover the expected capital and operating expenditure needs of concessions in Java and East Sumatra, Indonesia and in Bualong, Thailand. The United States supported this investment because it presented an opportunity for the IFC to play a role in the sustainable development of energy, especially natural gas, which is a comparatively clean fuel. Also, at the IFC's request, Salamander agreed to implement a public consultation and disclosure plan and publicly disclose on an annual basis its share of all material payments to the governments in both Indonesia and Thailand.

Western Africa Region -- Capital Alliance Private Equity: \$30 million equity; February 19, 2009: CAPE, a private equity fund based in Nigeria, expects to raise \$400 million to invest in 12-15 Nigerian companies focusing on the telecommunications, electric power, energy infrastructure, services and logistics, and financial services sectors. According to the IFC, CAPE III expects to invest up to 40 percent of its committed capital in the oil and gas sector. The subprojects are expected to range in size from \$10 million to \$70 million. Projects of this size and in this sensitive sector are generally thought to be likely to have significant environmental impacts. Nigeria is an EITI candidate country and release of annual audits of oil sector accounts is mandated by law. However, since IFC does not and will not meet Pelosi disclosure standards for these sub-projects, the United States abstained on the project.

Zambia – Kiwara Plc.: \$5 million equity; June 18, 2009: The IFC approved a \$5 million investment for an 11 percent share of the outstanding shares of Kiwara, a London-based junior exploration company listed on the London Alternative Investment Market and the Johannesburg Stock Exchange. Kiwara sought IFC's engagement to help finance the Company's exploration activities and associated feasibility studies in line with best industry practice in environmental and social sustainability and also to provide more general corporate advice as it progresses into development and mineral extraction. Mining is by far Zambia's biggest export earner, with copper accounting for about 73 percent of the country's principal exports in 2007. Renewed investment in the mining sector has also caused a strong recovery in gross fixed investment, which now contributes around 25 percent of GDP, compared with 11 percent in 1994. Business Monitor International estimated that the mining industry of Zambia grew by approximately 4 percent in 2008, contributing 13 percent of GDP. The U.S. supported this project because it represented an early opportunity for IFC to reengage in the Zambian mining sector and help

restore private sector confidence in Zambia's regulatory environment. Also, Kiwara has a prospective nickel deposit (besides copper) which, if developed with IFC's assistance, would help diversify the Zambian economy away from dependence on copper revenues. Zambia is an EITI candidate country and has until May 2011 to complete validation.

**4. Multilateral Investment Guarantee Agency (MIGA)**

None.

**5. Inter-American Development Bank (IDB)**

None.

**6. European Bank for Reconstruction and Development (EBRD)**

Albania -- Patos Marinza Environmental Remediation and Development; \$55 million loan and \$10 million equity; March 25, 2009: Bankers Petroleum Albania Ltd. is a wholly-owned subsidiary of Bankers Petroleum Ltd, a Calgary-based oil and gas exploration and production company. The project will consist of the development and remediation of the Patos Marinza oil field in Albania. In addition to the Company's license area, the Bank will support the Company (BPA Limited) and Government as possible in wider remediation of adjacent sites which have been impacted by oil field operations and managed by the State-owned oil company Albpetrol whose operations are currently intermingled with that of the Company. The EBRD will require that the company publish payments associated with extraction activities to the authorities on an annual basis ("publish what you pay"). Albania is an EITI candidate country and has until May 2011 to complete validation. EBRD staff is not aware of hydrocarbon sector revenues being published separately by the Government at this point. Minerals accounted for only 12 per cent of total export revenues in 2008; hence Albania has not generally been considered a resource-rich country. Historically, administrative capacity has been weak and the management of public finances has always been a big problem, especially in tax collection. The fact that the company has agreed to comply with 'publish-what-you-pay' principles has a high potential demonstration effect for other players, particularly Albpetrol (a state-owned oil company), to increase transparency and accountability of revenue flows. It is the understanding of EBRD staff that royalties and taxes are paid directly to the central government budget. The project also contributes pre-existing production value and royalties to Albpetrol. As a listed Canadian company, Bankers Petroleum discloses royalties and taxes paid for its Albania project in its financial statements that are publicly available. The United States supported the project because it would support environmental remediation and privatization of the oil and gas sector. *(On May 5, 2009, the United States abstained on this project (the "Bankers Petroleum project") in the IFC because it became clear that Bankers Petroleum had not assessed some environmental impacts that Treasury believed were likely to be significant. Since some significant environmental impacts had not yet been assessed, the project was not in compliance with the environmental disclosure requirements of the Pelosi legislation.)*

Azerbaijan – Azer-Yad; \$15 million loan; December 16, 2008: Azer-Yod MMC is a limited liability company established for the extraction and production of iodine in Azerbaijan for export. The project will expand the plant's design capacity to more than 500 t/a of crude iodine. As part of the project, the company will repair and put into operation about 70 wells, revamp its



infrastructure and purchase and install an additional production line. The government revenues generated by the project will be less than 1 percent of the Azerbaijan government's budget. The United States supported the project because the EBRD transition objectives include improving corporate governance and business conduct. Azerbaijan is the only country that has achieved EITI compliance.

Bulgaria -- Chelopech Mining Facility; \$15 million loan; July 22, 2008: Chelopech Mining, a joint stock company incorporated in Bulgaria, holds the mining rights and operates the Chelopech copper/gold mine in Bulgaria. Dundee Precious Metals Inc., the Sponsor, owns 100 percent of the share capital of Chelopech. The investment will enable continued mine upgrade and development through the exploration and expansion of ore mining and concentrate production capacity to approximately 1,500,000 tpa of ore into gold/copper concentrates. Most of the concentrates are sold to two international companies. According to EBRD staff, proceeds from royalties and other direct taxes associated with extractive activities are reported in the General Budget in aggregate format. The Bulgarian National Audit Office, reporting to the Parliament, audits implementation of public institutions' budgets including those of the Central Government, Ministries and Municipalities. The results of such audits are publicly available. The terms of concession and any further changes to these terms are negotiated directly between a license-holder (after registration of commercial discovery) and the Government. These are further approved by the Council of Ministers and are registered centrally. Information on such concession agreements is made public in the State gazette and on the web site of the National Concessions Registry. In the case of Chelopech Mining, Dundee Precious Metals acquired this producing company (with relevant licenses and concession agreement in place) in 2003. At the time of acquisition, Dundee agreed to some changes to the terms of the concession agreement in negotiations with the Government. Chelopech Mining discloses amounts of royalties and taxes paid as a part of their financial reporting publicly available on the Trade Register of the Ministry of Justice ([www.brra.bg](http://www.brra.bg)). Besides, the Sponsor of the Project - Dundee Precious Metals, a Canadian company publicly traded on the Toronto Stock Exchange, reports on Chelopech Mining concession obligations in their financial reports and other regulatory filings available from Sedar ([www.sedar.com](http://www.sedar.com)). The United States supported this project since Bulgaria has a functioning system for extractive industry revenues.

Mongolia – Energy Resources; \$30 million equity; February 10, 2009: Energy Resources is a Mongolian mining company and owner of the Ukhua Hudag (UHG) high-quality coal deposit in South Gobi, Mongolia. The EBRD will provide equity financing to the company to establish a small-medium-sized commercial production from the UHG deposit. The project will include the purchase of earth moving equipment and transportation trucks, coal washing equipment, road infrastructure upgrade and camp construction and communication facilities. The main market for the coal will be China. The United States abstained since the project did not meet the environmental disclosure requirements of the Pelosi legislation. Mongolia is an EITI candidate country and has until March 2010 to complete validation.

Russian Federation – Pechora Energy; \$25 million loan; September 9, 2008: The loan will enable Pechora Energy to increase production of crude oil and continue the exploration and pilot development of the Luzskoye oil field under license in the Timan-Pechora basin in the Komi Republic. Pechora Energy LLC is a limited liability company established in the Russian

Federation and is a 100% owned subsidiary of Concorde Oil and Gas plc. The EBRD will require that Concorde publish its payments to the Russian government. Data on oil revenues are reported in the Russian budget. The government revenues generated by Pechora Energy will be less than 1 percent of the Russian government budget. The United States abstained because the project will have limited transition impact.

Russian Federation – North Expedition; \$100 million equity; July 22, 2008: North Expedition is a high-technology drilling company focusing on exploration and production drilling in the Russian Federation. The EBRD will finance the company's working capital needs to enable it to start operating 30 new drilling rigs. Since North Expedition merely provides oil rigs to oil companies, there are no natural resource revenues from this investment. The United States abstained on this investment because there would be limited transition impact, limited financial additionality and inadequate assurances regarding environmental due diligence.

Department of State, Foreign Operations, and Related Programs Appropriations Act, 2009, found in the Omnibus Appropriations Act, 2009, Public Law 111-8 (March 11, 2009).

Section 7083(d) (1) EXTRACTION OF NATURAL RESOURCES.- The Secretary of the Treasury shall inform the managements of the international financial institutions and the public that it is the policy of the United States to oppose any assistance by such institutions (including but not limited to any loan, credit, grant, or guarantee) for the extraction and export of oil, gas, coal, timber, or other natural resource unless the government of the country has in place functioning systems for: (i) accurately accounting for payments for companies involved in the extraction and export of natural resources; (ii) the independent auditing of accounts receiving such payments and the widespread public dissemination of the findings of such audits; and (iii) verifying government receipts against company payments including widespread dissemination of such payment information, and disclosing such documents as Host Government Agreements, Concession Agreements, and bidding documents, allowing in any such dissemination or disclosure for the redaction of, or exceptions for, information that is commercially proprietary or that would create competitive disadvantage.

(2) Not later than 180 days after the enactment of this Act, the Secretary of the Treasury shall submit a report to the Committees on Appropriations describing, for each international financial institution, the amount and type of assistance provided, by country, for the extraction and export of oil, gas, coal, timber, or other natural resources in the preceding 12 months, and whether each institution considered, in its proposal for such assistance, the extent to which the country has functioning systems described in paragraph (d)(1).

Supplemental Appropriations Act, 2009

MULTILATERAL DEVELOPMENT BANK REFORM

SEC. 1112. (a) BUDGET DISCLOSURE.--The Secretary of the Treasury shall seek to ensure that the multilateral development banks make timely, public disclosure of their operating budgets including expenses for staff, consultants, travel and facilities.

(b) EVALUATION.--The Secretary of the Treasury shall seek to ensure that multilateral development banks rigorously evaluate the development impact of selected bank projects, programs, and financing operations, and emphasize use of random assignment in conducting such evaluations, where appropriate and to the extent feasible.

(c) EXTRACTIVE INDUSTRIES.--The Secretary of the Treasury shall direct the United States Executive Directors at the multilateral development banks to promote the endorsement of the Extractive Industry Transparency Initiative (EITI) by these institutions and the integration of the principles of the EITI into extractive industry-related projects that are funded by the multilateral development banks.

(d) REPORT.--Not later than September 30, 2009, the Secretary of the Treasury shall submit a report to the Committee on Appropriations and the Committee on Foreign Relations of the Senate, and the Committee on Appropriations and the Committee on Financial Services of the House of Representatives, detailing actions taken by the multilateral development banks to achieve the objectives of this section.

(e) COORDINATION OF DEVELOPMENT POLICY.--The Secretary of the Treasury shall consult with the Secretary of State, the Administrator of the United States Agency for International Development, and other Federal agencies, as appropriate, in the formulation and implementation of United States policy relating to the development activities of the World Bank Group.

Report on Progress Made in Promoting  
Transparency in Extractive Industries Resource Payments  
(Energy Independence and Security Act of 2007; Section 935)

## Report on Progress Made in Promoting Transparency in Extractive Industries Resource Payments

(Energy Independence and Security Act of 2007; Section 935)

### **Introduction**

This report was prepared pursuant to Public Law 110-140, the Energy Independence and Security Act of 2007, Section 935. Under subsection (d) (1), the Act mandates that the Secretary of State, in consultation with the Secretary of Energy, shall submit to the appropriate congressional committees a report on progress made in promoting transparency in extractive industries resource payments. This report addresses United States Government (USG) involvement with the Extractive Industries Transparency Initiative (EITI), bilateral efforts to help individual countries participate in EITI, and additional USG efforts to increase the transparency of natural resource payments outside of the EITI.

EITI's principles acknowledge the importance of responsible management of resource wealth for the benefit of citizens and national development. Better transparency prompts governments to become more accountable to their citizens for resource revenue windfalls and can help countries achieve development and poverty reduction goals. Transparency also creates conditions necessary for sustained improvements in investment climates and economic growth which creates more stable energy suppliers for the United States and world markets.

Extractive sector (oil/gas and mining) transparency is a key part of the USG's good governance promotion, anti-corruption, and energy security strategies. Concerning the USG's work in this area, the Department of State (State) leads in some extractive sector transparency programs, while the Department of Treasury (Treasury) leads in others. Many of these efforts and programs intersect with those of other organizations, including the International Financial Institutions (IFIs), other bilateral and multilateral donors, industry, and non-governmental organizations (NGOs). In addition, significant and specific steps taken by State, Treasury, USAID, and Embassies abroad help resource-rich countries meet the goal of increasing transparency in extractive industry payments. These actions represent only a portion of the Administration's overall efforts to increase transparency and reduce corruption in all sectors and all geographic regions.

Some significant achievements include supporting resource-rich nations that choose to join multilateral transparency initiatives, persuading other nations and their companies to support the positive transparency choices of resource-rich nations, and encouraging adoption of transparency-based criteria in the international financial institutions.

## **EITI**

The Extractive Industries Transparency Initiative (EITI) is the focal point of most of the international activity related to improving revenue reporting transparency -- the core element of transparency within the extractive sector. Publicly reconciling payments that companies make and revenues that governments receive is a critical first step to holding decision-makers accountable for the use of those revenues. Resource-rich countries implementing EITI can benefit from an improved investment climate by providing a clear signal to investors and to financial institutions that the government is committed to strengthening transparency and accountability.

EITI is a voluntary multi-stakeholder initiative that brings together government, industry, and civil society to improve resource revenue transparency. EITI is open to "implementing" countries (extractive resource exporting countries); "supporting" countries (nations whose companies are actively investing in resource-rich countries' economies or who support EITI principles); extractive industry representatives (companies and trade organizations who commit to abide by the full publication requirements of the EITI); and representatives from civil society organizations (both within implementing countries and from the international community).

Thirty countries are implementing EITI (a full list is contained in Appendix I). Twenty-nine of these countries are considered "candidate" countries, having completed the first four steps in the EITI process. The first group of EITI candidate countries has until March 2010 to complete an EITI validation; countries have two-years from the time they become candidate countries to complete validation. In February 2009, Azerbaijan became the first EITI compliant country, having successfully completed and passed an independent validation of its EITI process. Maintaining momentum with respect to the validation process is essential to the credibility of the EITI process.

### **U.S. Participation as a Supporting Country**

The United States has been an EITI supporting country since the initiative was launched in 2003 (a list of supporting countries is contained in Appendix II). As a supporting country, the United States, through the Department of State, participates in EITI's internal governance, self-regulation, and policy development; provides support and assistance to several implementing countries as part of broader transparency promotion initiatives; and regularly engages in outreach to promote EITI. Significant outreach effort has focused on increasing awareness of and support for EITI among major emerging economies and meetings and discussions with new potential participants. The United States does not provide financial support directly to the EITI Secretariat, but has provided financial support for EITI related transparency efforts bilaterally and will contribute to the World Bank operated EITI trust fund facility.

### **USG Participation on the EITI Board**

The USG, through a Department of State representative, has been on the EITI Board since 2006. The Board consists of 20 members representing implementing countries, supporting countries, civil society organizations, industry, and investment companies. The Board meets at least twice each year, and remains in contact via teleconference and e-mail at other times. The Department of State representative actively participates on several Board committees; the USG currently serves as the Board alternate in the non-European supporting country constituency.

The Department of State has taken an active role in the development of Articles of Association for EITI, which have given the initiative a more permanent legal structure. The State Department and our Embassies overseas have engaged to ensure the free functioning of civil society organizations in an EITI implementing country. A senior Administration official used the May 2009 EITI Board meeting as an occasion to express the Administration's support for EITI and its transparency promotion goals.

### **U.S. Participation in the EITI Multi-Donor Trust Fund (MDTF)**

The EITI Multi-Donor Trust Fund (MDTF) was established in 2004 with funding from the UK's Department for International Development (DFID). The Fund is administered by the World Bank on behalf of multiple



donors. The governments of the United Kingdom, Germany, the Netherlands, Norway, France, Australia, Belgium, Canada, Spain, Finland, and the European Commission have all contributed to the MDTF.

The USG has allocated \$3 million in USAID Economic Support Funds for each of FY08 and FY09 (a total contribution of \$6 million) which will soon be transferred to a revised World Bank trust fund facility that includes the original MDTF and a separate single donor trust fund to which the USG will contribute. With the receipt of the \$6 million USG contribution, the United States will become the second largest donor to the trust fund facility and will have a seat on the Management Committee. (Note: Previous USG financial support for EITI has been provided as bilateral assistance to EITI-implementing countries and NGOs.)

The MDTF Management Committee oversees the World Bank's administration of the MDTF and guides the business and policy decisions regarding the trust fund facility. The MDTF Management Committee consists of one senior representative from each donor that has contributed at least \$500,000 and one senior representative from the World Bank. The Management Committee makes strategic decisions on priorities and policies, and approves the work program for the subsequent year. The next Management Committee meeting is scheduled for later in 2009. Revisions of the work program which exceed US\$50,000 need approval by the full Committee, while smaller revisions are at the World Bank's discretion. A follow-up work-planning meeting each year evaluates progress and implementation. Bi-annual meetings and additional "special" meetings can be arranged at the request of either the Bank or a donor. An issue before the Committee is how to respond to the growing number of EITI implementing countries, including the countries that will be undergoing validation in the coming months.

The MDTF has grant agreements in place for 15 countries: Cote d'Ivoire, Equatorial Guinea, Ghana, Guinea, Kyrgyz Republic, Liberia, Madagascar, Mauritania, Mongolia, Niger, Peru, Sao Tome and Principe, Sierra Leone, Timor Leste, and Yemen for a total of \$4.5 million. Three new grant agreements— Central African Republic, Democratic Republic of Congo, and Mali are soon to be put into place. The World Bank has suspended operations in Guinea, Madagascar, and Mauritania, so the grants to these countries are on hold.

Country-specific grant agreements are signed between the recipient country and the Bank to define and establish activities and responsibilities. MDTF funds can be used to support:

1. Projects which support the six EITI criteria (see Appendix III),
2. Global activities aimed at coordinating, disseminating, and producing/publishing outputs and sector-specific guidelines produced in the various countries, and
3. Countries which have not yet signed on to the process but where the government has given the EITI Management Committee reasonable grounds to believe that they will endorse and implement EITI before the Trust Fund closes.

### **USG Outreach to Increase Participation in EITI**

Throughout the year senior level State officials encouraged major developing economies to become EITI supporting countries and ensure that their companies comply with EITI reporting guidelines. USG officials deliver a consistent and persuasive message to interlocutors in emerging economies -- as well as established investor nations -- regarding the value of voluntary multi-stakeholder efforts such as the EITI. Regarding EITI specifically, State officials emphasize that investor nations will positively affect the investment climate in countries where their extractive industries operate by publicly supporting those countries' efforts to implement EITI and advance transparency. Becoming an EITI supporting country does not interfere with internal governance issues -- it reinforces what governments in participating countries are already trying to do.

Treasury officials have also taken an active interest in EITI, and their involvement has helped expand EITI participation, as well. For instance, Treasury encouragement contributed to Liberia's decision to join EITI as an implementing country. Promoting EI transparency and accountability is a central part of Treasury's bilateral dialogue with resource rich countries, IFI Board statements, and engagements in multilateral forums.

### **Embassy Efforts**

Embassy officers have engaged with host country officials in EITI implementing countries on the importance of timely EITI implementation. Embassy officers in major emerging economies have approached host government officials about becoming EITI supporting countries and provided information on EITI and its goals.

Embassy and Consulate reporting officers cover a wide array of issues, but almost every reporting officer's portfolio contains responsibility for monitoring some aspect of good governance, anticorruption, or transparency. Embassy officers also monitor compliance with the Foreign Corrupt Practices Act (FCPA), which prohibits foreign bribery and is another tool in our fight against corruption. The FCPA focuses on the "supply-side" of the bribery equation, and complements EITI's efforts to account for payments made by companies to host governments. Although it is primarily USAID which oversees bilateral programs designed to help countries implement EITI, it is the Embassy officers covering Economic (particularly energy-related) portfolios who engage host country officials and report on EITI-specific concerns and implementation progress. For those countries that are already EITI candidate countries, Economic officers routinely report on challenges, successes, and concerns of the host government.

EITI is very much a work in progress, and attempts to engage every potentially eligible country at this stage would overwhelm a fairly new system. As noted above, the greatest challenge for both candidate countries and the EITI itself will be to guide existing candidate countries through the validation process, and either designate them as "compliant" or highlight discrepancies and advise on how to resolve them. As EITI begins moving candidates through the validation process, the success of the first countries -- and the strengthened economic climate which is expected to result -- will form the basis for even greater outreach and recruitment.

### **Bilateral Assistance Programs (USAID)**

USAID implements the majority of the USG's bilateral foreign assistance programs designed to assist resource-rich countries who seek to increase transparency in the extractive sector. USAID funding and programming decisions generally are not tied to particular agreements or conventions, and in fact can be used to help build support for and implement various agreements. USAID bilateral programs provide funding to improve

civil society engagement with the extractives sector and the EITI process in countries such as Peru, Nigeria, and the Democratic Republic of Congo. For FY08 and FY09, USAID will provide a total of \$6 million in Economic Support Funds to the World Bank's EITI trust fund facility.

USAID support for increasing transparency and accountability in the extractive industries and resource revenue management often are part of broader reform efforts to strengthen good governance or to improve conditions for economic growth. USAID programs are designed in response to host country priorities. Countries often prioritize development objectives in order to meet their commitments to international agreements such as the United Nations Convention Against Corruption (UNCAC) and the EITI.

### **Other Efforts Toward Promoting Transparency in the Extractive Sector**

#### **Treasury Department and IFI programs**

Treasury takes the lead in USG relations with the International Financial Institutions (IFIs) and their programs. In this role, Treasury interacts directly with the World Bank and other multilateral development banks (MDBs), and the International Monetary Fund (IMF), to clearly articulate U.S. policy in relation to government revenues derived from the extractive industries -- that these revenues should be reported to the public accurately and transparently, and be used to meet the development needs of the host country.

Through the U.S. Executive Directors at each of the institutions, Treasury has, pursuant to legislative guidance, advised the management of the IFIs and the public that it is the policy of the United States to oppose any assistance by such institutions for the extraction and export of natural resources unless the country has in place functioning systems for accounting and reporting on natural resource payments.

Treasury officials consistently stress the importance of resource revenue transparency in Board consideration of MDB projects, country and sector strategies, IMF Article IV consultations, Poverty Reduction Strategy Papers (PRSPs) and diagnostic studies, and in bilateral meetings with country counterparts. For example:

- Treasury promotes resource revenue transparency when considering proposed MDB policies such as the forthcoming Asian Development Bank (AsDB) energy policy, and when overseeing their implementation in individual hydrocarbon and mining sector operations. The AsDB endorsed EITI in February 2008 and has engaged in policy dialogue with the Governments of Pakistan, Papua New Guinea, Indonesia, Timor Leste, Mongolia, Kazakhstan and Kyrgyzstan to promote adoption of the principles. AsDB has a limited extractive industries portfolio, but engages in policy dialogue as part of its promotion of fiscal transparency in general.
- Treasury has supported the African Development Bank's (AfDB) efforts, since it endorsed EITI in October 2006, to mainstream EITI principles in its operations and promote transparent financial practices in African countries. AfDB has provided technical support and capacity building to four African countries with respect to EITI compliance.
- Treasury is working closely with the Board and management of the Inter-American Development Bank to secure its endorsement of EITI.
- At the request of the U.S. Executive Director, the World Bank's Oil, Gas, and Mining Department has worked with senior management of the Bank to increase awareness of revenue transparency issues and to mainstream this awareness in country assistance strategies for resource-rich client countries. In addition, the World Bank's Independent Evaluation Group is completing a comprehensive assessment of the Chad Cameroon Pipeline Project.

The European Bank for Reconstruction and Development (EBRD) supports the EITI initiative in various ways, including: (a) through mandatory requirement for EBRD projects to comply with EITI in their host countries of operation (if such countries have an existing EITI initiative); (b) through requirement to comply with Publish-What-You-Pay standards (in countries that are not implementing EITI); (c) through on-going policy dialogue with Governments, Industry and NGOs, in EITI-implementing countries, in coordination with the International and Local EITI Secretariats, and other IFIs in particular the World Bank.

These efforts to promote transparency and accountability extend beyond the extractive industries sector. Following strong U.S. leadership

during negotiation of the fourteenth replenishment of the International Development Association (IDA), the World Bank agreed to predicate IDA's financial assistance for extractive industries projects with a significant impact on revenues upon the recipient government's having in place, or being in the process of establishing, a functioning system for accounting for revenues and their use. In addition, the government should also have in place, or commit to establish, a functioning system for the independent auditing of such revenue receipts and the public dissemination of the results. Although these actions are especially relevant to extractive industry projects with significant revenue impacts, they are also applicable to all budget support operations, such as set out in the World Bank's operational policy on Development Policy Lending. Treasury is actively working to establish these standards and policies at all of the MDBs.

The Treasury Department has also encouraged the IFIs to make fiscal transparency a central part of their diagnostics, including through application of the IMF Guide on Resource Revenue Transparency; IMF Code and Manual of Good Practices on Fiscal Transparency; IMF Code of Good Practices on Transparency in Monetary and Financial Policies; Declaration of Principles; World Bank Country Financial Accountability Assessments and Country Procurement Assessment Reports; and the joint Public Expenditure and Financial Accountability (PEFA) indicators. The Treasury Department reviews all MDB-financed activities in extractive industries when they come to the Boards of Directors, and prepares an annual report to Congress.

### **DOE programs**

Through various ongoing consultative and cooperative mechanisms (Energy Policy Dialogues, Bilateral Consultations, cooperative programs and exchanges), including at the ministerial level and with key EITI Implementing Countries and with countries expressing interest in participating, the Department of Energy promotes and encourages energy sector reforms. These efforts include a focus on good governance, enhanced transparency, stable regulatory and investment climates, and open and competitive bid processes. Specific activities include reviewing and commenting on draft legislation and policies and conducting regulatory capacity training in the host countries and in the United States.

### **OPIC Programs**

OPIC recognized the interest of the U.S. government and the U.S. taxpayer in creating a level playing field for lawful business activities and combating corruption, as well as for promoting the most beneficial developmental activity. Accordingly, OPIC formally endorsed the principles of the EITI in September 2006. OPIC actively participates in the work of the EITI and has required adoption of the applicable EITI principles by its clients and sponsors.

Specifically, OPIC is actively involved in the EITI consultative process; promotes transparent revenue reporting, as well as increased financial and organizational transparency; works in cooperation with other international financial institutions and the participating private financial institutions to promote governance and transparency initiatives in the financial community. OPIC recognizes that in some instances, participation in EITI can reduce the risks associated with a project, and can improve the likelihood of success in the most developmental markets, while reducing associated costs.

### **The OECD Anti-Bribery Convention**

While U.S. companies are subject to the Foreign Corrupt Practices Act (FCPA), the Organization for Economic Cooperation and Development's (OECD) Anti-Bribery Convention subjects member governments to restrictions on the ability of their companies to bribe foreign officials. The U.S. is a leading proponent of vigorous enforcement of this convention in the OECD's Working Group on Bribery (WGB). The Departments of State, Commerce, and Justice and the Securities Exchange Commission represent the U.S. at the WGB.

### **Conclusion**

Transparency promotion and the pursuit of improved governance are key USG foreign policy objectives that involve numerous departments and organizations. Interagency cooperation has strengthened the USG role in EITI and persuaded new participants to consider supporting EITI. The USG will continue to strongly support EITI and other governance improvement efforts and will continue to push for major developing countries to become EITI supporters.

The next several months will be a crucial time for EITI, as 21 countries seek to successfully complete EITI validation before their March

2010 deadline. The USG will work closely with the EITI Secretariat and with other EITI stakeholders to encourage candidate countries to complete their validation on time. At the same time, however, EITI remains only one of the elements which USG agencies use in promoting increased transparency and reduced corruption in host governments. Additional efforts outside of the initiative, such as monitoring the FCPA, and fostering UNCAC implementation, as well as those programs currently underway in the International Financial Institutions, continue to emphasize that transparency is a key prerequisite to receiving U.S. support for new investments and loans in the extractive industries.



## Appendix I

### EITI Implementing Countries

Albania  
Azerbaijan  
Burkina Faso  
Cameroon  
Central African Republic  
Cote d'Ivoire  
Democratic Republic of Congo  
Equatorial Guinea  
Gabon  
Ghana  
Guinea  
Kazakhstan  
Kyrgyzstan  
Liberia  
Madagascar  
Mali  
Mauritania  
Mongolia  
Mozambique  
Niger  
Nigeria  
Norway  
Peru  
Republic of Congo  
Sao Tome/Principe  
Sierra Leone  
Tanzania  
Timor Leste  
Yemen  
Zambia

### Countries expressing interest in implementing EITI:

A number of countries have expressed interest in implementing EITI and are working to complete the EITI sign-up indicators to become candidate countries including -- Afghanistan, Iraq, and Indonesia.

## Appendix II

### EITI Supporting Countries

United States  
Australia  
Belgium  
Canada  
Finland  
France  
Germany  
Italy  
Japan  
The Netherlands  
Norway  
Qatar  
Spain  
Switzerland  
The United Kingdom

### EITI Endorsements:

The G8 has endorsed the EITI at the Summits in Evian (2003), Sea Island (2004), Gleneagles (2005), and Heiligendamm (2007), Hokkaido Toyako (2008), and EITI is on the agenda for the La Magdalena Summit (2009). In 2008, the EITI was endorsed by the UN in a 2008 General Assembly Resolution.

## Appendix III

### EITI Criteria:

- Regular publication of all material oil, gas, and mining payments by companies to governments ("payments") and all material revenues received by governments from oil, gas and mining companies ("revenues") to a wide audience in a publicly accessible, comprehensive and comprehensible manner.
- Where such audits do not already exist, payments and revenues are the subject of a credible, independent audit, applying international auditing standards.
- Payments and revenues are reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator's opinion regarding that reconciliation including discrepancies, should any be identified.
- This approach is extended to all companies included state-owned enterprises.
- Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate.
- A public, financially sustainable work plan for all the above is developed by the host government, with assistance from the international financial institutions where required, including measurable targets, a timetable for implementation, and an assessment of potential capacity constraints.

Source: EITI homepage, [www.eitransparency.org](http://www.eitransparency.org)

## Appendix IV

### EITI Principles:

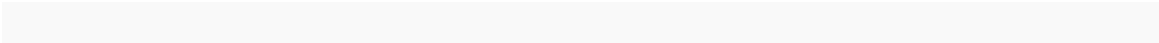
The EITI Principles, agreed at the Lancaster House Conference in June 2003, provide the cornerstone of the initiative. They are:

We share a belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction, but if not managed properly, can create negative economic and social impacts.

1. We affirm that management of natural resource wealth for the benefit of a country's citizens is in the domain of sovereign governments to be exercised in the interests of their national development.
2. We recognize that the benefits of resource extraction occur as revenue streams over many years and can be highly price dependent.
3. We recognize that a public understanding of government revenues and expenditure over time could help public debate and inform choice of appropriate and realistic options for sustainable development.
4. We underline the importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability.
5. We recognize that achievement of greater transparency must be set in the context of respect for contracts and laws.
6. We recognize the enhanced environment for domestic and foreign direct investment that financial transparency may bring.
7. We believe in the principle and practice of accountability by government to all citizens for the stewardship of revenue streams and public expenditure.
8. We are committed to encouraging high standards of transparency and accountability in public life, government operations and in business,
9. We believe that a broadly consistent and workable approach to the disclosure of payments and revenues is required, which is simple to undertake and to use.

10. We believe that payments' disclosure in a given country should involve all extractive industry companies operating in that country.

11. In seeking solutions, we believe that all stakeholders have important and relevant contributions to make – including governments and their agencies, extractive industry companies, service companies, multilateral organizations, financial organizations, investors, and non-governmental organizations.



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