

“Strengthening Governance in the Extractive Industries in Latin America and the Caribbean”

A Regional Research & Development Proposal

RG-X1129

I. Basic Information for Technical Cooperation (TC)

- Country/Region: LAC region
- TC Name: “Strengthening Governance in the Extractive Industries in Latin America and the Caribbean”
- TC Number: RG-X1129
- Associated Loan/Guarantee Number:
- Team Leader/Members: Nicolás Dassen (Team Leader, ICF/ICS), Malaika Culverwell (Team Leader INE/ENE); Juan Cruz Vieyra (ICF/ICS); Gilberto Chona (ICF/FMM); Elizabeth Brito (VPS/ESG); Miguel Aldaz (ORP/ORP); César Buenadicha (MIF/MSM); Bernardita Saez (LEG/SGO); and Melissa Gonzalez (ICF/ICS).
- Date of TC Abstract authorization: November 17, 2011
- Donors providing funding: Anti Corruption Activities Trust Fund (AAF)
- Beneficiary countries: All Latin America and Caribbean borrowing country members
- Executing Agency and contact name: IDB
- IDB Funding Requested: US\$1 million
- Local counterpart funding, if any: N/A
- Execution period: 36 months
- Disbursement period : 42 months
- Required start date: December, 2011
- Types of consultants individual consultancies
- Prepared by Unit: INE/ENE and ICF/ICS
- Unit of Disbursement Responsibility : ICF/ICS
- TC Included in Country Strategy :N/A
- GCI-9 Sector Priority: Institutions for growth and social welfare; competitive regional and global integration, and promotion of sustainable energy sources

II. Objectives and Justification of the TC

Objectives:

- 2.1 The overall aim of this TC is to contribute to the strengthening of governance in the extractive industries (oil/gas and mining) in Latin America and the Caribbean (LAC). The specific objectives of this TC are to: (i) improve transparency and access to information; (ii) strengthen legal and regulatory reform; (iii) build capacities, within governments and civil society, to improve the monitoring of socio-economic and environmental impacts; and (iv) increase and disseminate knowledge on extractive industries.

Justification

- 2.2 The LAC region contains the world’s leading source of metals and has the second largest share of the world’s oil and gas reserves. With recent offshore discoveries in Brazil, potentially placing it among the countries with the largest oil reserves and with Argentina

potentially the third largest shale gas reserves in the world,¹ the region is quickly becoming a key player in the global development of hydrocarbons. With respect to minerals, Latin America has attracted the largest share of global allocated exploration spending since 1994, receiving between 25-27% (US\$3 billion) of total global non-ferrous² exploration budgets annually. Approximately 84% of this LAC allocation has been directed to the traditional big five countries—Peru, Mexico, Chile, Brazil, and Argentina³ (see Annex A) and the pipeline for investment continues to grow, including in countries such as Colombia.

- 2.3 The dominance of extractive industries in many LAC economies coexists with macroeconomic vulnerability, fragile public local institutions, information asymmetry and conflicting expectations regarding development impacts. Given the escalating revenues from the recent mineral and hydrocarbon boom in LAC and high commodity prices, these challenges are increasing fueling demand from public sector clients to strengthening institutions that will maximize the social and economic benefits and to minimize the negative impacts of extractive activities. In doing so, governments can achieve a more robust investment climate and provide for a secure supply of minerals and hydrocarbons (see Annex A).
- 2.4 Many development economists have debated countries' dependence on primary commodities, suggesting that the revenues from oil/gas and mining will prove to be either a curse or a blessing for development. Studies of the relationship between natural resource abundance and growth have therefore often tended to generate contradictory results. The influential study by Sachs and Warner (1995) is representative of results which find that natural resource abundance has a strong negative impact on growth. Lederman and Maloney (2007), on the other hand, challenge the Sachs and Warner findings on measurement and econometric grounds and find natural resource abundance to have a positive effect on growth. A recent effort to reconcile such apparently disparate research findings (Collier and Goderis, 2007) observes that continued high commodity prices in the next few years could provide valuable resources to accelerate economic and social development in commodity exporting countries with good policies and governance.⁴
- 2.5 Although, this is not an exact science, there is an emerging consensus within the development community regarding the types of policies that can help countries best manage commodity resources for development. These policies are reflected in the package of support of this TC and include policies that: (i) seek to enhance transparency; (ii) strengthen checks and balances concerning all aspects of natural resource extraction; (iii) improve equitable sharing of benefits across regions, ethnic groups, and generations;

¹ US Department of Energy Report, April 2011 cited in Reuters press 15 September 2011 <http://www.reuters.com/article/2011/09/15/oil-usa-reserves-idUKS1E78D2CE20110915>

² Non-ferrous metals do not contain iron. These are for example, aluminum, brass, copper and titanium.

³ Metals Economic Group (2010) "World Exploration Trends" 2010 A Special Report from Metals Economics Group for the PDAC International Convention 2010

⁴ Sachs, Jeffrey D., and Andrew Warner (1995) "Natural Resource Abundance and Economic Growth" NBER Working Paper 5398. National Bureau of Economic Research, Cambridge MA; Lederman, Daniel and William F Maloney, Eds (2007) *Natural Resources: Neither Curse nor Destiny* World Bank and Stanford University Press; Collier Paul and Benedikt Goderis (2007) "Commodity Prices, Growth and Natural Resources Curse: Reconciling a Conundrum" August. Working Paper 276. Centre for the Study of African Economies.

(iv) attend to the substance of policy decisions on resource revenue consumption and savings; (v) and strengthen legal and regulatory frameworks and institutions to maximize the economic benefits and minimize the environmental impacts.⁵

- 2.6 Within the LAC region, demand from both governments and the private sector for technical assistance is growing, partly in response to concerns to protect the substantial extractive industry investments and the perceived impacts they cause. Calls for institutional strengthening in dealing with externalities from extractive industries in LAC are also part of a coalescing global movement, supported by civil society, investors and donors, for a broader good governance agenda that addresses public management, accountability as well as the proactive management of the investment climate in the extractive industries. At the same time, in LAC, there is a strong demand for establishing best practices and knowledge sharing between countries. Annex C presents a preliminary overview of potential areas of support along the value chain.
- 2.7 Within the IDB, a focal point for advisory services, information and learning on governance within the extractive industries can avoid dispersed and sporadic support to clients' demands. IDB's knowledge and expertise related to these issues crosses technical and functional boundaries and requires active cross-sector collaboration and a platform for consolidating such expertise.

Description

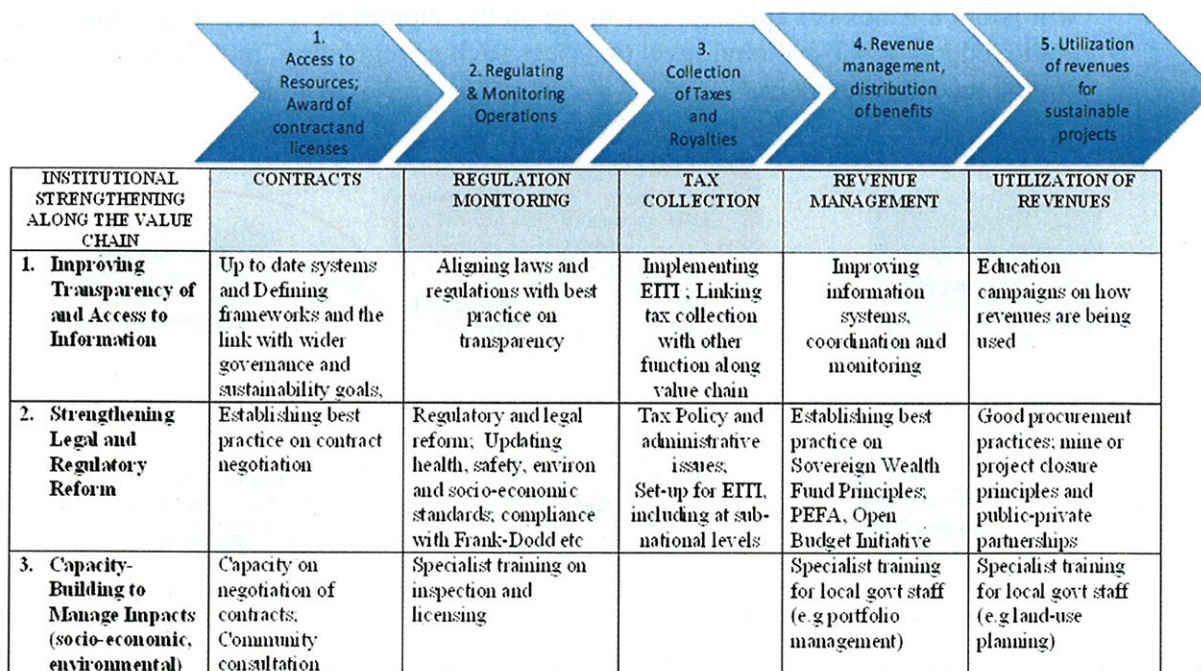
- 2.8 This Regional Proposal will provide a package of support to enhance governance in LAC extractive industries in four areas: (i) transparency and access to information; (ii) legal and regulatory reform; (iii) capacity building, within governments and civil society, to manage socio-economic and environmental impacts; and (iv) knowledge generation and dissemination on extractive industries.
- 2.9 **Component 1: Transparency and Access to Information.** This component focuses on developing transparency standards to be adopted by public and private companies as well as government agencies. These standards include the design and put into practice of information systems that allow: (a) public institutions to disseminate information in a periodic and timely manner about contracts signed between companies and the government; (b) industry reporting on gross revenue, expenditures, sales volume, prices, tax payments; and (c) civil society monitoring of fiscal payments, environmental and social performance and impact. Specific activities will include: (i) diagnostics to develop a work-plan to implement transparency standards; (ii) the design of IT/Software systems; and (iii) the implementation of public education campaigns based on the specific demands from countries.

⁵ Kaufman (2005) "Back to Basics—10 Myths about Governance and Corruption." *Finance & Development* 42(3); Kaufmann, D., A. Kraay, et al. (2007). *Governance Matters VI: Aggregate and Individual Government Indicators 1996-2006*. Washington, The World Bank; Mehlum, Halvor, Karl Moene and Ragnar Torvik (2006) "Institutions and the Resource Curse" *Economic Journal* 116(508) 1-20; Parry, T. (2007). *The Role of Fiscal Transparency in Sustaining Growth and Stability in Latin America*, *IMF Working Paper* WP/07/220. Washington, DC, International Monetary Fund; Barbieri, M. (2010). *Developing countries and their natural resources. From the elaboration of the principle of permanent sovereignty over natural resources to the creation of Sovereign Wealth Funds*. Milan, Università Bocconi; Robinson James A, Ranar Torvik and Thierry Verdier "Political Foundations of the Resource Curse" *Journal of Development Economics* 79(2): 447-68

- 2.10 **Component 2: Legal and Regulatory Reform.** This component focuses on providing assistance for the review of legal codes, laws and contracts in the extractive industries. These reviews will take into account debates over the role and responsibilities of the public/private sectors in mitigating negative impacts, increasing corporate disclosure, contract transparency, land-use rights, and in improving economic benefits to the state. Specific activities will include (i) diagnostic support to review legal and regulatory frameworks; (ii) provide targeted legislative assistance to undertake legal and regulatory reforms in the extractive industries.
- 2.11 **Component 3: Capacity Building to improve the monitoring of socio-economic and environmental impacts.** This component will seek to assist government authorities (both at the federal and sub-national levels) and civil society with respect to managing the revenues resulting from the extractive industries rents, royalties and corporate social and responsibility payments. These economic benefits can be used to promote sustainable territorial planning in a way that is inclusive and supports local businesses. Specific activities will include (i) diagnostic support to understand the requirements for capacity building programs; (ii) capacity building and training in revenue management; (iii) capacity building and training in sustainable territorial planning, local inclusion and productivity, and environmental compliance management.
- 2.12 **Component 4: Knowledge and Dissemination.** This component will provide an overview of the demand and opportunities for the Bank to address governance in the extractives industries in LAC, as well targeted applied research on emerging issues. Specific products include: (a) a database and report that will identify current demand for IDB work on governance issues; (b) a working paper on fiscal transparency and revenue management; (c) a working paper on trends in stock markets transparency and the implications for extractive industries in LAC; and (d) a discussion paper on small-scale mining in LAC, regulatory reform and governance implications.

Strategy

- 2.13 The areas of focus of this TC represent key opportunities to deliver support following the extractive value chain. The value chain approach (see below) is an appropriate conceptual framework to coordinate this work and engage different expertise across the IDB. A value chain is a way of describing the stages by which the full value of a product is managed and ultimately realized. When applied to the extractive industries, the framework describes the steps from the extraction of natural resources, to their processing and sale, all the way through to the ultimate use of the revenues.

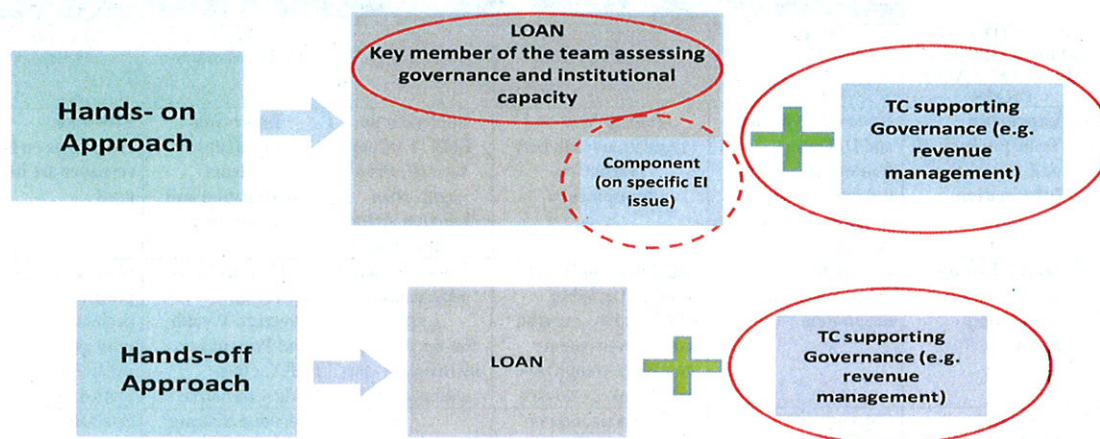


III. How will the TC support the design and/or execution of Loans?

Description of the Associated Loans

- 3.1 This TC will provide upstream diagnostic/technical support for the origination, design and/or execution of IDB projects on extractive industries, so that public sector operations will benefit from assessments, training and capacity building on governance issues. For example IDB investment such as the Policy Based Loan for Energy in Trinidad & Tobago (TT-L1023) and technical support to government for revenue management and institutional strengthening will be necessary as a complement to public and private sector loans related to the extractive industries. For more information see Annex B.
- 3.2 For this Regional TC a single letter of request is not required. As demand for support is originated from member countries, letters of request or no-objection will be sought case by case. Individual transactions will follow the Bank's standard policies and procedures.
- 3.3 Origination: the Project team will consolidate a list of country clients and projects and outline a plan of engagement which will aim to provide technical assistance based on demand from countries regarding governance, the investment climate and sustainability issues facing the extractive industries.
- 3.4 Design and Execution: the Project team has identified a list of potential projects within the Bank's pipeline (see Annex C). In the case of public sector loans, the team will assess whether to take a targeted support (for example, a diagnostic on transparency standards in the extractive sector) could be channeled through technical advice. In other cases it might be necessary to provide a more comprehensive, phased support package, what will be considered as a hands-on approach according to the figures below.

- 3.5 With respect to private sector loans, and given the nature of investments, the project team will adopt a hands-off approach, focusing on the support necessary to governments either at the federal or sub-national level on issues such as regulation, monitoring, oversight and compliance management.



IV. Explain how the TC is aligned with the Bank's GCI-9 sector priorities, value-added, and relationship to the [country and programs under preparation or execution].

- 4.1 This program of support will strengthen relationships for lending in these sectors and will establish a leading role for the Bank in the region on governance in the extractive sectors. It also aligns with the GCI-9 Priorities in that it supports institutions for growth and social welfare, competitive regional and global integration, and the promotion of sustainable energy sources.
- 4.2 The Bank already has experience (see Annex D) and a number of institutional frameworks and policies (see Annex E) supporting work in this area and therefore is well positioned to help member countries transform hydrocarbon and mineral wealth into sustainable development.

V. Indicative Results Matrix

The overall impact of this project is to strengthen governance in the extractive industries (oil/gas and mining) in Latin America and the Caribbean.		This TC focuses on a wide range of policies and practices associated with good governance in the extractive industries. There is not a single index that comprehensively captures all these policies and practices. This TC will therefore generate a set of indicators that in combination can be used to assess contributions toward strengthening governance.	
Components	Products	Suggested Indicators (Outcome)	Means of Verification
1. Improvements in Transparency & Access to Information	Diagnostics/Baseline Generated in at least 2 countries	# of times assistance provided has resulted in changes with respect to improved transparency and access to information in our clients' working practices.	Survey/Project Evaluation Report
	At least 1 IT/Software System Designed for one country		
	Education Campaigns in one country		

2. Assistance on legal and regulatory reform	Diagnostics/Baseline Generated in at least 2 countries	# of times assistance provided has resulted in legal and regulatory changes in our clients' working practices towards improved transparency, sustainability and inclusivity.	Survey/Project Evaluation Report
	Draft proposed legislative framework in at least one country		
3 Capacity Building to improve revenue management and the monitoring of socio-economic and environmental impacts.	Roadmap to develop capacity building and training programs in revenue management in at least 2 countries	# of times assistance provided has resulted in institutional changes towards improved revenue management and sustainable territorial and land use compliance.	Survey
	Roadmap to develop capacity building and training programs in sustainable territorial and land-use and environmental compliance management in at least 2 countries		
4. knowledge products that increase and disseminate information on extractive industries in LAC	Database of demand on governance in the extractive industries in LAC	# of times in which the database has been used for policy advice, design or implementation.	Survey/Project Evaluation Report
	Set of indicators to assess good governance in the extractive industries		
	1 report per year analyzing current demand and opportunities for the Bank to address governance in the extractives industries.		
	1 Working Paper on LAC country comparison with regards to compliance with international standards promoting fiscal transparency and revenue management. Published as a chapter in IDB book on "Natural Resources & Fiscal Efficiency in LAC"		
	1 Working paper on "Trends in Stock Markets Transparency and the Implications for extractive industries in LAC"		
	1 discussion paper on "Regulatory Reform and other governance implications for governments in LAC from recent trends in small-scale mining in LAC".		

VI. Indicative Budget

Activity Component	Description	Consultant	Travel	Other	Counter-part	Total Funding
Transparency and Access to Information		150,000	30,000	10,000	0	190,000
	Diagnostics/Baseline Generated in at least 2 countries	75,000	10,000	0	0	85,000
	1 IT/Software System Plan designed in at least one country	40,000	10,000	5,000	0	55,000
	Education Campaign in at least one country	35,000	10,000	5,000	0	50,000
Assistance on legal and regulatory reform		150,000	30,000	10,000	0	190,000
	Diagnostics/Baseline Generated in at least 2 countries	75,000	15,000	5,000	0	95,000
	Draft proposed legislative framework in at least one country	75,000	15,000	5,000		95,000
Capacity Building to improve the monitoring of socio-economic and environmental impacts		150,000	30,000	10,000	0	190,000
	Diagnostic support to develop environmental compliance management programs in at least 2 countries	50,000	10,000	0	0	60,000
	Roadmap to develop capacity building and training programs in revenue management in at least 2 countries	50,000	10,000	5,000	0	65,000
	Roadmap to develop capacity building and	50,000	10,000	5,000	0	65,000

	training programs in sustainable territorial and land-use and environmental compliance management in at least 2 countries					
Knowledge Creation and Dissemination		145,000	40,000	15,000		200,000
Database	Database of demand on governance in the extractive industries in LAC	0	5,000	0	0	5,000
Indicators	Set of indicators to assess governance in the extractive industries	0	0	0	0	0
Report	1 report per year analyzing current demand and opportunities for the Bank to address governance in the extractives industries.	25,000	0	0	0	25,000
Working Paper	1 Working Paper on LAC country comparison with regards to compliance with international standards promoting fiscal transparency and revenue management. Published as a chapter in IDB book on "Natural Resources & Fiscal Efficiency in LAC"	0	5,000	0	0	5,000
Working Paper	1 Working paper on "Trends in Stock Markets Transparency and the Implications for extractive industries in LAC"	30,000	0	0	0	30,000
Discussion Paper	1 discussion paper on "Regulatory Reform and other governance implications for governments in LAC from recent trends in small-scale mining in LAC".	35,000	0	0	0	35,000
Event A	1st Regional Conference on Transparency and Good Governance in the Extractive Industries in LAC (2012-Washington DC)	20,000	10,000	5,000	0	35,000
Event B	Workshop "Transparency efforts and Local Value-Added along the Natural Gas/LNG value chain in LAC", presenting the results of the discussion paper. (TBD)	7,500	5,000	2,500	0	15,000
Event C	Workshop "Trends in Stock Markets Transparency and the Implications for LAC", presenting the results of the discussion paper	7,500	5,000	2,500	0	15,000
Event D	2nd Regional Conference on Transparency and Good Governance in the Extractive Industries in LAC (2014-Washington DC)	20,000	10,000	5,000	0	35,000
TC Project Communication Coordinator		150,000			0	150,000
External Evaluation		30,000			0	30,000
Contingencies		50,000			0	50,000
Grand Total		1,000,000				1,000,000

VII. Administrative Arrangements:

- 7.1 Advisory Group and Focal Points: An Advisory Group will be created to follow up and provide critical guidance to the execution of this TC. The heads of the Institutional Capacity of the State Division (ICF/ICS) and the Energy Division (INE/ENE), Carlos Santiso and Leandro Alves, respectively, will chair the advisory group. The designated focal points within these divisions will be Malaika Culverwell (INE/ENE) and Juan Cruz Vieyra (ICF/ICS) who will jointly supervise the development and implementation of this TC, including the coordination of related initiatives within their respective divisions. The chairs of the Advisory Group will meet twice a year to provide strategic guidance on the execution of this TC.

- 7.2 Regional TC Communications Coordinator: will be contracted provide assistance in consolidating lessons-learned from extractive industry work across the Bank and will showcase this work using various internal media and communications vehicles.
- 7.3 Monitoring arrangements: The team leaders of this project will coordinate monitoring activities with the above designated focal points in HQ and the TC Project Communication Coordinator, including 1) making semi -annual assessment of the result matrix here proposed, and 2) producing an annual report of the general development of the project according to the results matrix here proposed. No specific financing source is foreseen for this task.
- 7.4 Expertise in Bank: INE/ENE and/or ICF/ICS specialists depending on the activity and may include additional technical expertise that are interested in participating in the development and execution of products associated with this Proposal. These other divisions include: SCF/CFI; ICF/FMM; INE/RND; FOMIN; ESG; SCL/GDI; RES; EXR and ORP.
- 7.5 Evaluation report: The project will be evaluated externally, in conformity to the Bank policies at the end of its execution. This evaluation will focus on the results and impact of the TC activities as outlined in the results matrix. No financial audit will be required for this TC as it will be executed by the Bank.

VIII. Executing agency and execution structure

- 8.1 This Regional TC will be executed by the Bank (HQ). The project team is jointly led by INE/ENE and ICF/ICS who will supervise the TC components. The Bank already has some experience (see Annex D) and a number of institutional frameworks and policies (see Annex E) supporting work in this area and therefore is well positioned to help member countries transform hydrocarbon and mineral wealth into sustainable development. This Bank executed regional TC will avoid dispersed and sporadic support to clients.

IX. Major issues

- 9.1 Internal Coordination
IDB's knowledge and expertise related to these issues crosses technical and functional boundaries and requires active cross-sector collaboration and a platform for consolidating expertise. This Regional TC will provide an internal focal point for the development of advisory services related to governance in the extractive industries.
- 9.2 Specific Technical Expertise
In addition to internal expertise that will be strengthened from work on this regional TC, the technical team has stated to identify a preliminary pool of external consultants, and will create an advisory group and a set of publications that together, will provide a source of technical expertise on these topics.
- 9.3 Government Buy-In
All technical support at country-level will require a letter of request or a non-objection letter from the Government as appropriate. The project team has identified and already started engagement with Government counterparts.

9.4 Multilateral Coordination

In August 2009, the IDB endorsed the Extractive Industries Transparency Initiative (EITI) and through this initiative has started regional collaboration on transparency and governance issues with the EITI Secretariat and World Bank. In addition, the Project Team is coordinating this work with other institutions working in this area such as OECD, Revenue Watch, The Resource Charter, the World Bank and private sector extractive industry players in the region.

9.5 Impacts of the Extractive Industries

The extractive industries are known to have significant environmental, land use 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. VPS/ESG involvement in the execution of this TC will therefore be important.

9.6 Sustainability of the Project

This Regional TC will not be able to fulfill all the demands associated with 'governance and the extractive industries' in the LAC region. Additional sources of financing will be identified to provide a constant flow of advisory services and technical assistance for the extractive industries in LAC. The implementation of this TC will seek partnership in areas that require the combined strengths of multiple actors. In this regard, ORP/ORP involvement from the onset is important.

X. Exceptions to Bank policy

10.1 None

XI. Environmental and Social Strategy

11.1 According to the Environment and Safeguards Compliance Policy (OP-703), the TC is classified as "C." See Links: [IDBDOCS-#36514873](#) and [IDBDOCS-#36514869](#)

Annexes:

- Annex A: Overview of Extractive Industries in LAC
- Annex B: Loans in Preparation Associated with the Regional Proposal
- Annex C: Potential Areas of Support along the Value Chain
- Annex D: Preliminary List of IDB work on Extractive Industries
- Annex E: Bank Policies and Frameworks Supporting Extractive Industries
- Annex F: ToRs for Project Communications Coordinator of the Regional Proposal
- Annex G: ToRs for Consultant for Report on country comparison with regards to compliance with international standards promoting fiscal transparency and revenue management
- Annex H: Procurement Plan

Approval

(Original Signed)

(Dated 12/8/11)

Ana María Rodríguez Ortiz
Sector Manager

Date

Institutional Capacity and Finance Sector

ANNEX A:

Overview of the Extractive Industries in LAC

The Latin American and Caribbean region (LAC) region contains the world's leading source of metals and has the second largest share of the world's oil reserves. With recent offshore discoveries in Brazil potentially placing it among the countries with the largest oil reserves, and with Argentina potentially among the third largest provider of shale gas reserves in the world,¹ the region is quickly becoming a key player in the global development of hydrocarbons.

Table 1: Mineral Reserves in Latin America²

RESERVES		Brazil	Chile	Colombia	Mexico	Peru	Venezuela
Bauxite	tmdt P	25	-	-	-	-	5.9
	%WP	12,20%	-	-	-	-	2,88%
	tmdt R	1.900.000	-	-	-	-	320
	%WR	7,04%	-	-	-	-	1,19%
Copper	tmt P	-	5.6	-	270	1.22	-
	%WP	-	35,67%	-	1,72%	7,77%	-
	tmt R	-	160	-	38	60	-
	%WR	-	29,09%	-	6,91%	10,91%	-
Gold	mt P	40	42	-	41	175	-
	%WP	1,72%	1,80%	-	1,76%	7,51%	-
	mt R	2	2	-	1.4	1.4	-
	%WR	4,26%	4,26%	-	2,98%	2,98%	-
Iron ore	mmt R	390	-	-	12	-	20
	%WP	17,73%	-	-	0,55%	-	0,91%
	mmt R	8.9	-	-	400	-	2.4
	%WR	12,19%	-	-	0,55%	-	3,29%
Nickel	mt P	75.6	-	74.9	-	-	20
	%WP	4,70%	-	4,65%	-	-	1,24%
	mt R	4.500.000	-	1.400.000	-	-	560
	%WR	6,43%	-	2,00%	-	-	0,80%
Silver	mt P	-	-	-	3	3.6	-
	%WP	-	-	-	14,35%	17,22%	-
	mt R	-	-	-	37	36	-
	%WR	-	-	-	13,70%	13,33%	-
%WR = % of total world reserves		tmt= thousand metric tons					
tmdt =thousand metric dry tons		mmt= million metric tons					
mt = metric tons		P = Production					
R = Reserves							

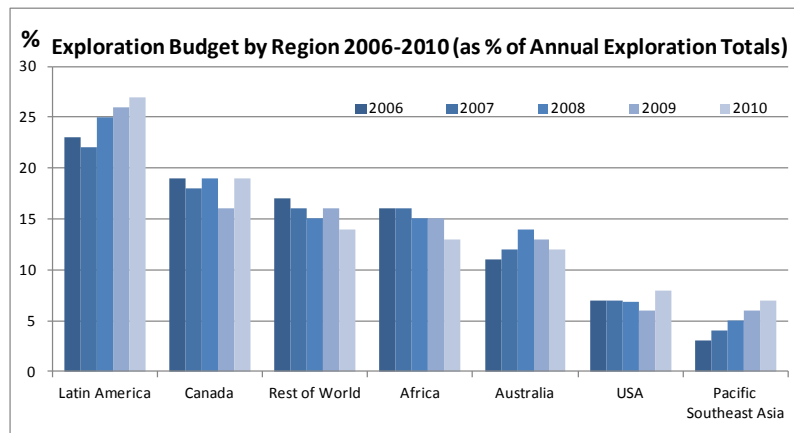
With respect to mineral reserves and production, Brazil is a major producer of bauxite, iron and nickel; Chile accounts for more than one third of global copper production (copper exceeds US\$10 billion/year); Mexico is a relevant producer of silver and zinc and Peru is a major producer of copper, gold and silver. Several other countries in the region such as Bolivia, Colombia and Venezuela also have abundant reserves of minerals.

¹ US Department of Energy Report, April 2011 cited in Reuters press 15 September 2011
<http://www.reuters.com/article/2011/09/15/oil-usa-reserves-idUKS1E78D2CE20110915>

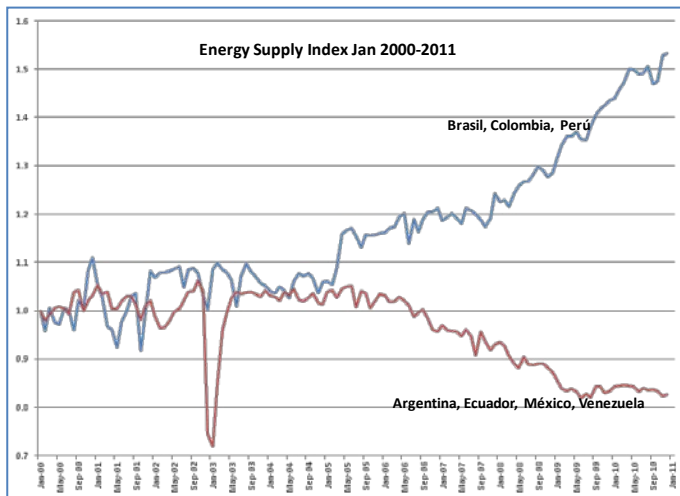
² Compiled by F. Monaldi (2011) "La Economia Politica de Los Impuestos a Los Hidrocarburos, y Otros Recursos Minerales en America Latina" paper submitted to IDB.

1.1.

1.2. Figure 1: Latin America Attracts Largest Share of Global Non-Ferrous Metals Exploration Budgets



Since 1994, Latin America has attracted the largest share of global allocated exploration spending. As Figure 1 shows, in 2010, LAC received 27% (US\$3 billion) of total global non-ferrous³ exploration budgets (US\$11.2 billion). Approximately 84% (US\$2.5 billion) of this LAC allocation was directed to the traditional big five countries—Peru, Mexico, Chile, Brazil, and Argentina.⁴ Preliminary estimates indicate that 2011 nonferrous exploration budgets will exceed \$17 billion, representing an increase of 50% from the 2010 total and a new all time high, with LAC countries continuing their leading position⁵



In the hydrocarbon sector, after prices increased threefold since the end of 2004, drilling activity⁶ has increased 2.5 times, and output has increased by almost 50% in Brazil, Colombia and Peru whilst Argentina, Ecuador, Mexico and Venezuela has seen constant levels of drilling activity and a decrease in output by 20%.⁷

³ Non-ferrous metals do not contain iron. These are for example, aluminum, brass, copper and titanium.

⁴ Metals Economic Group (2010) "World Exploration Trends" 2010 A Special Report from Metals Economics Group for the PDAC International Convention 2010

⁵ Metals Economics press release: see <http://www.metalseconomics.com/media-center/metals-economics-group-preliminary-findings-indicate-50-jump-2011-exploration-budgets>

⁶ Drilling is used as a proxy for investment

⁷ Ramon Espinasa (2011) "Oil Sector Performance and Institutional Framework: The Experience of Latin America 2000-2011" Internal Paper, INE/ENE. Uses statistics from NYMEX and International Energy Agency.

The current pipeline of mining projects in Latin America is impressive with substantial capital – intensive projects like Vale’s Onca Puma nickel mine and Salobo copper mine, Barrick Gold/Goldcorp’s Pueblo Viejo gold mine and Anglo American’s Barro Alto nickel entering the operations phase during 2011(see Table 2). To the extent that world growth after the financial crisis is more dependent on developing countries such as India, China and Brazil, and that demand in these countries is more commodity intensive than elsewhere, then demand for extractive industry exports from developing countries, including those in LAC, could continue to rise in the medium-term.⁸

Table 2: Selection of Large Pipeline Mining Projects in LAC (2011)⁹

Country	Project	Operator	Product	Capacity	Investment US\$	Milestone
Argentina	Agua Rica	Yamana Gold	Copper-Gold	148,000 ox/y Au; 370 Mlb/y Cu during first 10 years	2.1 billion	Feasibility study update, Production decision
	Los Azules	Minera Andes	Copper	Resources: 10.3Blb inferred, 2.2 Blb indicated	2.36 billion	Prefeasibility study completion
Bolivia	Amayapampa	Republic Gold	Gold	93,7000 oz/y	136 million	Start of operations
Brazil	Onca Puma	Vale	Nickel	58,000 t/y Ni in ferronickel	2.84 billion	Ramp up following 4Q10 production start
	Carajas expansion	Vale	Iron ore	30Mt/y	2.48 billion	Construction process (2012 start-up)
	Minas Rio	Anglo American	Iron ore	26.5 Mt/y	3.8 billion	Obtaining final operating permits
Chile	Los Bronces	Anglo American	Copper	370,000 Mt/y	2.5 billion	Start of operations 4Q11
	El Teniente new mine	le Codelco	Copper	20Mt Cu over 62 years	3.2 billion	Start of construction
	Escondida Phase V	Expar BHP Billiton	Copper	Greater than 110,000t/d concentrator	2.5 billion	Entering Feasibility stage
Colombia	Angostura	Greystar Resources	Gold-Silver	511,000 oz/y gold; 2.3 Moz/y silver	1.0 billion	Evaluation of project area, EIS
Dominican Rep	Pueblo Viejo	Barrick Gold	Gold-Silver	1Moz/y Au during first 5 years	3.0 billion	Start of operations 4Q11 - delay to 1Q12 possible due to power supply approvals
	Mirador	Ecuacorriente (JV China)	Copper-Gold-Sil	62,000t/y Cu, 34,000 oz/y Au, 394,000 oz/y Ag during first 10 years	399 million	Start of construction, pending contract renegotiation with Ecuadorian government
Guyana	Aurora	Guyana Goldfields	Gold	250,000 oz/y	262 million	Feasibility study completion 4Q11
Mexico	El Creston	Creston Moly	Molybdenum cc	40,000t/y Mo	576 million	Feasibility study completion 2Q11
	Cerro Jumil	Esperanza Resources	Gold-Silver	52,000 oz/y Au	72.2 million	Start of operations
Peru	Las Bambas	Xstrata	Copper	400,000t/y Cu in concentrate	4.2 billion	Final permitting (1H11). Start of construction 3Q11
	Minas Congas	Newmont Mining	Gold-Copper	650,000-750,000 oz/y Au, 160 M-210Mlb/y Cu during first 5 years	3.0 billion	Permitting, Production decision (mid 2011)
	Quellaveco	Anglo American	Copper	225,000 t/y first 10 years	2.5-3.0 billion	Feasibility study, possible construction decision
	Cerro Verde second exp.	Freeport McMoran Cop	Copper	Increase throughput by 100,000 t/d to 220,000t/d	2.5 billion	Feasibility study completion (1H11)

⁸ The World Bank (2010) Natural Resources and Development Strategy After the Crisis” *Economic Premise* a Poverty Reduction and Economic Management Network, February 2010, Number 1.

⁹ BNamericas “Mining Sector Outlook for 2011” *Mining Intelligence Series* November 2010

Challenges Associated with Extractive Industries in LAC

There are a myriad of governance and sustainability issues associated with the extractive industries in LAC that can be grouped into three categories: (i) governance and the investment climate (ii) realization of local economic benefits (iii) support to environmental sustainability.

Governance and the Investment Climate:

These challenges are particularly acute in at least 8 countries: Bolivia, Chile, Colombia, Ecuador, Mexico, Peru, Trinidad and Tobago and Venezuela that derive more than 10% of their fiscal revenues from commodities (between 11% and 46% on average for the periods with available data, see Table 3).¹⁰ In these types of resource-rich countries, Collier and Goderis (2007) advise that high revenues mostly have a negative impact on the long-run growth in exporting countries with poor governance but a significant positive impact on growth in exporters with good governance.¹¹

Table 3– LAC Countries Fiscally Dependent on Oil, Gas and Mining Revenues

Country	Start	Final year	Oil, Gas, Mining fiscal revenues as % of GDP	Oil, Gas, Mining fiscal revenues as % of fiscal revenues
Bolivia	1996	2008	6.8	19.15
Chile	1997	2008	3.11	11.68
Colombia	1993	2007	2.47	10.36
Ecuador	1992	2008	6.16	22.04
Mexico	1992	2008	6.3	30.79
Peru	1998	2008	2.09	10.92
Trinidad & Tobago	1992	2008	9.28	37.66
Venezuela	1992	2008	14.43	46.29

Efforts to improve a country's ongoing monitoring of operations, the collection and use of government taxes, the establishment and use of a natural resource fund as well as tools to facilitate good management of revenues and enhance transparency, compliance and accountability are vital for strengthening the investment climate for extractive industries.

¹⁰ These figures are calculated as averages during the period noted in the table. This information was compiled by: Perry, G., S. Bustos and S. Ho, "What do non-renewable natural resource rich countries do with their rents", draft for discussion, June 11, 2011, prepared for the Andean Development Corporation (CAF). The authors used data on commodity derived fiscal revenues from at least 2000-2008 and up to 1991-2008 for this restricted sample either from files compiled by Villafuerte, Lopez-Murphy and Ossowski (2010) at the IMF for 30 hydrocarbon rich countries or from individual IMF Article IV Consultation reports for several years for the rest. The definition is based on the criteria proposed by the IMF to classify a country as hydrocarbon or mineral rich when an: (i) an average share of hydrocarbon and/or mineral fiscal revenues in total fiscal revenue of at least 25 percent during the period 2000-2003; or (ii) an average share of hydrocarbon and/or mineral export proceeds in total export proceeds of at least 25 percent during the period 2000-2003.

¹¹ Collier, Paul and Benedikt Goderis (2007) "Commodity Prices, Growth and the Natural Resources Curse: Reconciling a Conundrum: August. Working Paper 276. Centre for the Study of African Economies. They look at high oil and mineral prices and the impact on long-run economic growth.

Realization of Local Economic Benefits

There is general dissatisfaction in LAC with allocated royalties and taxes towards productive investment and/or companies' contribution to local socio-economic needs. According to a study by the Central American Institute for Fiscal Studies¹², social spending as a percentage of GDP is low particularly among resource-rich countries like Ecuador, Bolivia, and Guatemala. Successful cases - such as Chile's Escondida's local procurement/regional cluster initiative – demonstrate the need to tackle the challenge of local economic benefit through joint initiatives between local government and companies via socio-economic assessments and projects targeting education, training, microenterprise and infrastructure.

Support to Environmental Sustainability in the Extractive Industries

The use of water resources by extractive companies and communities' fear of contamination and/or depletion pose a critical challenge for the extractive industries in LAC. Water supply and use could become an increasing challenge in the near future as countries grant extended consultation and opinion rights to indigenous peoples and become ever more conscious of the need to take care of their hydro resources. Similarly, the use of scarce electric power, particularly in northern Chile and southern Peru, will continue to be a challenge in the coming years. In Chile, copper commission Cochilco estimates that electric power consumption by the mining industry will grow some 4.5% in 2011 to 20.97TWh after expanding 9.3% to 20.06TWh in 2010. The mining sector already suffers from a power supply deficit of 850MW despite the launch of two LNG regasification facilities in 2009 and 2010.

Added to concerns for water and energy efficiency, are the impacts of small scale gold mining on deforestation, water contamination, environmental and health problems affecting communities living in the Guiana Shield region (which includes northern Brazil, French Guiana, Suriname and Guyana).

Although these environmental challenges seem overwhelming, innovations in technology and production stimulated by industry partnerships are beginning to provide solutions. For example, the use of raw seawater at the Esperanza copper project in Chile - now entering its operations phase – is expected to set important technical precedents for the industry. Meanwhile, innovative initiatives such as solar energy in the Atacama for generating power for mining and Southern Copper's Tía María project in Peru's Arequipa department work on a desalination system are all industry innovations that governments can support and extend to other extractive areas.

A key implication of the above mentioned governance and sustainability challenges is the impact on political risk premiums.¹³ Country risk premiums (such as the one determined

¹² ICEFI and CESR (Central American Institute for Fiscal Studies and Center for Economic and Social Rights) 2009 "Rights or Privileges? Fiscal Commitments to the Rights to Health, Education, and Food in Guatemala"

¹³ Political Risks premiums can be measured in percentage points added to the weighted average cost of capital (WACC) and, in turn, to the discount rate of the asset's value. Even a mild risk, i.e. a small increase in discount rate, (from estimations on the potential increase in government take or a project delay due to social unrest) can detrimentally impact the economic value of a mining project and destroy its investment case.

by CRU¹⁴) captures forward looking risks with corresponding ranges of appropriate discount rates.

Table 4: Discount Rate Adder, CRU Country Risk Premiums as of 2010¹⁵

Country Classifications	Discount Rate Adder	Examples
Top tier	-0.5% to +0.75%	Australia, Botswana, Canada, Chile, EU
Second tier	+1% to +2%	Brazil, Mexico, Peru, China
Third tier	+2.25% to +4.75%	Colombia, Ghana, India, Indonesia, Mongolia, South Africa, Zambia
Highly Speculative	+5% and higher	Argentina, Bolivia, Venezuela, Congo, Zimbabwe

The top tier category presents almost no appreciable political risk and includes countries such as Chile. Second-tier countries, such as Peru, Brazil and Mexico have a slightly higher risk premium, while third tier countries like Colombia are appropriate only for companies comfortable managing their higher level of risk. In the last tier, where CRU includes Bolivia, Venezuela and Argentina, investors would demand a significant return to consider investing (see Table 4).

14 CRU combines data from two sources to determine its composite country risk premium: The Morningstar International Cost of Capital, which reflects general economic and financial conditions, and the Fraser Institute's Policy Potential Index, which is weighted toward mineral exploration

¹⁵ Robin Adams, CRU Strategies as quote in BNamericas "Socio-Political Risk" *Mining Intelligence Series*, January 2011.

Annex B:

Loans in Preparation Associated with the Regional Proposal

- **Sustainable Energy Program, Trinidad & Tobago, TT-L1023. (In Approval)**

The Program is structured as a Policy-Based Loan (US\$60 million) under a programmatic modality (programmatic policy-based loan or PBP) and in support of policy reform in the energy sector. It will consist of three individual operations, each with specific institutional and policy goals to be met in 2011, 2012/13 and 2013/14, respectively.

The general objective of the Program is to support the transition of Trinidad and Tobago (T&T) to a more efficient, sustainable and clean energy matrix. The Program will: (i) strengthen the regulatory and legal framework to contribute to a more sustainable energy sector (focus on Renewable Energy) with increased efficiency, transparency and accountability; (ii) support the preparation of new policy and legislation for Energy Efficiency (EE); (iii) support environmental sustainability of alternative energy fuels in the energy matrix; (iv) promote efficient and rational production and use of fossil fuels; and (v) strengthen institutional capabilities for sustainable energy and public education awareness.

Component 1 of the Sustainable Energy Framework will strengthen the policy, regulatory and legislative framework to contribute to a more effective and clean energy sector with increased efficiency, transparency and accountability through: (i) the holding of country-wide consultations; (ii) the development of a Framework for Energy and Minerals Policy in Trinidad and Tobago which will provide the basis for the Green Paper on National Energy and Minerals Policy and introduce RE and EE; (iii) a Renewable Energy Committee (REC) that is fully operational and incorporates representation of cross-sector of ministries such as the Ministry of Housing and Environment, which oversees climate change policy and regulation; (iv) specific fiscal incentives to promote RE and EE; and (v) support to T&T in achieving Extractive Industry Transparency Initiative (EITI) Status.

ANNEX C: POTENTIAL AREAS OF SUPPORT ALONG THE VALUE CHAIN

	Extractive Rents as % of Gov't Income	Key Extractive Projects	Contract Negotiation	Regulatory Reform (mineral law)	Water and Energy Efficiency	Compliance Management (social, economic, enviro)	EITI	Extractive Fiscal Regime Reform	Revenue Management & Distribution (includes Commodity Funds)	Local Gov't Capacity on Revenue Management	Job Creation and Supply Chains	Small-Scale and Informal Mining Challenges	Utilization of Extractive Rents on Sustainability Projects
Argentina		Potasio Rio Colorado (US\$6bn) likely to create									Supplier Development Program for PRC being considered		Support for revenue management and social infrastructure investment from PRC rents
Bolivia	19.15%								Request for Monitoring, Evaluation and Oversight support re: fiscal flows				
Brazil													
Chile	11.68%				Support for energy efficiency and solar energy power for mining	Support for legal amendments and institutional reform on environ aspects of mining							
Colombia	10.36%					Support for Environmental license monitoring, health & safety regulations	Gov't considering EITI	Gov't considering proposal for changes to Royalty regime	Request for Monitoring, Evaluation and Oversight support re: fiscal flows			Support needed for SME mining regulation and oversight	
Ecuador	22.04%							Gov't considering raising royalties					
Dominican Republic							Gov't considering EITI						
Guatemala				Pressure mounting to change Mining 1997 Law		Environmental, health regulation and oversight	EITI Candidate (Aug 2013 compliance date), Support required for implementation	Gov't considering raising royalties					Calls for a Sustainable Development Plan that allocates mine revenues into targeted investments
Guyana													
Mexico	30.79%							Gov't considering raising royalties					
Paraguay			Support required for contract negotiations with mining companies										
Peru	10.92%						Almost EITI Compliant	New 2011 Fiscal Regime		Support for Municipal Capacity building to manage revenues			
Suriname	90%		Support required for contract negotiations with mining companies									Represents 60% share of total gold production; 17% of national exports and is 2nd largest employer in Suriname after the public sector. Associated with large-scale environmental destruction and water	
Trinidad & Tobago	37.66%			Requires comprehensive review of the legislative and regulatory framework, to determine all obstacles to further transparency			EITI Candidate (Aug 2013 compliance date), Support required for implementation				Piloting of a local economic development framework (PPP) to enhance value added		
Venezuela	46.29%							New 2011 Fiscal Regime					

Annex D

Preliminary List of Recent Portfolio of IDB Work on Extractive Industries

Project number	Year	Amount	Project Name	Country
OIL				
BR-L1120	2011	140,000,000	Delba Vessel	Brazil
EC-L1040	2010	58,000,000	Modernization of Pumping Stations on the Esmeraldas-Quito Multiproduct Pipeline	Ecuador
ME-L1051	2009	301,000,000	Promote the Development of SME Suppliers and Contractors National Oil Industry	Mexico
RS-T1021	2003	149,000	Fuel Price Fluctuations and Macroeconomic Stability in Central America	Regional
MINING				
BO-T1132	2011	300,000	Development of Lithium in Bolivia	Bolivia
CO-T1191	2009	50,000	Social and Environmental Impact on Indigenous Areas of Cauca	Colombia
CO-T1063	2007	150,000	Preparation of a Small-scale Indigenous Mining Corridor Project	Colombia
AR-L1026	2007	50,000,000	Clean Production and Environment Management	Argentina
SU-M1006	2005	100,000	Establishment of Suriname Gold Mining Association	Suriname
SU-T1005	2004	110,000	Indigenous Peoples and Mining in Suriname	Suriname
PE-T1023	2006	165,000	Reduce Chile Labor in Artisanal Gold-mining Communities in Puno	Peru
GAS				
BA-T1008	2009	625,000	Support Subsidies for the Upgrade and Expansion of the Natural Gas Network	Barbados
BO-S1008	2009	1,360,000	Promoting the efficient provision of natural gas to low-income homes in El Alto	Bolivia
AR-T1062	2009	150,000	Free Stall Bio Gas Project & Feedlot Bio Gas Project	Argentina
RG-T1462	2007	280,000	Support Preparatory Studies of the Project of Plant of	Regional
PE-L1016	2007	400,000,000	Peru LNG Project	Peru
RS-T1240	2006	1,250,000	Strategy for the Introduction of Natural Gas in Central America	Regional
RG-T1176	2005	150,000	Proposal for the Southern Cone's Gas Market Integration	Regional
PE0222	2003	75,000,000	Camisea Project	Peru
PE0233	2002	7,200,000	Institutional Strengthening and Environmental and Social Management Support for the Camisea Project	Peru

Annex E

IDB Policies and Frameworks Supporting Work on Extractive Industries

GCI-9 Mandate (July 2010)	Provides an institutional strategy that promotes sustainable energy sources, institutions for growth and competitive regional and global integration	http://www.iadb.org/en/capital-increase/why-increase-the-idbs-capital,1874.html
Mining Policy (May 1979)	Provides a sectoral framework for the Bank to consider requests for financing and/or technical cooperation which will contribute to the development of the mining sector as well strengthen institutional capacity in the sector	http://www.iadb.org/aboutus/howweareorganized/index.cfm?lang=en&id=6215
Energy Strategy (March 2000)	Provides incentives for inter-sector and interdepartmental cooperation and supports technical assistance for energy-related environmental regulations and strengthening the capacity of the State	http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1481891
Extractive Industries Transparency Initiative (EITI) (August 2009)	Global Standard promoting fiscal transparency. Encourages governments and companies to disclose revenues and payments generated by oil, gas, and mining industries. The EITI offers a useful framework for encouraging best practices, and it complements the IDB's existing work in the areas of public sector transparency and modernization of the state. countries.	http://www.iadb.org/news-releases/2009-08/english/idb-backs-extractive-industries-transparency-initiative-5544.html
Action Plan for Supporting Countries' Efforts to Combat Corruption and Foster Transparency (PAACT) (November 2009)	Provides a strategic policy framework that seeks to integrate, update and deepen the mechanisms and capacities for attaining greater effectiveness in actions to prevent, monitor and penalize corruption. Supporting Transparency in extractive industries is specifically mentioned when referring to possible activities aimed at strengthening the sector focus	http://www.iadb.org/en/topics/transparency/support-for-countries/support-for-countries-on-transparency-and-anticorruption,1164.html

Annex F

“STRENGTHENING GOVERNANCE IN EXTRACTIVE INDUSTRIES IN LATIN AMERICA AND THE CARIBBEAN (LAC)”

A REGIONAL RESEARCH & DEVELOPMENT PROPOSAL

RG-X1129

TERMS OF REFERENCE

Consultancy to Support Communications Coordination

I. BACKGROUND

- The Latin American and Caribbean region (LAC) region contains the world’s leading source of metals and has the second largest share of the world’s oil reserves. With recent offshore discoveries in Brazil potentially placing it among the countries with the largest oil reserves, and with Argentina potentially among the third largest provider of shale gas reserves in the world,¹ the region is quickly becoming a key player in the global development of hydrocarbons. With respect to minerals, Latin America has attracted the largest share of global allocated exploration spending since 1994, receiving between 25-27% (US\$3 billion) of total global non-ferrous² exploration budgets annually. Approximately 84% of this LAC allocation has been directed to the traditional big five countries—Peru, Mexico, Chile, Brazil, and Argentina and the pipeline for further investment is growing exponentially³
- The dominance of extractive industries in many LAC economies coexists with macro-economic instability, fragile institutions, information asymmetry and discontent with the resulting development impact. Given the escalating revenues from the recent mineral and hydrocarbon boom in LAC and high commodity prices, these challenges are increasing fueling demand from public sector clients to strengthening institutions that will maximize the social and economic benefits and to minimize the negative impacts of extractive industry activities. In doing so, governments can achieve a more robust investment climate and provide for greater certainty as to the security of supply of minerals and hydrocarbons in LAC
- Demand from both governments and the private sector for this technical assistance is growing, partly in response to concerns to protect the substantial extractive industry investments and the perceived impacts they cause. Calls for institutional strengthening in the extractive industries in LAC, is also part of a coalescing global movement, supported by civil society, investors and donors, for a broader good governance agenda that addressed public management, accountability as well as the proactive management of the investment climate

¹ US Department of Energy Report, April 2011 cited in Reuters press 15 September 2011
<http://www.reuters.com/article/2011/09/15/oil-usa-reserves-idUKS1E78D2CE20110915>

² Non-ferrous metals do not contain iron. These are for example, aluminum, brass, copper and titanium.

³ Metals Economic Group (2010) "World Exploration Trends" 2010 A Special Report from Metals Economics Group for the PDAC International Convention 2010

in the extractive industries. At the same time, in LAC, there is a strong demand for lesson-learning and knowledge sharing between countries within the region.

- In the IDB, a focal point for advisory services, information and learning on governance within the extractive industries needs to be provided so as to avoid dispersed and sporadic support to clients. IDB's knowledge and expertise related to these issues crosses technical and functional boundaries and requires active cross-sector collaboration and a platform for consolidating expertise.

II. OBJECTIVES

- In response to this demand, the IDB is proposing to establish a Regional Proposal. 2.1 The overall aim of this TC is to contribute to the strengthening of governance in the extractive industries (oil/gas and mining) in Latin American and the Caribbean (LAC). The specific objectives of this TC are to: (i) improve transparency and access to information; (ii) strengthen legal and regulatory reform; (iii) build capacities, within governments and civil society, to improve the monitoring of socio-economic and environmental impacts; and (iv) increase and disseminate knowledge on extractive industries.
- The objective of this consultancy is to provide assistance in consolidating lessons-learned from extractive industry work across the Bank and will showcase this work using various internal media and communications vehicles.

III. ACTIVITIES

- The main activities for the consultancy are set out below:
 - Communications Work-Plan: Draw up a Work Plan (using MS Project) that includes a detailed overview of key milestones, participating parties, budgets, monitoring arrangements, etc to ensure staff and responsibilities are defined and products are delivered in timely fashion. Coordinate and supervise the Program Work Plan with regular reporting on achievements, progress, budgets and risks to the Project team.
 - Documents Management: The TC communications Coordinator will review all the main technical documents resulting from the Regional Proposal to ensure the documents fit with IDB Publication Standards. Ensure a comprehensive and orderly management of communications, including storing information and providing feedback for news and stories that will be published on IDB's website.
 - Communications: Assist in the production of key communication documents (power-point presentations, speeches, papers, press releases) for internal and external distributions related to the Regional Proposal and ensure that information is regularly shared and updated. Help ensure that External Affairs and ORP (IDB) are kept abreast of all developments and that Bank staff (HQ and country office) are aware of success stories on 'Governance/Institutional Strengthening in the Extractive Industries in LAC'. In coordination with External Affairs and ORP, develop a

website dedicated to the Regional Proposal and associated activities taking place within the Bank. Ensure information, data and links are regularly updated.

- Events Management Provide assistance to identify appropriate opportunities for Bank staff to present on ‘Governance/Institutional Strengthening in the Extractive Industries’ – conferences, roundtables or seminars – that will raise the profile of the IDB on these issues particularly in the LAC region. Support the preparation of events (e.g. Brown Bag Lunches, Webinars, regional seminar) within and outside the Bank and provide assistance to develop a method of monitoring success of communications.

IV CHARACTERISTICS OF THE CONSULTANCY

- **Type of consulting:** Consultant/Individual.
- **Qualifications:** The Consultant should be a professional with an MA or equivalent and at least 3 years experience related to economics, journalism/communications or public policy. Required is: (i) experience of communications, including new media, website development, newsletters (ii) at least 2 years project management and particularly procurement experience (iii) Fluency in English and Spanish and (iv) Proven research, analytical and writing skills, with an emphasis on multi-disciplinary flexibility. Desired are (i) familiarity with the actors in the oil/gas and mining industry in LAC; and/or (ii) familiarity with issues on good governance, investment climate, transparency and accountability. Experience in IDB operations is a plus.
- **Total days of consulting:** The time-frame for this consultancy will be one calendar year, renewable on an annual basis for a total of three years, and based on performance of the consultant against the ToRs as well as the viability of the Project Proposal.
- **Workplace:** The work is based in Washington DC.

V. PAYMENT SCHEDULE

- Payments will be made to the Consultant upon presentation and approval of monthly progress reports and are expected to be made at the end of each calendar month. Limited travel may be required within the region, upon consideration of the technical team.

VI. COORDINATION

- The coordination of the consultancy will be in charge of the Division of Institutional Capacity of the State (ICF/ICS), through Nicolas Dassen, ICF/ICS, nicolasd@iadb.org. and Juan Cruz Vieyra (ICF/ICS), juancr@iadb.org, and the Division of Energy through Malaika Culverwell (INE/ENE), malaikac@iadb.org.

ANNEX G

RG-X1129

TERMS OF REFERENCE

Consultancy for the Assessment of LAC Country Performance on Fiscal Transparency Standards

I BACKGROUND

- 1.1 Despite the progress made towards the strengthening of the legal and institutional frameworks, many countries in Latin and the Caribbean continue to face important challenges and increasingly demonstrate a willingness not only to tackle but also to prevent them with a clear commitment to transparency and good governance.
- 1.2 Taking into account this context, the Inter-American Development Bank approved in November 2009, the PAACT, which represents a renewed commitment to cooperate and provide assistance to the directors of the Bank representing countries in the region. Through the PAACT, IDB undertakes to: (i) strengthen the capacity of analysis and diagnosis in the areas of governance and anti-corruption at the country, sectoral and institutional level to identify specific vulnerabilities in each context; (ii) encourage the efforts undertaken by countries to implement international conventions against corruption, also creating opportunities for regional dialogue on this issue and (iii) emphasize the work of institution-building as an "access point" for the prevention and control of corruption.
- 1.3 The approach at the sectoral level is aimed at consolidating and supporting the promotion of transparency and greater efficiency in the sectors in which the Bank works. For this purpose, it has chosen the extractive industries (oil, gas and mining sectors), as a result of the importance of this sector for the economic development of countries and the demand from clients for work on institutional strengthening in the extractive industries.

II. OBJECTIVES

- 2.1. The relevance of financial information and disclosure can be understood in the context of information asymmetry, which is associated with the principal-agent relationship. Information disclosure helps to reduce the uncertainty regarding investment opportunities, can help to maximize the efficient allocation of scarce resources, and acts as an appropriate external mechanism of corporate governance to reduce agency costs. In the context of resource-rich economies (over 25% of exports and GDP generated by mineral/hydrocarbon proceeds), fiscal transparency (the free flow of information, between companies and government, within government and to the public) combined with careful macroeconomic management can mitigate the impact of the "Dutch Disease". Fiscal transparency also allows for a better-informed debate by both policymakers and the public about the design and results of fiscal policy and revenue management, and establishes accountability. In strengthening credibility and public understanding of macroeconomic policies and choices, fiscal transparency fosters more favorable access to domestic and international capital markets.

- 2.2. The Latin America and Caribbean (LAC) region contains the world's leading source of metals and has the second largest share of the world's oil reserves, placing it as a key player in the global development of the extractive industries. The dominance of extractive industries in many LAC economies coexists with macro-economic instability, fragile institutions, information asymmetry and discontent with the resulting development impact. Given the escalating profits and revenues from the recent mineral and hydrocarbon boom in LAC, these challenges are increasing fueling demand from public and private sector clients to strengthen fiscal transparency and revenue management institutions that will maximize the social and economic benefits and to minimize the negative impacts of extractive industry activities. In doing so, governments can achieve a more robust investment climate and provide for greater certainty as to the security of supply of minerals and hydrocarbons in LAC.
- 2.3. At the global level, there is a coalescing movement to promote international standards and protocols that address transparency in fiscal and revenue management. Initiatives such as the Extractive Industries Transparency Initiative (EITI), Revenue Watch Index, Public Expenditure and Accountability (PEFA), Open Budget Initiative (IBP/Network), the Inter-American Center of Tax Administrations (CIAT), the OECD Model Tax Convention and the Dodd-Frank Action (Section 1502 that mandates disclosure of payments to host countries by extractive industries companies), all seek to encourage countries to undertake an assessment of fiscal transparency, documenting their practice and compliance with the initiative and raising awareness of the gaps towards achieving this.
- 2.4. These standards and protocols can be a useful guide and lens in 'painting a picture' of the performance of the LAC region and individual resource-rich countries on fiscal transparency and revenue management. However, it is also important to get a sense of the political economy dynamics, inherent in the sign-up/adoption (or not) and implementation of these initiatives, including an understanding of the alternate initiatives adopted at the regional level or country level. An assessment of this more political aspect of standards as it applies to the LAC region will help in explaining why certain standards/protocols fair better than others and point to areas where there is more or less appetite for improving practices and systems that support fiscal transparency and revenue management.
- 2.5. The **goal** of this consultancy is assess country performance on global standards/protocols on fiscal transparency and revenue management in the extractive industries in LAC. This will provide a snap-shot regional picture and country comparison (particularly among resources-dependent countries) of the performance against global standards and offer an explanation for this performance in order to improve understanding of the dynamics in the region on these issues.
- 2.6. The research and analysis will describe the main standards and protocols in fiscal transparency and revenue management; identify the success and gaps in sign-up and compliance with such standards/protocols and offer an explanation for this status at the regional and specific resource-rich country level. This research and analysis will enable the Bank to have an improved understanding on state of compliance in LAC with fiscal and revenue transparency standards and will feed into research that will be published by the IDB, as well provide input to further planning of the INE-ICF Action plan on "Institutional Strengthening in the Extractive Industries".

III. ACTIVITIES

3.1 The main activities for the consultancy are set out below:

(i) Describe the empirical evidence that shows how transparency improves extractive industry performance and public revenue raising

(ii) Provide a detailed analysis for the principle global and regional LAC initiatives (standards/protocols) that deal with tax collection, fiscal revenues and financial reporting.

- This list should include a description of at least: the Public Expenditure and Accountability Index (PEFA); Open Budget Initiative, Extractive Industries Transparency Initiative (EITI), Dodd-Frank Legislation, OECD Model Tax Convention and the Inter-American Center of Tax Administrations (CIAT). This list should be made in agreement with the IDB project team.
- Draw out definition of sign-up/adherence, implementation and compliance within the standards/protocols and note in particular which standards contain accountable process/mechanisms to verify fiscal transparency (e.g. multi-stakeholder oversight within EITI implementation)
- Include (with a detailed assessment in a separate annex) a description of the methodologies used for each standard/protocol and commentary on the status of the standard/protocols

(iii) Describe LAC country performance against the selected standard/protocols, Compare LAC regional performance with respect to the global context.

- Compare country performance within the LAC region, paying particular attention to smaller (e.g. Central America and Caribbean etc) versus larger countries (e.g. Brazil, Chile, Argentina etc) and to the performance of resource-rich countries.
- Provide an assessment of this performance of the LAC region and countries within LAC against socio-economic statistics/data in these countries (e.g. the institutional quality indices such as the Kaufmann and Kraay index; GDP/capita, Extractive industries as a % of exports, Extractive investments in the country in the last decade, sovereign debt ratings, etc) and analyze where LAC countries adhering (or not) to the standards/protocols fare in relation to this data. Note that the statistics/data must be selected in collaboration with the IDB project team.
- Produce a two-by-two matrix with institutions (as described by the Kaufmann and Kray index) on the one side and LAC performance against a particular standard (e.g. EITI) on the other and describe which LAC countries fall into the 4 quadrants (e.g. low-low, or high-high). Provide insight into the relationship outlined within the matrix, explaining what this reveals about the countries that have signed-up/adhered to the standard; countries that have complied with the standard against their score on the Kaufmann and Kray index that describes the level of development of the country's institutions.

(iv) Provide an assessment of the political economy of sign-up/adherence, compliance, or not, of LAC countries with respect to the selected **standard/protocols**

- Describe regional drivers for the uptake of global versus regional or national standards. Which political processes drive the adherence to these standards?; How has adherence/compliance transformed governance and discourse on fiscal and revenue transparency at different levels of governance?; Which political and socio-economic actors are involved; what are their interests, and how are relations of power between them configured?
 - Identify and describe cases where implementation of the standards/protocols has taken place at sub-national levels and the drivers for this.
 - Compare countries that have adhered to and have complied with the selected standards, and countries that have adhered to and complied with the selected standards that include accountable mechanisms (e.g. EITI)
- (v) **Provide conclusions of the current ‘state of play’** of LAC region (versus global) and LAC country performance (small versus larger countries) on fiscal and revenue management standards/protocols and an insight into the issues that could explain adherence, implementation and compliance.
- Provide insights into the implication of LAC region and country adherence to and compliance with the selected standards/protocols on fiscal transparency and revenue management; broader governance reforms in the extractive industries, competitiveness and future investment of these sectors in LAC, and costs of capital for country borrowing.

IV. EXPECTED OUTPUTS

- 4.1 Work Plan for the implementation of the consultancy that incorporates a timetable detailed for the implementation of activities, and that takes into account partial deliveries in advance allowing officials of the Bank to send your comments and engage in the design of Final Report. To be delivered within 5 working days of start of the consultancy.
- 4.2. First Draft of the Final Report. To be delivered within 25 days of the start of the consultancy.
- 4.3. Final Report that includes detailed annexes. To be delivered within 40 days of the start of the consultancy.
- 4.4. PowerPoint Presentation of the Final Report. To be submitted by the 14th December 2011.

V CHARACTERISTICS OF THE CONSULTANCY

- 5.1. **Type of consulting** : Consultant/Individual.
- 5.2. **Qualifications:** At least 10 years of professional experience working on political economy issues within the LAC region, particularly as it relates to tax reform. Substantial experience on international standards/protocols associated with fiscal and revenue transparency, preferably in the extractive sector. Count with professional degree in economics (business administration, accounting or economics). Fluency in English language and Spanish desired.

- 5.3. **Total days of consulting** A total of 40-consecutive days.
- 5.4 **Workplace:** The tasks will take place in the country of residence of the consultant.

VI. PAYMENT SCHEDULE

- 6.1 Payments will be carried out according to the following schedule:

30%	Signature of the contract
70%	Delivery and approval by the Bank of the Final Report and Power Point Presentation (para 4.3 and 4.4)

VII. COORDINATION

- 7.1 The coordination of the consultancy will be in charge of the Division of Institutional Capacity of the State (ICF/ICS), through Nicolas Dassen, ICF/ICS, nicolasd@iadb.org, and Juan Cruz Vieyra (ICF/ICS), juancr@iadb.org, and through Malaika Culverwell (SCF/CFI), malaikac@iabd.org.

Annex H
Procurement Plan

Institutional Strengthening in the Extractive Industries in Latin America and the Caribbean (LAC) RG-X1129

Period of January 2012 – December 2014

Ref. No. ¹	Description of and category of procurement contract	Estimated cost (US\$)	Procurement method ²	Source of financing and percentage		Pre-qualification ³ (Yes/No)	Estimated Dates		Status ⁴ (pending, in process, awarded, cancelled)	Comments
				IDB %	Local / Other %		Publication of specific proc. notice	Completion of contract		
1	CONSULTING SERVICES (Individual)									
1.a	Long Term Project Coordinator – Technical Support to the Initiative (ICF/ICS – INE/ENE) (3 years)	150,000	QCII	100	0		January 01, 2012	December 30, 2014	Pending	
1.b	Individual Consultant - baseline assessment on information sharing in extractive industries (country A)	37,500	QCII	100	0		June 01, 2012	November 30, 2012	Pending	
1.c	Individual Consultant – baseline assessment on information sharing in extractive industries (country B)	37,500	QCII	100	0		June 01, 2013	November 30, 2013	Pending	
1.d	Individual Consultant – Design of IT/Software System Plan	40,000	QCII	100	0		June 01, 2013	November 30, 2013	Pending	
1.e	Individual consultant – Education Campaign to support EITI/transparency reports	50,000	QCNI	100	0		June 01, 2013	November 30, 2013	Pending	
1.f	Individual consultant – Regulatory & Legal Review to align with improved disclosure (country A)	37,500	QCNI	100	0		June 01, 2012	November 30, 2012	Pending	
1.g	Individual consultant – Regulatory & Legal Review to align with improved disclosure (country B)	37,500	QCNI	100	0		June 01, 2013	November 30, 2013	Pending	
1.h	Individual consultant – Draft proposed legislative framework	70,000	QCNI	100	0		June 01, 2013	November 30, 2013	Pending	
1.i	Individual consultant – Roadmap for environmental compliance management (country A)	25,000	QCII	100	0		March 01, 2013	July 30, 2013	Pending	
1.j	Individual consultant – Roadmap for environmental compliance management	25,000	QCII	100	0		July 01, 2013	November 30, 2013	Pending	

	(country B)									
1.k	Individual Consultant – Roadmap to develop capacity building and training programs in revenue management (Country A)	25,000	QCII	100	0		June 01, 2012	November 30, 2012	Pending	
1.l	Individual Consultant – Roadmap to develop capacity building and training programs in revenue management (Country B)	25,000	QCII	100	0		June 01, 2013	November 30, 2013	Pending	
1.m	Individual Consultant – Roadmap to develop capacity building and training programs in sustainable territorial and land-use and (Country A)	25,000	QCII	100	0		June 01, 2012	November 30, 2012	Pending	
1.n	Individual Consultant – Roadmap to develop capacity building and training programs in sustainable territorial and land-use and environmental compliance management (Country B)	25,000	QCII	100	0		July 01, 2013	November 30, 2013	Pending	
1.o	Individual Consultant – Research inputs for Discussion paper on “Trends in Stock Markets Transparency and the Implications for extractive industries in LAC”	35,000	QCII	100	0		November 1, 2012	April 30, 2013	Pending	
1.p	Individual Consultant – Research inputs for Working paper on “Trends in Stock Markets Transparency and the Implications for LAC”	30,000	QCII	100	0		June 1, 2013	November 30, 2013	Pending	
1.q	Individual Consultant – Technical Assistance for 1st Regional Conference on Transparency and Good Governance in the Extractive Industries in LAC (2012-Washington DC)	20,000	QCII	100	0		August 1, 2012	November 30, 2012	Pending	
1.r	Individual Consultant – Technical Assistance for 2nd Regional Conference on Transparency and Good Governance in the Extractive Industries in LAC (2014-Washington DC)	20,000	QCII	100	0		August 1, 2014	November 30, 2014	Pending	
1.s	Individual Consultant – Organization of Workshop “Trends in Stock Markets Transparency and the Implications for LAC”	7,500	QCII	100	0		March 01, 2014	August 30, 2014	Pending	
1.t	Individual Consultant – Organization of Workshop “Transparency efforts and Local Value-Added along the Natural Gas/LNG value chain in LAC”	7,500	QCII	100	0		March 01, 2013	August 30, 2013	Pending	

¹ If there are a number of similar individual contracts to be executed in different places or at different times, these can be grouped together under a single heading, with an explanation in the comments column, indicating the average of individual amount and the period during which the contracts would be executed. For example: an education project that includes school construction might include an item labeled “School Construction” for an estimated cost of US\$20 million and an explanation under the Comments column such as this: “This item encompasses some 200 contracts for school construction averaging US\$100,000 each, to be awarded individually by the participating municipal governments over a three-year period between January 2006 and December 2008.”

² **Goods and Works:** **ICB:** International competitive bidding; **LIB:** limited international bidding; **NCB:** national competitive bidding; **PC:** price comparison; **DC:** direct contracting; **FA:** force account; **PSA:** Procurement through specialized agencies; **PAs:** Procurement agents; **IA:** Inspection agents; **PLFI:** Procurement in loans to financial intermediaries; **BOO/BOT/BOOT:** Build, own, operate/build, operate, transfer/build, own, operate, transfer; **PBP:** Performance-based procurement; **PLGB:** Procurement under loans guaranteed by the Bank; **PCP:** Community participation procurement; **Consulting Firms:** **QCBS:** Quality- and cost-based selection; **QBS:** Quality-based selection; **FBS:** Selection under a fixed budget; **LCS:** Least-cost selection; **CQS:** Selection based on the consultants’ qualifications; **SSS:** Single-source selection; **Individual Consultants:** **QCNI:** Selection based on comparison of qualifications of national individual consultants; **QCII:** Selection based on comparison of qualifications of international individual consultants.

³ Applicable only to Goods and Works in case the new Policies apply. In the case of previous Policies, it is applicable to Goods, Works and Consulting Services.

⁴ Column “Status” will be used for retroactive procurement and when updating the procurement plan.