

U.S. Treasury Department

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

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A. Introduction

This report describes the policy of the U.S. Department of the Treasury (Treasury) concerning the exploitation of natural resources and the amount and type of assistance provided by each international financial institution (IFI) for the extraction and export of oil, gas, coal, timber or other natural resources. The report is prepared pursuant to section 7081(f) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2010 (which was part of Public Law 111-117 and was signed into law on December 16, 2009.) (A copy of section 7081(f) 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, 2008 and 2009 foreign operations appropriations acts.

The report first discusses the general engagement of the United States, particularly Treasury, in promoting extractive industries (EI) transparency. The report provides summaries of the activities of the IFIs in support of EI transparency and promoting good governance of extractive industries by resource rich borrowing member countries. The report then describes the 18 multilateral development bank (MDB) funded projects related to EI, between August 1, 2009, and May 31, 2010, of which one project was withdrawn at the request of the borrowing company.

B. U.S. Government Engagement

EI transparency is a major objective of U.S. foreign and development policy. Treasury takes the lead in U.S. Government (USG) engagement with the IFIs, which play an important role in promoting overall fiscal transparency in extractive and other sectors in developing and emerging market countries. Treasury also promotes EI transparency in international and regional fora and with country counterparts. The Department of State (State) represents the United States on the Board of the Extractive Industries Transparency Initiative (EITI) and, through U.S. Embassies, advocates for country participation in EITI. The U.S. Agency for International Development (USAID) provides bilateral support to help developing countries implement EITI and contributes to the EITI trust fund administered by the World Bank. In June 2010, State submitted its second annual report to Congress on *Progress Made in Promoting Transparency in Extractive Industries Resource Payments*. There is close coordination on EI transparency, including USG participation in EITI, among Treasury, State, and USAID, and engagement with the private sector and civil society organizations.

Treasury also works through bilateral policy channels to encourage EI transparency. For example, Treasury has successfully encouraged countries, such as Liberia, to participate in EITI. Treasury has raised the importance of EITI in meetings with senior government officials from countries, such as from Cameroon and Indonesia, and with EITI stakeholder groups in Azerbaijan, Peru, and Nigeria. In Abuja, Nigeria, in June 2009, Treasury encouraged senior government officials to publish the FY 2005 audit of revenues (it was published in July 2009) and to make progress toward completing the EITI validation steps. Treasury discussed revenue

transparency with Azeri officials during the December 2008 meeting of the U.S.-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. Azerbaijan became the first country to be deemed EITI compliant and has addressed the gaps identified in the validation report. Treasury has also used face-to-face contacts to urge Angola and Equatorial Guinea to re-engage with EITI. In addition, we have endorsed EITI and EI transparency in multilateral fora such as the G-7/G-8 and G-20.

Through its Office of Technical Assistance (OTA), Treasury 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 assists host governments to form joint teams 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 tax deductions taken for prospecting costs, all of which help to establish accountability among companies and ensure that the government is receiving revenues due. OTA provided about two years of assistance in this sector in Azerbaijan. OTA continues to provide technical assistance in EI tax auditing in Mozambique, where it has been working since 2008, and earlier in 2010 began similar efforts in Colombia and Mongolia.

Treasury has encouraged the IFIs to support EITI through their policy, operational, and diagnostic work. Treasury officials and U.S. Executive Directors at the IFIs consistently stress the importance of resource revenue transparency in international negotiations (such as negotiations on MDB replenishments) and in Executive Board discussions on: sector strategies, country assistance programs, proposed investment and technical assistance projects, and International Monetary Fund (IMF) Article IV reports. For example, in the April 2010 discussion of the World Bank's country assistance strategy progress report for Papua New Guinea (PNG), the United States highlighted the importance of EITI and urged PNG to become an EITI candidate country. Given the large role that mining is expected to play in the Solomon Islands' economy, Treasury strongly supported the World Bank's inclusion in its interim country strategy of technical assistance to update the mining sector regulatory and institutional framework, and support for the Solomon Islands to increase transparency and work to become a signatory of EITI.

All proposed MDB EI projects are scrutinized by a team of Treasury analysts which reviews the proposals in coordination with staff from other U.S. government agencies. We recognize that many MDB EI projects have not fully addressed the complex challenges posed by these operations, and we have considered the findings and recommendations on these projects emerging from the MDBs' inspection functions and independent evaluation units. We have also worked to increase the MDBs' own scrutiny of revenue transparency in their due diligence process, as was the case for the proposed Inter-American Development Bank (IDB) investment in the Pueblo Viejo gold mine in the Dominican Republic earlier this year.

Our efforts to promote EI transparency are not limited to EITI candidate countries. 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 require that recipient governments have in place, or be in the process of establishing, a functioning system for accounting for revenues and their use, as a condition for IDA assistance for an EI project. In addition, in order 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.

Treasury's efforts to promote transparency and accountability represent a general institutional commitment that extends beyond the EI sector. We believe this clear, broad commitment strengthens our credibility on EI matters. As such, Treasury has encouraged the IFIs to use their analytical and diagnostic tools to help countries identify and address weaknesses in their public financial management (PFM) systems – such as urging that national budgets be public and readily accessible – to ensure that public resources are used effectively and accountably to meet the countries' development needs.

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

All of the IFIs have endorsed the Extractive Industries Transparency Initiative (EITI), and increasingly are integrating EITI principles into their operations. As confirmed by a key Senate report,¹ the World Bank and IMF both have launched efforts to improve accounting and transparency of EI revenues by borrowing member countries. In addition, the IFIs 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 adopt EITI principles, and have made public commitments to take EITI principles into account when selecting and preparing EI projects.

Below are summaries, by institution, of IFI support for the extraction and export of natural resources and EI transparency.

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 a number of initiatives, including 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' PFM 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 (published in 2005 and revised in 2007) which sets the global standard for assessing the quality and capacity of countries' systems for managing their natural resources wealth.

¹ *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.

The Fund also provides technical assistance to help strengthen countries' capacity to manage their natural resource revenues. For example, the Fund has played a pivotal role in endorsement of Santiago Principles, prepared with help of the IMF and aimed to promote sound and transparent management of Sovereign Wealth Funds, which serve as investment vehicles for such revenues.

As of end-2009, the IMF had completed fiscal transparency ROSCs in 107 countries, many of them with substantial resource revenue wealth. In 2009, Fiscal ROSCs were published for Thailand, Estonia, Norway, Serbia, and Switzerland. Three are currently under preparation. Treasury raised the importance of resource revenue transparency in Board discussions on other IMF reports, such as with the 2009 Kazakhstan Article IV report, and during requests for financing programs from Côte d'Ivoire and Angola.

The Fund recently provided advisory and technical support in areas such as: PFM (Bolivia and Nigeria 2009 Article IV reviews); administration and implementation of petroleum fiscal regimes (Timor-Leste 2009 Article IV review); managing petroleum oil revenues (Uganda); and fiscal decentralization, including resource revenue issues and implementation of EITI (Liberia 2009 Second Review under Liberia's three year Poverty Reduction and Growth Facility (PRGF) program). The IMF also recently held a regional assistance workshop on resource revenue administration in Ghana and published its results in April 2010. In 2009, in the context of program work, IMF supported the steps by Afghanistan and Iraq to join EITI, advanced Mongolia's EITI participation to near compliant status, and provided substantial support to Liberia's steps to achieve EITI compliance.

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. The launch of this initiative is expected at the end of 2010/early 2011.

World Bank Group

The World Bank Group (WBG) is involved in lending and non-lending activities in oil, gas and mining in over 50 developing countries. In keeping with the commitments made by management under the 2003 Extractive Industries Review (EIR), the WBG assesses the expected benefits of its engagement in specific investments in the sector, as well as the capacity of the borrowers to mitigate risks. Each year, the Bank publishes a report on EIR implementation, assessing progress in meeting the social, environmental, and transparency commitments.

The WBG, including its private sector arm the International Finance Corporation (IFC), does 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, the IFC requires that: 1) for significant new EI 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 EI projects publicly disclose their material payments from those projects to the host government(s). In 2008, the IFC worked with clients to review their practices and developed a website to facilitate access to the information made public by companies. To date, nine EI clients are using the website to disclose their payments to host governments. Beginning in 2009, the IFC clarified its disclosure requirements to make sure that there is consistent reporting across companies. IFC has active programs in both Colombia and Peru where it works with local municipalities to increase their capacity to effectively use revenues that accrue to them from extractive industries. In parallel it works with local institutions and others to increase awareness and understanding at the local level about these revenues. IFC is considering how the lessons from this work can be more broadly applied.

The World Bank has been a central source of financing, technical assistance, and advisory services to EITI. In January 2010, the Bank issued policy recommendations to strengthen EITI reporting for consideration by the EITI Board. The Bank has helped many countries to implement their EITI commitments, while supporting efforts, more broadly, in the areas of fiscal management, legal and regulatory reform, and institutional development. Recently, the Bank has supported Iraq's efforts to become an EITI candidate country, and has helped the government develop implementation methodology and coordinate with industry and civil society stakeholders. The Bank also conducts outreach and advocacy in non-EITI countries, such as Indonesia, Colombia, South Africa and Rwanda. The Bank administers the EITI multi-donor trust fund (MDTF), and has developed a matrix to measure and track MDTF-funded activities. The Bank continues to assist the work of the EITI Secretariat, and a memorandum of understanding with the Secretariat is in place regarding activities of the Bank in support of EITI.

The World Bank's efforts are not limited to EITI, and the Bank has supported efforts to build transparent and effective fiscal and regulatory frameworks in many borrowing countries, such as Bulgaria, and has 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. It has established a community development facility (Commdev) that works with investors and other stakeholders to enhance the impact of extractive industries on communities that IFC finances and to develop good practice approaches more generally. The Bank administers the Extractive Industries Technical Advisory Facility, a facility that provides technical assistance to governments with respect to EI developments.

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 issued a comprehensive review of the Chad Cameroon Pipeline Project, which draws lessons and makes recommendations based on the experience from this complex and controversial project. The evaluation report is available on the World Bank website: www.worldbank.org/oed.

African Development Bank (AfDB)

The AfDB endorsed EITI in October 2006. In May 2008, the Board approved the *Governance*

and Strategic Directions Action Plan 2008-12 to strengthen transparency and accountability in the management of public resources. 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. The Bank's progress with EITI implementation is a key performance indicator under the results framework for the AfDF-11 replenishment negotiated by the United States and agreed in December 2007.

Operationally, the Bank has helped Botswana, the Central African Republic, and Madagascar to become EITI candidate countries, and supported the efforts of Liberia to attain EITI compliance. The Bank's support to Liberia's EITI (LEITI) included: (i) development of a communications and outreach program; (ii) enhancing the capacity of government, civil society, and traditional leaders, and (iii) strengthening the LEITI Secretariat. The Bank has approved an additional \$460,000 to support LEITI's work-plan over the FY2009-11, to help the country maintain compliance. The Bank has also engaged in dialogue with several countries to improve EI governance. Most of these countries, including Burkina Faso, Sierra Leone, Mozambique, Chad, Democratic Republic of the Congo, and Tanzania have joined or re-joined EITI as a result of these efforts, and will continue to receive Bank support for EITI implementation. This includes the establishment of national EITI Secretariats and support for both audits and the EITI validation process.

The AfDB has also supported regional efforts, such as work by the Executive Secretariat of the International Conference on the Great Lakes Region (ICGLR) to design a project to put in place strategies and tools to combat illegal exploitation of natural resources in the Great Lakes Region. Such a project is being presented by the ICGLR Secretariat for funding to donors, including the Bank. Funding for such a project is contemplated through the Fragile States Facility (FSF) within the Bank.

The Bank provides in-house training for Bank staff in areas such as EI taxation, EI transparency, and EI capacity building. EITI implementation training also has been provided, in cooperation with the EITI Secretariat, to staff from regional member countries that have endorsed EITI. The Bank has sponsored regional events, such as an October 2009 conference in Botswana on EI fiscal regimes and taxation co-hosted with the Organization for Economic Cooperation and Development (OECD) and the African Tax Administrators Forum. The Bank also co-hosted a three-day national information workshop with several civil society groups for the Publish What You Pay (PWYP) Campaign in Tanzania.

At our urging, the AfDB Private Sector Department makes sure that its project sponsors adhere to EITI standards in countries that have endorsed the initiative. In recent years, the AfDB has expanded its engagement in EI by increasing the number of private sector operations and strengthening its commitment to support institutional reforms for EI sector development. The EI sector is a significant source of economic growth in resource-rich developing countries, but resource abundance has paradoxically undermined economic growth and sustainable development in many of these countries by giving rise to or entrenching poor governance, fueling conflict between political groups, and leading to unsound macroeconomic policy. Therefore the AfDB has prepared a *Guidance Note for Addressing Governance in Extractive*

Industries Sector Operations to put in place a tool to improve country strategies in resource-rich borrowing countries and private sector investment operations in the EI sector. The Note focuses on Bank processes, procedures, and rules governing the processing of Country Strategy Papers and EI private sector operations.

Asian Development Bank (AsDB)

AsDB management endorsed EITI in February 2008, and actively encourages its developing member countries (DMCs) to adopt EITI principles and participate in the initiative. 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. With respect to its own operations, AsDB recommends that, for any Bank-financed EI project, EI payments to the host government be publicly disclosed.

The Bank has designated an EITI focal point in the Regional and Sustainable Development Department to serve as a 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 and regional 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. For example, in March 2010, the Bank joined regional governments, donor institutions, and civil society organizations in a seminar on "Implementing EITI in Asia Pacific".

We have reinforced the importance of adhering to EITI principles in U.S. Board statements, such as the statement on the Kazakhstan Countercyclical Support Loan approved in September 2009. 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.

European Bank for Reconstruction and Development (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 became the first country to achieve compliance with EITI standards (in February 2009). The EBRD has played an important role in EI developments in the region through the financing of major oil and gas projects in Azerbaijan, the financing of the Kumtor mine in the Kyrgyz Republic, and 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 Mongolia, the

Bank is providing technical cooperation funds to support commencement of digitization of the Mining Cadastre of the Mineral Resources Authority of Mongolia in coordination with assistance from other IFIs. This is expected to increase transparency and reduce the entry cost for mining companies in acquiring prospecting information, thus leading to increased expenditures by companies in the exploration for mineral deposits.

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 such 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)

The IDB endorsed EITI, with the approval of the Board of Directors, in July 2009. Since that time, the Bank has been coordinating closely with the EITI Secretariat and other EITI supporters. Management sees EITI as a good platform to draw in champions on energy reform as well an opportunity to address other governance and regulatory reforms within the mining and oil/gas sectors, and intends to respond wherever possible to requests by member countries for technical assistance.

Examples of ongoing and potential IDB support for EITI, including advocacy work, are:

- Peru: is an EITI candidate country. A loan under preparation will help two municipalities to improve revenue management, including from the Camisea Gas Pipeline Project. Future IDB support could include helping Peru address recommendations in its forthcoming validation report, and disseminating lessons learned to other countries in the region.
- Paraguay: The Bank is preparing a possible package of support (that will meet EITI standards) for an aluminum smelter. The sponsor, Rio Tinto, is an EITI supporting company.
- Guyana: The Prime Minister recently indicated willingness to join EITI, and the Bank intends to move forward soon with an EITI scoping mission.

- Guatemala: Subject to internal approvals, the EITI Secretariat and the IDB have agreed to do a joint scoping mission, which could take place in June/July 2010.
- Mexico: President Calderon has expressed interest in moving forward with the implementation of EITI, and Pemex is an EITI supporting company. IDB is prepared to support Mexico's implementation of EITI.
- Bolivia: There could be an opportunity to engage the country with EITI as part of the corporate governance and transparency package for a possible loan in the hydrocarbon sector.
- Chile: The EITI Secretariat will start working with the EI sector in order to build support for the EITI implementation.

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 distribution of funds to decentralized regional and municipal governments.

There are a number of IDB 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 IDB to secure its endorsement of EITI on July 29, 2009. In its 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), the Office of the U.S. Executive Director has also stressed the importance of EI transparency and accountability.

D. MDB-Financed Extractive Industries Projects

Section 7081(f) provides that this report shall include IFI assistance for EI over the preceding 12 months (June 2009 through May 2010).² This report covers MDB projects from August 1, 2009 to May 31, 2010, because the 2009 report had included MDB projects from June 1 through July 31, 2009.

The report describes in some detail 18 MDB projects related to EI, of which one project was withdrawn at the request of the borrowing company. The United States supported 11 of these

² The period ends about two weeks prior to the due date of this report to allow Treasury time to prepare and submit the report.

projects. In nearly all cases, there were some elements of good transparency practices, although no project fully achieved the objectives identified in Section 7081(f). Those objectives are whether the MDB explicitly considered the extent to which the country has in place functioning systems for: (1) accurately accounting for payments to the government by companies involved in the extraction and export of the natural resources; (2) independent auditing of accounts receiving such payments; and (3) widespread public dissemination of the findings of such audits, and verification of government receipts against company payments.

In considering EI projects, Treasury analysts review project documents for evidence that the MDB considered the extent to which the government has such functioning systems in place. Also, Treasury analysts often meet with Bank staff in person to discuss the above EI issues.

1. African Development Bank (AfDB)

Mauritania - Loan to National Industrial and Mining Company for Expansion of Guelb II Mine; \$175 million senior project loan; September 16, 2009: The AfDB's senior loan to SNIM, Mauritania's industrial and mining parastatal, is part of a \$771 million (\$599 million from donors) project to expand the Guelb II Rhein iron ore mine as well as construct and start-up a new iron ore enrichment plant, which will result in additional production of 4 million metric tons of iron ore per year. This additional production will be exported to SNIM's traditional European markets and China. While the project document noted that Mauritania joined the EITI in 2005, established a National Monitoring Committee, and regularly publishes revenue flow reports from the Independent Report Administrator in line with EITI guidelines, it did not discuss Mauritania's slippages in its progress toward meeting EITI goals during 2009 or that Mauritania does not disclose a number of key documents pertaining to SNIM concession and bidding arrangements. The United States abstained on this loan due to these inadequacies in EI transparency, as well as the failure of the environmental impact assessment to consider or disclose cumulative impacts from a port and railroad expansion directly tied to this project.

Tunisia - Loan to Entreprise Tunisienne D'activites Petrolieres (ETAP)/ Hasdrubal Oil and Gasfield Development Project; \$150 million loan; March 17, 2010: The AfDB approved this unsecured corporate loan to help ETAP, the Tunisian national oil company, finance completion of the Hasdrubal offshore oil and gas field in the Gulf of Gabes as well as other corporate activities.³ The Hasdrubal concession towards which most of the loan proceeds will be directed will produce natural gas (880 million cubic meters), oil (3.5 million barrels) and liquefied petroleum gas (LPG) (1.6 billion barrels of butane and propane). While gas and butane will be produced for the local market, oil and propane will be exported to Mediterranean markets. The AfDB assessed Tunisia as having an adequate system for auditing and reporting receipts from the petroleum sector. Annual reports of all national oil and gas activities, including audited financial statements, are published on ETAP's website. Royalties and other taxes or revenues derived from the sector can be traced through the fiscal budget. Excerpts from Host Government agreements, concession agreements, and other key documents 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

³ The AfDB developed this project after co-financing for a similar 2008 AfDB loan unraveled, due to the financial crisis.

management of the oil and gas sector broadly met the spirit of EITI principles. The United States abstained on this loan because environmental and social impact assessment summaries for the other Category A environmental projects funded by the loan, not Hasdrubal, did not meet the Pelosi Amendment's 120-day advance disclosure requirement.

2. Asian Development Bank (AsDB)

None

3. International Finance Corporation (IFC)

Africa Region – Global Environment Fund Management Corporation (GEF) Africa Sustainable Forestry Fund, L.P. - \$20 million equity investment – April 23, 2010: The GEF Sustainable Forestry Fund will target investments in forestlands or forestry-related companies in Sub-Saharan Africa, particularly in Mozambique, Tanzania, and Uganda. The Fund expects to make six-ten equity investments ranging from \$15-\$30 million per company in the following sub-sectors: (1) greenfield and existing plantations combined with downstream processing facilities; (2) natural forest concessions; and (3) renewable energy generation through biomass. The United States abstained on this investment on grounds of the Pelosi Amendment, environmental concerns, and the Extractive Industries policy mandate. While the Fund's investment committee, of which the IFC will be a member, will have the right to veto investments in natural forests or Category A investments, the USG consensus view was that projects of this kind could have a significant impact on the environment, and therefore trigger application of the Pelosi Amendment requirements. But the IFC will not require 120-day advance public disclosure of environmental assessments for any high impact sub-projects as is required by the Pelosi Amendment. In addition, formally or informally, there has been a longstanding moratorium on World Bank Group funding for investments for harvesting of tropical moist forests. This project appears to reverse this 25-year practice. While recognizing the need for creative approaches in the forestry sector, given the nearly 20% of carbon emissions from deforestation and land-use change related to deforestation, we believe that a high level of transparency, due diligence, and risk management must be applied to forestry projects to prevent unintended negative environmental effects. This project also triggered the Extractive Industries "policy" mandate. Because the Fund could not specify with certainty the countries in which it would invest at the time of the Board vote, and because the United States will not be able to vote individually on future subprojects when the countries are known, the United States could not affirm at the time of voting that the mandate's criteria were fulfilled.

Africa Region - New Africa Mining Fund - \$30 million equity investment – May 13, 2010: New Africa Mining Fund is a private equity fund which will invest in small-to-mid-tier companies focused on metal and mineral exploration. The United States abstained on the project for several reasons. First, given the focus on mining, this operation was likely to have significant environmental impacts, and therefore trigger the Pelosi Amendment. We concluded that the subprojects' Environmental Impact Assessments (EIS) would not meet the Pelosi Amendment's advance disclosure requirement (120 days). Second, the project also triggered the EI policy mandate. The New Africa Mining Fund did not specify with certainty at the time of Board vote where it would invest, but only indicated that half of its investments would be in South Africa

with the remaining half in the Southern African Development Community. Many SADC countries' practices are not consistent with the EI legislative criteria.

Chile -- Tranquilo and Otway UJVs; \$20 million equity; December 21, 2009: GeoPark, through its subsidiary, GeoPark Magallanes Limitada, is the operator of the Otway and Tranquilo oil and gas exploration blocks, located in the Austral basin of Chile. Phase I of the Project covers the first three-year exploration period, and entails further appraisal of the Blocks through a three-year capital expenditure program to finance work commitments that include seismic programs and eight exploration wells. This work program will provide additional technical information to the UJV partners for estimating the volume of reserves and proceeding with the development of any discoveries. There are no natural resource revenues from this project. Chile has consistently demonstrated good governance as evidenced by its consistently high ranking on the World Bank Institute's Governance Indicators where the country scored in the 75th to 90th percentile. The United States supported the project due to its positive impact on the Chilean economy, and because it will support the use of international standards for environmental and social safeguard practices.

Ghana -- Jubilee FPSO; IFC \$375 million debt and equity, and \$250 million MIGA guarantee; April 29, 2010: Jubilee FPSO is a leased floating production and storage facility to process, store and offload crude oil from the Jubilee offshore oilfield, Ghana's first oil discovery. The expensive and inconsistent supply of energy is one of the most important long-term constraints on Ghana's private sector. Production would diversify Ghana's energy input sources and reduce Ghana's reliance on imported oil and gas supplies. 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 project's sponsors will disclose publicly information about revenue payments to the government, consistent with IFC policy. IFC reports that approximately two-thirds of the oil to be produced will be exported, most likely to Europe and North America. According to World Bank governance indicators, Ghana has in place a functioning system for accounting for revenues and expenditures and for reconciling payments to the government and receipts. While Ghana focused mainly on the transparency of mining revenues, prior to the discovery of offshore oil, the Government also has committed to implement EITI principles for oil revenues. Ghana is close to EITI validation. While the specific Jubilee FPSO project contract has not been made publicly available, it is based on a "model" contract which is publicly available on a Government of Ghana website. In addition, at the IFC's request, Kosmos (the operator) has committed to disclose publicly on an annual basis all material payments to government authorities. The United States abstained on the project due to Pelosi Amendment and environmental concerns. Treasury concluded that the environmental impacts of this project, prior to any mitigation measures, are significant and that, as such, Ghana and the IFC should have published a full EIA in conformity with the standards of the Pelosi Amendment. In light of this concern, yet recognizing the Government of Ghana's efforts to develop its energy resources in a transparent and sustainable manner, the United States abstained on the IFC investment and MIGA guarantee.

Haiti -- Eurasian Minerals Incorporated; \$5 million equity and \$5.3 million warrants package; January 7, 2010: Eurasian Minerals Inc. is a junior mining company focused on precious and base metal exploration in Northern Haiti. The equity investment will help finance gold and

copper exploration in Northern Haiti. At this stage, there are no natural resource revenues from this project. The United States supported the project due to its positive impact on the Haitian economy and because it will foster private sector development.

Morocco – Kasbah Resources Limited - \$9 million equity investment – April 16, 2010: Kasbah is a junior mining company currently focused on tin and gold exploration in Morocco. The company is listed on the Australian Stock Exchange (ASX). Its key asset is the exploration-stage Achmmach Project, located on the western edge of the El Hajeb province, where the economy consists of agriculture using low-skilled labor. Morocco has not yet expressed interest in joining EITI, but Kasbah has committed itself to making public the project contract and all revenue payments to the Moroccan government. The details of the contract between the government's mining regulatory body and Kasbah are publicly disclosed and listed on Kasbah's website. The United States supported the project because it will foster private sector development.

Peru – Anglo American Quellaveco S.A.; \$18 million equity; May 21, 2010: Anglo American's Quellaveco mine concession holds copper, molybdenum, and silver. The funds will support exploration, development and engineering work to complete the revised feasibility study for the concession. The sector represents over 6 percent of the country's GDP, contributes nearly 30 percent of the central government's tax revenues, and accounted for 62 percent of the country's total exports in 2006. In addition, its 2007 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, were \$1.7 billion. The IFC's proposal did not explicitly consider the extent to which the country has functioning systems in the mining sector 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, or the verification of government receipts against company payments. However, the Government of Peru has taken measures to improve its transparency regarding EI activities. The 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 IFC believed that the governance risks were not significant. The United States supported this investment because Peru stands to gain significantly from expanding its mining activities that will provide royalties to municipalities in poor rural areas.

Solomon Islands – Loan and Equity for Gold Ridge - \$25 million loan and \$10 million equity; September 3, 2009: The funds will restart operations of Gold Ridge mine, an open pit gold mine on Guadalcanal Island. The mine commenced operations in 1998 before closing due to civil unrest in June 2000. The proposed investment will rehabilitate and replace existing equipment and redevelop the mine area to restart production in 2011. Benefits include over \$80 million (net present value) in revenues to the government over the estimated 10-year life of the project; diversification away from unsustainable logging activities which have been the main engine of growth; and the demonstration impact of IFC's environmental and social standards, as future mining activity is expected to increase. The Government of the Solomon Islands thus far has not publicly disclosed the mining agreement. It is not a member of the EITI, nor has it declared any commitment to join EITI. However, the World Bank Group is providing technical assistance to

support the process of signing up for EITI. The IMF's latest Article IV review (November 2008) stated that "enhanced transparency and accountability of spending by both central government and ministries are needed to ensure monies are not misspent." Solomon Islands ranks 109 out of 180 on the Transparency International Corruption Index. The borrower's parent company, Australian Solomons Gold (ASG), will make public the royalty and tax rates that govern its license. In addition, ASG publishes its payments to government through local media upon the request from local landowners, which enhances transparency and the accountability of the central government to local communities. IFC standards require ASG to make publicly available a detailed breakdown of its payments to government by type (royalty, income tax, etc.) and by national or local recipient.

The United States abstained on the project, applying the EI policy mandate because, while the company is prepared (and required) to make transparent its payments of royalties and taxes, the Government of the Solomon Islands falls short of the accounting and auditing standards of the legislative guidance. The United States also abstained because the project was inconsistent with the Pelosi Amendment requirements on environmental impact assessment disclosure and assessments of cumulative and associated impacts.

Tanzania – Saza Makongolosi Gold - \$14 million equity investment – January 20, 2010: Helio Resource Group is a junior mining company focused on gold exploration in Tanzania. The company is listed on the Toronto Stock Exchange and holds five exploration permits in Tanzania. Its flagship project is the Saza Makongolosi Gold Project located in southwest Tanzania. IFC's equity investment will support ongoing exploration work and future feasibility studies. There are currently no revenues or royalties being paid to the government. In line with IFC requirements, Helio will disclose publicly all material payments made in the form of taxes, royalties, and fees to the government after production begins. The United States supported the project because it furthers economic development in Tanzania. Tanzania has recently been accepted as an EITI candidate country and has IBRD support for the implementation of EITI in the mining sector.

Thailand and Indonesia, East Asia Region; \$50 million loan; September 29, 2009: Salamander Energy is 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.

West Africa Region -- Volta Resources; \$14 million equity investment; March 1, 2010: Volta Resources is a Canadian mining company listed on the Toronto Stock Exchange with concessions in Burkina Faso, Ghana, and Mali. This investment focuses on exploratory activities and feasibility studies in the Kiaka gold project in Burkina Faso. There are currently no revenues or royalties being paid to the government. The World Bank's Mining Division has been involved in Burkina Faso since 1997 and is currently discussing with the Government a

new mining program aimed at capacity building within the Ministry of Mines and implementation of EITI. Burkina Faso is a candidate EITI country. IFC will require Volta to disclose all material payments made to the Government in the form of taxes, royalties, and fees after production begins. The United States supported the project for economic development reasons.

4. Multilateral Investment Guarantee Agency (MIGA)

Ghana – Jubilee FPSO; IFC \$375 million debt and equity, and \$250 million MIGA guarantee; April 29, 2010: The MIGA guarantee will insure the development of this offshore oil project against expropriation and war and civil disturbance. (See IFC Jubilee project above for description of project.)

5. Inter-American Development Bank (IDB)

Dominican Republic – Barrick Gold; \$75 million A loan/ \$260 million B loan; project was pulled from consideration by company: In 2001 the government solicited bids to reopen the Pueblo Viejo gold mine, shut since 1999. Over the mine's 25 year life-expectancy, it is expected to produce 500,000 ounces annually of 90 percent gold and 10 percent copper/silver and generate government revenues of about 40 percent of the proceeds or \$1 billion. Treasury and USED officials held two formal meetings with IDB staff, in addition to numerous informal discussions and email exchanges, to address concerns including the transparency of resources, the reporting of payments by the company to the government, the lifetime effects on local water quality of acid rock drainage, the impact on several endangered frog species, and questions on the thoroughness of the environmental impact assessment. While the IDB and the Government of the Dominican Republic had made progress on the EI issues, the delays related to the environmental concerns led the company to decide to move ahead with the \$3 billion project without the participation of the IDB.

6. European Bank for Reconstruction and Development (EBRD)

Kazakhstan

Kazakhstan became an EITI candidate country in September 2007. On 29 February 2008, the Government of Kazakhstan formally presented its first EITI Report. The report was reconciled by Deloitte and covered payments of and revenues from 40 oil and gas companies operating in Kazakhstan for 2005.

Bautino Atash Marine and Supply Base Development; \$2.6 million loan increase; September 30, 2009: Balakshy LLP, the borrower, is a limited liability company incorporated in Kazakhstan. The sponsor is Caspian Services Inc, a public company incorporated in the United States. As part of a crisis response effort, the borrower and the sponsor both requested the Bank to consider a reduction in the scope of works for the construction of the Bautino Atash Marine Base and an increase in the loan. The operation will enable Balakshy to complete a marine support and supply base in the bay of Bautino, located in the Kazakh sector of the North Caspian

Sea coast, near the village of Atash. The proposed project will provide off-shore oilfield operators with fuel and water, support base infrastructure and vessel services. Because Balakshy merely provides services to oilfield operators, there are no natural resource revenues from this project. The United States supported the Bautino Atash project because it will increase private ownership in the oil-related infrastructure sector and it ensures that high corporate governance standards will be applied at the company-level.

Regional – Western Oil; \$50 million loan; March 9, 2010: Petrolinvest S.A. is a LPG trading company listed in the Warsaw stock exchange and registered in Gdynia, Poland as a joint stock company, with hydrocarbons exploration and production licenses in Kazakhstan. The loan will finance completion of second stage exploration works during the period 2010- 2011 in two of the company's most relevant prospects in Kazakhstan. The United States supported the project because it will support more widespread private ownership and set higher standards for corporate governance and environmental conduct.

Mongolia

The Mongolian EITI Secretariat was created in 2007. Mongolia's first EI report was prepared in 2008 for EI payments made in FY 2007. In December 2009, Mongolia became one of the first countries to have such a report independently audited.

Leighton Mongolia; \$35 million loan; December 15, 2009: Leighton LLC is the wholly-owned subsidiary of Leighton Holdings Ltd., an Australian company and one of the world's largest contract mining companies. The loan will finance the company's initial working capital, and part of the costs for equipment required for its first contract mining operation, and additional work on Mongolian projects. Since Leighton Mongolia is a contract mining operator, there are no direct natural resource revenues from this project. The United States supported the Leighton project because it will increase private ownership in the mining-related sector and it ensures that high corporate governance standards will be applied at the company-level.

Energy Resources II; \$180 million loan; March 23, 2010: Energy Resources is a Mongolian mining company and owner of the Ukhaa Hudag (UHG) high-quality coal deposit in South Gobi, Mongolia. The loan will finance the introduction of a coal washing plant and related infrastructure at the Company's UHG mine. The main market for the coal will be China. The United States supported the project due to its positive impact on the Mongolian economy and the positive influence it will have on Mongolia's transition to a market economy. It will also strengthen institutions, laws and policies that promote smooth market functioning and efficiency.

Department of State, Foreign Operations, and Related Programs Appropriations Act, 2010, found in Title I, Public Law 111-117 (December 16, 2009).

Section 7081(f) Extraction of Natural Resources-

(1) 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:

(A) accurately accounting for payments for companies involved in the extraction and export of natural resources;

(B) the independent auditing of accounts receiving such payments and the widespread public dissemination of the findings of such audits; and

(C) 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 (1).