

**PROJECT INFORMATION DOCUMENT (PID)  
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC36735

<b>Project Name</b>	Second Philippines Extractive Industries Transparency Initiative (EITI) Support Project
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Country</b>	Philippines
<b>Sector(s)</b>	Other Mining and Extractive Industries (100%)
<b>Theme(s)</b>	Other public sector governance (100%)
<b>Lending Instrument</b>	Lending Instrument
<b>Project ID</b>	P157976
<b>Borrower Name</b>	Department of Finance
<b>Implementing Agency</b>	Philippines EITI National Secretariat
<b>Environment Category</b>	C - Not Required
<b>Date PID Prepared</b>	30-Nov-2015
<b>Estimated Date of Approval</b>	01-Jan-2016
<b>Initiation Note Review Decision</b>	The review did authorize the preparation to continue

**I. Introduction and Context**

**Country Context**

The extractives sector in the Philippines remains a source of massive untapped wealth as well as political friction. For mining in particular, industry-backed improvements to the investment climate are regularly opposed by large segments of the population claiming that the industry has exploited a weak and outdated legal framework to engage in irresponsible and unsustainable practices for decades. At the local level, strained relations between mining companies and community-based groups over land rights, environmental degradation and minimal perceived economic contribution have brought sector growth to a virtual standstill in recent years. Debate over the future of extractives industry has suffered for many years due to conflicting (or complete lack of) public data regarding the sector's contribution to the economy, its geographic footprint and environmental impacts, making an informed debate on the net costs and benefits of the sector difficult to undertake.

Against this backdrop, the Extractives Industry Transparency Initiative (EITI) has received nearly universal endorsement from Government, industry and civil society as one of the few positive developments in the sector in recent years. Since joining the EITI as a candidate country in May 2013, the Philippines has made significant progress in establishing and running the requisite institutions, reporting activities, capacity-building and public engagement activities required under the EITI Standard. Strong commitment from the Government, civil society and industry, along with dedicated leadership within the National Secretariat, have resulted in a substantive multi-stakeholder process. The Philippines has quickly become an example for other EITI-implementing

countries in the region. It is expected that PH-EITI will undergo validation and be declared EITI-compliant in 2016.

### **Sectoral and Institutional Context**

The Philippines is rich in mineral resources, with an estimated untapped wealth of \$1.4 trillion. The country possesses the third largest gold reserves, the fourth largest copper and the fifth largest nickel reserves in the world, and roughly a third of its land has been identified as having high mineral potential. The mining sector is dominated by nickel production, accounting for 18% of global supply and nearly 46% of total national production value in 2013. The majority of mineral ores are exported primarily to Japan, China, the United States and Canada.

Despite considerable mineral wealth, the mining sector accounts for a relatively small share of the broader Philippine economy. Sector-wide production value amounted to just under \$3 billion in 2014, accounting for 6% of national exports and less than 0.7% of GDP. The industry generated \$590 million in national and local taxes, fees and royalties in 2014, and accounted for 235,000 jobs, or roughly .6% of employment nation-wide.

The Government has not pursued investments in the mining industry in recent years, instead imposing a moratorium on new mining projects to focus on an overhaul of the fiscal regime and laying the groundwork for an improved regulatory framework. Over the course of 2015 alone, at least three different legislative bills were debated by the legislature, all of which propose significant changes to the way mining-related revenues are collected and earmarked, as well as the authorities conferred on central/local governments to issue licenses, monitor sector activity, and collect revenues. In particular, the cabinet-level Mining Industry Coordinating Council (MICC) has proposed draft legislation raising taxes on mining activities significantly from prevailing levels, and has moved to expand the geographic “no-go” areas closed to mining applications. A raw materials export ban has also been proposed in an attempt to stimulate the mineral processing industry and generate additional revenue and employment. These proposals have been met with opposition from the mining industry, who argue that the current downturn in global commodity prices are already causing undue hardship on investors. Until a new fiscal regime is formalized, it is unlikely that any new mining investments will be forthcoming.

The oil and gas sector is significantly larger than the mining sector, contributing over seven times the revenues of mining in recent years. Total oil production in 2013 was approximately 26,000 bbl/d, roughly one tenth of total national demand. Total gas production was roughly 125 bcf in 2013, all of which was consumed domestically. The majority of production activities take place offshore. Economic contribution from the oil and gas sector are modest, with 3% of government revenues and only 1,000 jobs generated by the sector in 2012 (falling to 500 in 2013). Though generally less controversial than the mining sector, the Government’s management of the national oil and gas sector has become the subject of increased scrutiny in recent years, particularly over the management of a national fund tied to proceeds from the Malampaya oil and gas field’s development. It has been widely alleged in the Philippine press that lax oversight of these funds allowed over Ph900 million to be siphoned off by politically connected NGOs over the late 2000s.

The establishment of the EITI in the Philippines has filled a vacuum in terms of providing a neutral forum for dialogue on the past, present and future of the extractives sector. Since becoming a candidate country, the MSG has enjoyed strong support by all three stakeholder groups, and this

support has allowed the MSG to serve as a substantive platform for debate on resource wealth-related challenges and potential future reforms.

The MSG has introduced several innovations above and beyond the minimum activities required under the EITI Standard. In particular, the MSG has undertaken evaluation of Memoranda of Understanding between companies and indigenous peoples, made strong headway on universal contract disclosure (including an online contracts portal) as well as the disclosure of company-maintained environmental funds and sustained engagement with local governments to implement EITI-related activities at the subnational level. Over the course of 2015, PH-EITI stakeholders have advocated for the passage of a law to formalize the initiative's implementing structure, make participation mandatory, impose sanctions and provide incentives for participation among companies and public entities. It is expected that this advocacy will continue into 2016.

The grant would serve as a follow-on to the first EITI MDTF grant (effective March 2014 – December 2015). Under this program, the World Bank supported the institutionalization of PH-EITI, training for the National Secretariat and MSG, as well as funding for the production of the second national EITI Report. Under MDTF support, the PH-EITI made significant progress over a relatively short period, reflecting strong commitment on the part of government, companies and civil society groups.

#### **Relationship to CAS/CPS/CPF**

The proposed project strongly aligns with the World Bank Group's current Philippines Country Partnership Strategy (CPS) 2015-2018, particularly under Engagement Area 1: Transparent and Accountable Government. According to the CPS document, "...the Bank will support government efforts to strengthen social accountability, using information and communication technology, public resource allocation and service delivery priorities, and civil society/citizen demand side pressures" (p23).

More explicitly, "the WBG will support the Philippines as a candidate country in the Extractives Industry Transparency Initiative (EITI)" (p24).

## **II. Project Development Objective(s)**

### **Proposed Development Objective(s)**

The proposed development objectives of the project are to a) support the Philippine Government in its ongoing efforts to use the EITI process as a tool for increasing the transparency of its extractives sector, and b) increase civil society engagement through its participation on the MSG and through EITI outreach activities.

### **Key Results**

Consistent with the aforementioned development objectives, the expected key results of continued successful implementation of the EITI in the Philippines are as follows:

- a) A well-functioning and capable multi-stakeholder group, that is well-informed about the EITI process, and supports the promotion of transparency and accountability in the sector;
- b) The third Philippine EITI Report to be finalized and disseminated by December 2016 in accordance with the EITI Standard;
- c) The fourth Philippine EITI Report to be finalized and disseminated by December 2017;
- d) The Philippines undergoes validation successfully in 2016 and is found to be compliant with the EITI Standard;
- e) Legislation institutionalizing EITI in the Philippines is approved by the legislature;
- f) Public access to extractives information is improved and the findings of EITI reports and complementary products are widely and effectively communicated to the Philippines public.

### **III. Preliminary Description**

#### **Concept Description**

The EITI is premised on the following: 1. Revenue from extractive industries should be regularly published and independently verified; 2. Publication of data should be managed and overseen by a multi stakeholder group (MSG) composed of government, industry, and civil society; and 3. Data should be effectively shared with the country's citizens and stimulate an informed debate about how natural resources are governed. To operationalize this, the extractive industries such as oil, gas, and mining are required to publish what they pay to the government, while the government is also required to publish what they collect from these industries. In addition to providing reconciliation of these figures, the Independent Administrator is also tasked with providing a detailed overview of the extractives value chain to contextualize this data, and also provide meaningful recommendations for improving both the EITI reporting process and the broader sector policy environment in the country.

Listed below is a summary of the activities that will be funded under the proposed EGPS grant, based on discussions and requests from the EITI National Coordinator, MSG members and the Philippines Government:

- I. Publication of the Third and Fourth EITI Reports, including development/socialization of reporting templates, production of summary reports, translations, printing, and national launch conference.
- II. Capacity-building activities for the MSG, technical working group, Secretariat and other EITI stakeholders, including report analysis workshops, communications and public engagement training, international outreach activities, training of local-level stakeholders (government, regional offices, community groups and industry) on EITI implementation, and capacity-building activities specific to the MSG (particularly newly appointed representatives) and National Secretariat staff.
- III. Improving public understanding of the management of natural resources revenue and availability of data:
  - a. Communications outreach and public engagement activities;
  - b. Maintenance and further development of EITI website to integrate PH-EITI's ongoing open contracts portal, and other potential open data tools;
- IV. Strengthen natural resource-related revenue management systems:
  - a. Collaboration with ongoing Open Government Partnership programs to improve procedures

and information collection/sharing infrastructure in relevant agencies;

V. Create opportunities for dialogue and constructive engagement in natural resource management in order to build trust and reduce conflict:

a. Regular MSG meetings for continued implementation of EITI and candid discussions of other relevant sector governance issues between government, civil society and industry.

b. Regular forums and dialogue with outside stakeholders to review/update national EITI priorities and reflect them in the annual EITI Workplan.

#### IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

#### V. Financing (in USD Million)

Total Project Cost:	1.5	Total Bank Financing:	0
Financing Gap:	0		
<b>Financing Source</b>			<b>Amount</b>
Extractives Global Programmatic Support			1.5

#### VI. Contact point

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