

RG-T2496 - Promoting Transparency and Sustainability in Extractive Industries
TC Document

I. Basic project data

▪ Country/Region:	Regional
▪ TC Name:	Promoting Transparency and Sustainability in Extractive Industries
▪ TC Number:	RG-T2496
▪ Associated Loan/Guarantee Name:	N/A
▪ Associated Loan/Guarantee Number:	N/A
▪ Team Leader/Members:	Ramon Espinasa (INE/ENE) Team Leader; Malaika Masson (INE/ENE); Nancy Jesurun-Clements (INE/ENE); Juan Cruz Vieira (IFD/ICS); Enrique Rodríguez Flores (ENE/CPE); José Ramón Gómez (ENE/CCO); Ji Sung Yang (INE/ENE); Liliana López (INE/ENE); María Elisa Arango Londoño (LEG/SGO); under the supervision of Alejandro Melandri (a.i. Division Chief, INE/ENE)
▪ Date of TC Abstract authorization:	6/26/2014
▪ Donors providing funding:	Transparency Trust Fund (AAF)
▪ Beneficiary:	Borrowing member countries of the IDB
▪ Executing Agency and contact name:	Inter-American Development Bank, through the Energy Division (INE/ENE)
▪ IDB Funding Requested:	US\$780,000
▪ Local counterpart funding, if any:	N/A
▪ Disbursement period (which includes Execution period):	24 Months (Execution period: 18 Months)
▪ Required start date:	August 2014
▪ Types of consultants:	Individual/Firms
▪ Prepared by Unit:	INE/ENE
▪ Unit of Disbursement Responsibility:	INE/ENE
▪ TC Included in Country Strategy (y/n):	N
▪ TC included in CPD (y/n):	N
▪ GCI-9 Sector Priority:	Regional integration; environmental sustainability; institutional strengthening; climate change
▪ Taxonomy	Research & Dissemination

II. Objective and Justification

- 3.1. The general objective of this Technical Cooperation (TC) is to improve transparency and economic sustainability in the governance of the extractive industries (i.e., Oil, Gas, and Mining) in the Inter-American Development Bank (IDB) member countries.
- 3.2. To achieve its objectives, the TC will finance the preparation of four specific products: (i) a digital Regional Resource Map, including layers on mineral and hydrocarbon reserves, extractive projects, and environmentally sensitive areas; (ii) Extractive Sector Strategic Assessment Reports for at least five LAC countries, including information on current regulatory and legal frameworks, prevailing institutions and actors, and other key variables relevant to support governance strengthening

activities while creating an enabling a sustainable business environment for extractives, (iii) targeted technical support in at least two LAC countries, aimed at facilitating the adoption of transparency and sustainability policies, and (iv) an Analytical Framework, combining strategic sectoral information and input from relevant stakeholders, and serving the systematic identification of opportunities and barriers for the Bank to promote transparency and sustainability in the governance of the extractive industries in IDB member countries.

- 3.3. This TC will support generation of updated and reliable information in Latin America and the Caribbean (LAC) needed to enhance governance in the extractive sector as well as dialogues with and among relevant stakeholders for consensus building. It will generate knowledge products and targeted technical assistance that highlights strategic governance gaps and opportunities to leverage transparency and economic, environmental, and social sustainability policies in assisting authorities with long-term governance of natural endowments, and in strengthening institutions and regulatory frameworks for the extractive sector. It will foster knowledge products that serve as regional public goods¹ and expand sector-specific knowledge and research developed under different bank operations dealing with the governance of the extractives sector, including RG-X1129, *Strengthening Governance in the Extractive Industries*, RG-K1314, *Incentivizing Clean Technology in the Extractive Industries*, RG-K2349, *Local Content & Resource Corridors in Hydrocarbon & Mining*, and CO-T1351, *Strengthening the [Colombian] Ministry of Mines and Energy for Information Management*.

Justification

- 3.4. Importance of the sector in LAC. The Latin America and Caribbean (LAC) region is the world's leading source of metals and its second most important source of oil. In 2013, the region produced over 10 million barrels of oil and 800 million cubic meters of natural gas per day.² It held 29 percent of the world's mineral investment portfolio and was the principal target for global investors in the sector.³ The nine main producers of oil, gas, and minerals in the region (i.e., Brazil, Bolivia, Chile, Colombia, Ecuador, Mexico, Peru, Trinidad and Tobago, and Venezuela) accounted for approximately 11 percent of the world's oil production, 5 percent of natural gas, 15 percent of gold, 46 percent of silver, and 40 percent of copper. In these same countries, fuel and mineral exports made up approximately 60 percent of total exports; revenues from the extractive sector provided for almost one third of total government income. For comparison, at the global level the extractive industries generated more than half of government revenue in petroleum-rich countries and more than 20 percent in mining countries. Extractive activities have been, and continue to be an important economic activity in the LAC region.⁴
- 3.5. The dominance of the extractive sector in LAC economies coexists with numerous governance dysfunctions, reflecting weak institutions and regulatory frameworks –especially those responsible for managing the extractive sector– information asymmetries, and competing stakeholder claims

¹ Latin America and the Caribbean countries share both challenges and opportunities for development that can be addressed or seized upon more effectively and efficiently at a regional level through collective action and cooperation. The regional approach reflects the increasing importance of South-South cooperation in the development agenda of most LAC countries and the IDB's commitment to be an active partner in a South-South led learning and cooperation process.

² International Energy Agency, Oil & Gas Monthly Report, March 2014.

³ Larsson, Viktoriya and Magnus Ericsson. 2014. E&MJ's Annual Survey of Global Metal-Mining Investment. *Engineering and Mining Journal*. Special Features, January 2014.

⁴ They produce significant returns for foreign investors and are an important source of government revenue, through taxes and royalties. They have also fostered positive social impacts, through forward and backward economic linkages and new employment opportunities. In some cases, they have helped improve education levels, and access to community infrastructure. See: World Economic Forum on Latin America. 2013. "Responsible Mineral Development Initiative". Geneva: World Economic Forum.

over development impacts.⁵ A more robust and transparent investment climate and more effective governance systems are necessary to promote the sustainability of public revenue streams and the supply of minerals and hydrocarbons in the LAC region, as well as ensuring the environmental and social sustainability of the sector.⁶ However, relevant synthetic and reliable information about the sector is seldom available to decision-makers and civil society stakeholders in the region: there is limited information about the specific factors hindering state capacity to manage extractive activities. There is also a limited knowledge, from the perspective of the Bank, of the expectations of Government, Industry and Civil Society stakeholders in regards to the most suitable mechanisms and strategies for enhancing transparency and sustainability of the extractive sector.

- 3.6. Relevance of the expected output of the TC. The combination of the planned quantitative and qualitative analytical work will facilitate policy dialogue, institutional strengthening, and project preparation and implementation. The country assessments will provide critical inputs to the Bank's analytical framework for the sector; will serve as reliable inputs for country programming activities, for Country Strategies and Sector Notes, and for the formulation of customized packages of support for the respective countries' extractive sectors. Significantly, they will serve IDB member countries and the Energy and other Divisions of the IDB, in developing projects related to the extractive sector. The Bank's Analytical Framework will encompass input from key stakeholders in the sector and will reflect the priority areas for support. It will assist the dialogue with internal and external partners, and will facilitate harmonizing ongoing and future initiatives for the sector, focusing on the opportunities for leveraging mineral resource endowments for responsible sustainable and equitable growth, for example, through the promotion of infrastructure investment in the sector, encouraging the use of best practices and cleaner technologies, and strengthening capacity and institutional frameworks.
- 3.7. Alignment with GCI-9. The project is aligned with the GCI-9 lending program priorities, providing key inputs to support lending in the areas of infrastructure development, institutional strengthening, and environmental sustainability. This project will provide a sound technical basis for assessing transparency and sustainability gaps in the governance of the extractive sector and support the improvement of institutional capacity and responsiveness to mitigate negative social and environmental impacts associated with extractive activities, including but not limited to those associated with climate change, and leveraging natural resource endowments for sustained and inclusive economic development. It will help the Bank improve its capacity to assist the region in fostering the development of adequate infrastructure, institutional and regulatory frameworks, and capacity for achieving expected outcomes from extractive activities.

III. Description of Activities & Outputs and Budget

- 4.1. In order to achieve its objectives, this TC will be organized in the components detailed below:
- 4.2. **Component 1 – Knowledge and Strategic Extractive Sector Information (\$430,000):** This component will finance the development of an Extractives Map for the LAC region, Extractive Sector Assessments in select countries, and targeted research activities supporting the adoption of the transparency standards (e.g., Extractive Industries Transparency Initiative, EITI) and sustainability related policies (e.g., ILO Convention No. 169, International Cyanide Management Code, etc.).⁷ These products aim at increasing the stock of knowledge about the characteristics and functioning

⁵ Masson, Malaika and Juan Cruz Vieyra (eds.). Forthcoming. *Transparent Governance in the Age of Abundance: Experiences from the Extractives Industries in Latin America and the Caribbean*. IDB: Washington D.C.

⁶ *Ibid.*

⁷ For more details on transparency and sustainability standards see Chapter 1 by Masson, Vieyra, and Walter in *Op. Cit.*, and Masson, Priester, and Walter (2013), "Incentivizing Clean Technology in Mining in LAC the Role of Public Institutions" IDB Technical Note 612.

of the extractive sector in the LAC region and supporting the implementation of targeted activities for strengthening governance in the sector. They will provide relevant synthetic and reliable sectoral information relevant to the identification of institutional and operational weaknesses, and facilitate actions conducive to its more transparent and sustainable governance. Country selection in this component reflects expert advice from IDB staff in the region and existing high-level dialogues between IDB and member countries on extractive activities. It seeks to maximize differences between institutional, regulatory, and natural resource endowment factors, and feature a balanced representation of LAC regional subdivisions. The preparation of this component implies the accomplishment of the following specific activities:

- 4.3. **Activity 1.1 – Regional Extractives Map:** This activity finances the preparation of a digital map for the LAC region, including layered information on mining reserves (select metals and industrial and energy minerals, classified per type of ore), extractive projects (classified by type of operation), and information on environmentally and socially sensitive areas (e.g., protected areas, watersheds, indigenous lands and territories) for all IDB borrowing countries, at a scale to be determined.⁸ This tool will facilitate the assessment of the economic potential in the region and highlight opportunities to integrate information relevant to the extractives from existing information management platforms supported by the Bank and geological service agencies in the region.
- 4.4. **Activity 1.2 – Extractive Sector Strategic Assessment Reports:** This activity finance research that identifies and describes the factors that affect the functioning of the extractive sector in at least five LAC countries. Conditional on non-objection from beneficiary countries, as per Bank policy, the assessments are expected to provide detailed sectoral information for Colombia, Peru, Mexico, Guatemala (or the Dominican Republic), and Suriname. The analytical effort will help identify potential areas of institutional reform for strengthening governance quality and enabling investment at a national and regional level, examine compliance and support to international transparency and sustainability standards, scope the availability of extractive information management infrastructure, and describe key public agencies and private companies operating in the extractive sector. Assessments will thus include comparable quantitative information and time series for key variables (e.g., industrial organization, regulatory and institutional frameworks, economic contribution of the extractive sector, sector-specific FDI, information on production and reserves, strategic environmental and social issues, etc.) from a host of information sources reliably referenced and geographically-referred.
- 4.5. **Activity 1.3 - Targeted Support Initiatives:** This activity will support the preparation of targeted knowledge in at least two countries –equally conditional on non-objection or formal request from prospective beneficiaries- including the Dominican Republic, Guyana, Honduras, and/or Mexico.⁹ This activity will complement the efforts detailed in Activity 1.2 and provide targeted technical support aimed at facilitating the adoption of the EITI standard in the region, providing key inputs for countries exploring candidacy, as well as the implementation of actions enhancing economic, environmental, and social sustainability in the sector –e.g., economic cluster development, forward and backward linkages, etc.
- 4.6. **Component 2 – Stakeholder Engagement and Analytical Framework (\$150,000):** This component will finance consultancies for the development of an Analytical Framework for the extractive sector, geared towards guiding the Bank in supporting member countries in the execution of high-impact interventions to enhance transparency, optimize operational effectiveness and the capture of value

⁸ The map is expected to represent information at a “broad scale” –e.g., 1: 25,000– adequate to summarizing knowledge of broad trends, support of strategic policy making, and assessing the implementation of policy at the regional level. This scale will facilitate the amalgamation of heterogeneous data sources and complement more accurate available fine scale maps.

⁹ In case of objection from a potential beneficiary, the Project Team Leader will select a suitable replacement.

from the extractive sector, and reduce negative environmental and social impacts, while supporting countries to develop and enhance their role as resource owners/administrators, operational regulators (in terms of technical, social and environmental extractive industries' good practices) and revenue stream accountable stakeholders. The development of the Analytical Framework will rely on information included in Extractive Sector Assessments (developed in Component I) and on engagement with key stakeholders. This component encompasses the following activities:

- 4.7. **Activity 2.1 – Engagement Workshops:** This activity supports the organization of three external workshops with stakeholders from Government, Industry, and Civil Society Organizations (CSO) and internal consultation events. These events will leverage the Bank's capacity to serve as an honest broker and to provide a platform for information sharing and learning among and between key stakeholders around extractives in the region. Moreover, these events will support the preparation of an Analytical Framework for the extractive sector, through a constructive dialogue with stakeholders i) involved in identifying investment priorities at the national level, ii) with regulatory and institutional responsibilities in the sector, iii) generally involved in policy debates at the country and regional level, and iv) internal Bank stakeholders interested in developing packages of support in the sector. The goal of the workshops is to foster feedback and dialogues on strategic sectoral challenges and identify consensuses on priority areas of action to improve governance and operational effectiveness in IDB member countries.
- 4.8. **Activity 2.2 – Analytical Framework for the Extractive Sector:** This activity will facilitate the preparation of an Analytical Framework document, synthesizing information and recommendations gathered in the context of engagement activities detailed in component 1 and activity 2.1 above. The Analytical Framework will support the Bank in the identification of key analytical pillars for the sector, financial mechanisms and resources for addressing financial and governance gaps and scaling up investments, and considerations vis-à-vis the IDB potential activities in the extractive sector in LAC and in the rest of the world. This document will help harmonize IDB sponsored initiatives for the extractive sector in the LAC region, and identify key priority areas for intervention through close collaboration with regional governments.
- 4.9. **Component 3: Knowledge Dissemination (\$80,000).** This component finances the publication of knowledge products generated in Component I and II. In addition, it will support the dissemination of additional knowledge products relevant to the extractive sector prepared by the Bank.¹⁰ It will support targeted distribution of the Assessments to internal and external audiences via electronic and mass media.

Indicative Results Matrix¹¹

Overall Impact: Enhanced transparency and sustainability in the extractive sector through improved natural resource governance (in IDB member countries) and IDB capacity to respond to demand for technical and financial support in the sector				
Expected Products		Expected Outcome Indicators	Expected Impact	Means of Verification
Component I	One (1) Regional Extractives Map	<u>Enhanced transparency and sustainability</u> <ul style="list-style-type: none"> Supported the adoption of the EITI in at least three (3) countries. Supported the adoption of innovative sustainability policy initiatives (e.g., ILO 169, international cleaner production standards) 	<ul style="list-style-type: none"> Improved performance in relevant CSO Benchmarks (e.g., Transparency International, Natural 	<ul style="list-style-type: none"> Regulatory reforms proposals and/or publish notice
	At least five (5) Extractive Assessments reports			
	At least four (4) studies/reports supporting targeted transparency and/or sustainability initiatives in LAC			

¹⁰ Knowledge products considered relevant for dissemination include books, reports, and other publications dedicated to examining governance in the extractive industries in the LAC region, including topics related to revenue management, transparency standards, and sustainability.

¹¹ See Country Specific and Regional Outcomes in the Annex

Component II	Three (3) Stakeholder Workshops (one in HQ, two in the region), respectively including: <ul style="list-style-type: none">At least six (6) representatives from relevant government agencies and from different LAC countriesAt least twenty (20) senior representatives from companies leaders in investment in LAC from the mining and the hydrocarbons sectorAt least ten (10) CSO leaders engaging in advocacy activities in the extractive sector	in at least two (2) countries <u>Improved Institutional capacity</u> <ul style="list-style-type: none">Streamlined access to sectoral information and strategic development plansDiagnostics/Baselines regarding sectoral governance systems (e.g., including revenue management)	Resource Governance Institute, Fraser Extractive Sector Survey, etc.)	<ul style="list-style-type: none">Strategy and Action Plan documentsProgress and Final reportsIDB publications, Internal documentsNews media
	Three (3) Summary Reports (one at the outset of each workshop)	<u>Enhanced Knowledge and Information Supply</u> <ul style="list-style-type: none">Five (5) Extractive Sector Agencies acknowledging receipt/ leveraging project informationThree (3) references to Bank knowledge dissemination activities in the media (e.g., policy dialogue and south-south coop.)	<ul style="list-style-type: none">Increased visibility of sectoral challenges and opportunities for improvement at the regional and national levelImproved policy dialogue and south-south cooperation	
	One (1) Internally Validated Analytical Framework for the extractive sector in LAC countries		<ul style="list-style-type: none">Increased IDB Operations and/or strategic dialogues leveraging project informationExpanded and enhanced regional policy networks on extractive issues	
	At least five (5) IDB Divisions provided feedback for analytical framework validation			
Component III	At least five (5) Country Extractive Sector Assessments published (Magazines)	<u>Improved IDB capacity to respond to demand from its members:</u> <ul style="list-style-type: none">One (1) analytical framework for IDB engagement in the extractive sectorTransparency and sustainability issues addressed in:<ul style="list-style-type: none">Two (2) country strategy DocsTwo (2) related technical cooperation requestsOne (1) related Investment Loan		
	Supported dissemination of at least two (2) IDB publications dealing with issues of transparency and sustainability in the extractive sector			

Indicative Budget

Component/Activity	Description	IDB (US\$)	Total Financing (US\$)
Component I: Knowledge and Information for Strengthening Governance in Extractive Industries		\$430,000	\$430,000
1. Regional Extractives map	Regional digital map, including layered information on mining reserves, extractive projects, and environmentally sensitive areas	80,000	80,000
2. Extractives Sector Assessments	Sectoral assessments in at least five LAC countries (i.e., including Colombia, Peru, México, Guatemala (or the Dominican Republic), and Suriname)	180,000	180,000
3. Support for Targeted Research	Support for targeted activities in countries (e.g., including the Dominican Republic, Guyana, Honduras, and México) facilitating the adoption of the EITI standard in the region and enhancing economic and environmental sustainability in the sector	170,000	170,000
Component II: Stakeholder Engagement and Analytical Framework		\$150,000	\$150,000
1. Engagement workshops	Organization of external workshops with stakeholders from Government, Industry, and Civil Society and internal consultation events.	60,000	60,000
2. Analytical Framework Development	Preparation and validation of an Analytical Framework, synthesizing information and recommendations gathered in the context of engagement activities detailed in component 1 and item 2.1 above.	90,000	90,000
Component III: Knowledge Dissemination		\$80,000	\$80,000
1. Publishing and dissemination of materials under Components I and II	Edition and publication of the Extractive Sector Assessments and the Regional Map and the Analytical Framework document	30,000	30,000
2. Support for dissemination of other related knowledge products	Dissemination of relevant knowledge products dedicated to examining governance in the extractive industries in the LAC region (i.e., including topics related to revenue management, transparency standards, and sustainability)	50,000	50,000
Other		\$120,000	\$120,000
Project Management		\$110,000	\$110,000
Contingencies		\$10,000	\$10,000
Total project costs (US\$)		\$780,000	\$780,000

IV. Executing agency and execution structure

- 5.1. This is a Bank-originated technical cooperation which will be executed and supervised by the Energy Division (INE/ENE). It is aimed at deepening and broadening knowledge on the extractive sector and defining a sound analytical framework which will provide key inputs necessary to fulfill the Bank's commitment to support borrowing members. In addition to providing key strategic information to IDB member countries, the execution of this TC will facilitate learning, knowledge transfer and data gathering opportunity at the regional level. As per Bank policy, all activities taking place in member countries will receive the necessary non-objection and/or formal request from government authorities. Moreover, it will provide technical inputs for the Bank to expand its support to borrowing member countries to providing a more complete service platform to more countries in the region and in newer areas such as extractive governance.
- 5.2. Procurement: For the contracting of individual consultants the project team will observe Human Resources selection procedures (AM-650); for consulting firms and non-consulting services contracts, the Corporate Procurement Policy and procedures (GN-2303-20).

V. Major issues

- 6.1. Access to information and Government Buy-In. The main risk behind this technical cooperation is the availability of reliable data and information. The extractive industries are known to have significant economic, environmental and social impacts. This TC is an initial effort to deliver support to governments to increase their institutional capacity to assess and address positive and negative impacts in the extractive industries. Given the strategic importance of the extractive sector, countries targeted for information gathering activities may not be willing to publicly share information gathered in the context of this project. The staff is well aware of these issues and efforts have been made to lessen these risks. Further to forthcoming engagement in the context of the TC activities (i.e., Activity 2.1), cooperation with pertinent regional departments and IDB country offices has been established in advance in order to facilitate the gathering and sharing of relevant information. The executing Division will leverage existing relationships with recognized data collection agencies, civil society organizations, and relevant firms to achieve the goals of the TC.
- 6.2. Sustainability of the Project. This Regional TC will not be able to fulfill all demands associated with the extractive sector in the LAC Region. Operational opportunities identified in the context of this project will facilitate efforts to identify additional sources of financing to extend activities to additional countries, and provide forthcoming advisory services and technical assistance for the strengthening of governance in the sector in the longer term.

VI. Exceptions to Bank Policy

- 7.1. No exceptions to Bank policy are foreseen.

VII. Environmental and Social Classification

- 8.1 Environmental and Social Classification (ESG) of this TC is "C", since there are no environmental or social impacts associated with this TC activities ([IDBDOCS-#38911102](#))

VIII. Required Annexes:

- Country Specific and Regional Outcomes ([IDBDOCS-#38911955](#))
- Terms of Reference for Components 1, and 2 ([IDBDOCS-#38911957](#), [#38913702](#) and [#38911958](#))
- Terms of Reference Project Coordinator ([IDBDOCS-#38911959](#))
- Procurement Plan ([IDBDOCS-#38911956](#))

PROMOTING TRANSPARENCY AND SUSTAINABILITY IN EXTRACTIVE INDUSTRIES

RG-T2496

CERTIFICATION

I hereby certify that this operation was approved for financing under the Transparency Trust Fund (AAF) through a communication dated June 27, 2013 and signed by Maria Bouroncle (ORP/GCM). Also, I certify that resources from said fund are available for up to US\$780,000 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

ORIGINAL SIGNED

7/28/2014

Sonia M. Rivera
Chief
Grants and Cofinancing Management Unit
ORP/GCM

Date

APPROVAL

Approved:

ORIGINAL SIGNED

7/29/2014

Nestor Roa, a.i.
Sector Manager
Infrastructure and Environment Sector
INE/INE

Date