



The Extractive Industries Review (EIR)

Regional Consultation Workshop for Middle East and North Africa

**Marrakech, Morocco
June 29-July 2, 2003**

**Draft
Executive Summary**

Notes

The Extractive Industries Review Regional Consultation Workshop for the Middle East and North Africa was held in Marrakech, Morocco, June 29 – July 2, 2003. This Executive Summary was prepared by the EIR Secretariat to summarize the views of workshop participants, neither endorsing nor contradicting them.

As in common usage, unless otherwise indicated, use of the terms ‘World Bank’ or ‘the Bank’ refers to the International Bank for Reconstruction and Development (IBRD) and the International Development Agency (IDA). The International Finance Corporation and the Multilateral Investment Guarantee Agency are referred to as IFC and MIGA, respectively. The term ‘World Bank Group’ (WBG) is used as a collective term for all the above institutions.

Abbreviations

ASM	Artisanal and Small-Scale Mining
CAO	Compliance Adviser/Ombudsman
CAS	Country Assistance Strategy
CASM	Communities and Small Miners Initiative
CPIA	Country Policy and Institutional Analysis
EI	Extractive Industries
EIA	Environmental Impact Assessment
EIR	Extractive Industries Review
EITI	Extractive Industries Transparency Initiative
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
IBRD	International Bank for Reconstruction and Development
ICMM	International Council on Mining & Metals
IDA	International Development Agency
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
MDG	Millennium Development Goal
MIGA	Multilateral Investment Guarantee Agency
NGO	Non-Government Organization
OED	Operations Evaluation Department
OEG	Operations Evaluation Group
OEU	Operations Evaluation Unit
OPEC	Organization of Petroleum Exporting Companies
OAPEC	Organization of Arab Petroleum Exporting Countries
PRSP	Poverty Reduction Strategy Paper
SAL	Structural Adjustment Loan
SME	Small and Medium-Sized Enterprise
UN	United Nations
WBG	World Bank Group

Executive Summary

Overview

The Extractive Industries Review (EIR) Consultation Workshop for the countries of the Middle East and North Africa was convened in Marrakech, Morocco, June 29-July 2, 2003. This was the fifth and last in a series of regional multi-stakeholder consultations that took place between April 2002 and July 2003: the first, for Latin America and the Caribbean, took place in Rio de Janeiro, Brazil; the second, for Eastern Europe and Central Asia, was in Budapest, Hungary; the third, for Africa, in Maputo, Mozambique; and the fourth, for Asia and the Pacific, was held in Bali, Indonesia.

The process was guided by the EIR's Eminent Person, Prof. Dr. Emil Salim, in order to explore the appropriate role of the World Bank Group with respect to extractive industries in the region; and in particular to see whether or not WBG projects contribute to poverty alleviation and sustainable development. The overall task is to look to the future to see if a role for the World Bank Group was still necessary in the extractive industries, and if so, whether this role should be improved.

The workshop attracted over 60 participants coming from: civil society - non-government organizations, community-based organizations, and labor unions; government; the oil, gas, and mining industry; academia; and the World Bank Group itself. The workshop was organized into two parts: the first comprising a one half-day open forum for civil society and other testimonials, and a voluntary information session by the World Bank Group; and the second comprising a formal three-day consultation with a limited number of invited, or 'self-selected'¹ representatives from each stakeholder group. Some participants presented case studies relating to regional projects; these were followed by small group discussions that looked at selected thematic issues on the environmental, social, and economic impacts of extractive industries.

The Consultation identified a number of cross-cutting themes where change was needed if the World Bank Group is to continue its involvement in extractive industries in the North Africa and the Middle East region. The themes reflected recent experiences of Bank-supported policies and projects, particularly social and environmental impacts in mining, oil, and gas projects. The main issues raised were governance and revenue management, poverty alleviation, economic diversification, the environment, private vs public sector led development, and structural adjustment. There was general agreement on the need to find ways to achieve balanced and fair development that addresses the needs of the poor and treats the environment responsibly. Central to this was good governance, including proper revenue management and public participation, economic diversification with a balance of domestic and foreign ownership, and basic democratic rights.

Open Forum Testimonials

The open forum testimonials began with a presentation from the World Bank Group (WBG) on their global and regional activities related to extractive industries. This was followed by four presentations from civil society groups from Jordan, Palestine, Tunisia and Egypt on WBG support to phosphate extraction, WBG loan obligations, WBG involvement in environmental protection standards, and participation-democracy-human rights and the WBG. A civil society spokesperson made some closing comments.

¹ 'Self-Selection': the selection of civil society representatives attending the formal three-day session of the consultation workshop was coordinated with the help of Abdel Rahman Sultan (Friends of the Earth Middle East). The self-selection process gave civil society the responsibility of nominating 12 suitable participants from a variety of non-governmental organizations to represent their interests at the workshop.

World Bank Group Voluntary Information Exchange

Introduction

The Bank representative scoped out the overall role of the WBG regionally and globally to alleviate poverty and achieve the Millennium Development Goals in concert with other development agencies. The Bank structure was outlined, along with a description of its key development partners – mainly national governments, but also civil society groups and private sector clients. The Country Assistance Strategy (CAS) is at the core of the WBG’s approach in a country, and this normally is developed through a multistakeholder consultation process. Issues relative to extractive industries are best dealt with within the CAS. Direct involvement of the WBG in the extractive industries sector has diminished substantially in recent years.

Working with Governments

The WBG works with governments in a variety of ways – one way is lending for project investments, structural and sectoral adjustment, and technical assistance. It also provides grants, assistance in planning and capacity building, and advisory services. The WBG believes in the value of resource projects, and that the private sector and governments have separate and complementary roles in fostering economic development. The Bank champions global issues through partnerships with governments and other parties. Its standards and safeguards are often adopted or adapted by others. The Global Gas Flaring Reduction partnership is an example of a public-private partnership, a concept the WBG is currently promoting.

Working with the Private Sector

The Bank believes that economic growth is essential for poverty alleviation, and that the private sector has a key role in fostering this type of growth. IFC and MIGA are the two WBG agencies that provide strategic financial assistance to the private sector; they focus on high-risk projects and complex situations like cross-border pipeline projects.

Project Environmental and Social Review

Overall, the objectives of the Bank’s safeguard policies are to ensure that all projects proposed for investment are environmentally sound and sustainable; and to keep decision makers informed about environmental risks. Safeguard policies are constantly evolving; for example, there is a movement from ‘do no harm’ to ‘adding value’ to projects, but safeguards are not applied uniformly. Specific guidelines have been created for extractive industries on pollution prevention, mining and production, and offshore gas production, and there are others in the works. The two internal instruments for dealing with disputes and controversy are the Inspection Panel and the Compliance Advisor and Ombudsman Office.

MENA Program

In the Middle East and North Africa region the lending program for extractive industries is very limited; and it is overshadowed by the wider economic challenges of high unemployment and a low growth rate. The region is expected to have the single highest sustained labour pressure ever experienced globally – 50 million jobs will be needed over the next 10 years. In addition, worker productivity has declined, capital investment per worker has decreased drastically, and it has the highest level of violent conflicts in the world.

The region suffers from the ‘paradox of plenty’. Not surprising, there is a serious governance gap in the region. Studies are underway to substantiate and understand these realities. With two thirds of the world’s oil and gas reserves, and one third of its production, there is a deep lack of economic diversification, and oil and gas revenues are falling sharply. Sector reform is essential to attract investors.

The poorest have no access to power, while energy subsidies benefit mainly the rich.

The new WBG strategy in the region is based on five pillars – private sector development, public sector efficiency and governance, education, gender, and sustainable development of water resources. Less than 2% of the Bank’s regional budget goes to the extractives sector, and the emphasis is more on policy, knowledge building, information exchange and the investment climate, rather than financial services. Environmental management is a cross-cutting theme.

Independent Evaluation Process: Office of the Compliance Advisor/Ombudsman (CAO)

A representative from the Compliance Advisor/Ombudsman (CAO) office began by referring participants to their recent report on extractive industries that was requested by the management of IFC. The report provides a snapshot view of IFC and MIGA projects started after July 1997, and looks at broad sustainability issues in the extractives sector, examining social, environmental, and economic dimensions in the projects reviewed.

The overall purpose of the CAO office was described as providing ‘accountability’ for IFC and MIGA. The office has three specific functions: compliance, advisory, and ombudsman. Anyone directly affected by an IFC or MIGA project can lodge a complaint with the CAO. If the complaint is deemed legitimate, under the ombudsman function it might lead to a dialogue process to find a solution, or it could involve mediation or some form of remedial action. The advisory function is aimed at improving performance across IFC and MIGA.

At the end of the presentation the representative returned to the report on extractive industries and provided greater details on the methodology, findings, and recommendations.

Questions Arising from WBG Presentations

During the plenary discussions clarification was sought and provided on the involvement of civil society in WBG consultation processes such as the CAS. The involvement of the Bank in the gas sector was queried. An explanation was provided for how the Bank works respectively with the private sector and national governments within an overall framework. The roles of MIGA and IFC were clarified.

A question arose about how projects were categorized to comply with social and environmental guidelines. The Bank was asked if it had plans to phase out of coal mining in the next 5-10 years. Several participants felt that current regional statistics were lacking, making the presentations out of touch with current reality. An example was economic diversification, which has gone much further in some countries than was reflected in the presentations. A question arose about how the Bank ensures poverty alleviation. Other points raised were about the political reality in the region, the poor image of the Bank, and how the Bank analyses its own performance

Regarding the CAO office, there were questions about the lack of cases in the MENA region, how binding the evaluation and advice is, and the limited level of awareness of the CAO in countries and projects.

Jordanian Society for Sustainable Development

This presentation concentrated on problems related to environmental and social conditions in a phosphate extraction project in Jordan that the WBG supported. Widespread environmental devastation resulted from the phosphate operations, as well as the loss of 1300 jobs after the WBG recommended structural reforms. These results were not in line with the Bank's intended goals of poverty alleviation and sustainable development. The lack of value-added investment was another serious shortcoming.

Water and Development Organization, Palestine

In this presentation it was suggested that WBG loans were another form of occupation in Palestine. Of particular concern was the potential inability to pay back these loans; and as governments are not truly representative, the public is unaware of these obligations and their potential to cause further suffering. Government accountability and public participation were absolutely essential conditionalities; and the quality of human rights is another important consideration. Civil society groups have to be included in initial consultations and negotiations, as well as in monitoring correct use and application of funds, and the social and environmental impacts. The Bank must be responsible to see that loan funds are invested in the best possible ways.

In the plenary discussion there was some debate about the Bank's involvement with civil society groups. A Bank representative clarified that funds for Palestine were provided as grants not loans.

Association for the Protection of Nature and the Environment, Tunisia

Bank supported oil projects were the focus of attention for this Tunisian environmental NGO, including offshore activities and a proposed pipeline. The concern is marine impacts, especially as 90% of Tunisia's shrimp production takes place in the same waters. The results of World Bank studies showing minimum environmental impacts were questioned. It was recommended that the Bank should follow a code of practice, and that good environmental practice be mainstreamed within the Bank. When the consequences of following IMF and WBG advice are poor, who is responsible? It would be better for the Bank to work more closely with civil society groups, as this will make success more likely.

National Association of Human Rights, Egypt

The relationship of the people to their governments and to the WBG was emphasized in this presentation. The speaker posed some fundamental questions: What criteria does the World Bank use in deciding the extent to which a given project or contract is the result of popular consultation or a consensus between civil society, the private sector, and government? How does it decide that a project really is beneficial to the country concerned? Is the World Bank concerned with issues of corruption and mismanagement, and is it ready to confront these problems and the corrupt and dictatorial regimes responsible? A further set of question was asked about the real effectiveness and impact of WBG-supported projects, especially regarding poverty alleviation and sustainability. The Bank should concentrate more on human rights and democracy, and the greater availability and transparency of information. At the moment the people are on one side, and the Bank and governments are on the other.

In the discussion that followed, one participant emphasized that the Bank's expertise was badly needed, as there were substantial problems to solve in the region, particularly regarding resource and

revenue management. The low level of women's involvement was highlighted, as well as the need to explore renewable energy possibilities. A Bank representative pointed out the role of the CAS in providing opportunities for civil society participation; and that government chooses in what areas they want the Bank's involvement. Government sets the priorities and the Bank's role is advocacy and advice. The Bank spokesperson commented on the universal problem of resource revenue management, transparency, corruption, and the 'Dutch disease' phenomenon. The Bank has a role in capacity building for better governance and in anti-corruption campaigns. The Bank also has a lot of information materials available through its information centres.

Final Statement on Behalf of Civil Society

The civil society group representative spoke about the current level of frustration and unhappiness that many people are experiencing in the region. He expressed hope that the interaction between private sector, government, and civil society actors with openness and transparency will do something towards solving the energy and poverty problems. Transparency is essential. And there must be a genuine commitment to listening to the voice of civil society and engage cooperatively.

Closed Consultation Sessions

Introduction from the Eminent Person

Prof. Dr. Emil Salim explained the background of the Extractive Industries Review and outlined the objectives of the review. Dr. Salim stressed the importance of the consultative aspect and the need throughout the process to hear the views of all the various stakeholders on the role of the World Bank in the extractives sector

In MENA poverty is widespread despite an abundance of extractive resources. The Bank has not had a very significant involvement in the sector in this region. This workshop will examine 5 key issues: governance, poverty alleviation and employment generation, economic diversification, the environment, and private-public sector led development. Structural adjustment questions will also be addressed.

Dr. Salim suggested that participants should help the EIR understand the special circumstances and niche for the WBG's involvement in the sector. What are the unique issues and problems the Bank should be working with, and how should it engage in order to be productive and effective? Participants were invited to speak frankly, openly, and freely so that the Bank receives a clear set of recommendations for what it should be doing to improve conditions in the Middle East and North Africa through the extractives sector.

Opening Speech by the Minister of Energy and Mining of Morocco

The Minister of Energy and Mining from Morocco spoke about their efforts to address development objectives – for example, strengthening institutional capacity, promoting access to water and energy resources, and integrating environmental issues in national planning. A major challenge is to achieve economic growth and poverty reduction, within a framework of environmental protection and conservation. The government would like to ensure a favourable climate for private investment, and it has implemented major reforms to increase competition and promote investment flows. Maintaining the extensive system of oil and gas pipelines, and expanding the regional electrical grid is complementary to this.

Morocco has a six point energy strategy which includes security of procurement, best cost energy, wider accessibility, environmental protection, energy prospecting, and liberalization and restructuring. The want to upgrade infrastructure, promote exploration along their coastline, and expand their gas pipeline to Europe.

Mining contributes 7% to GDP, 19% to the value of exports, and has a major impact on regional development and employment. Three quarters of the world's phosphate resources are in Morocco. The government is implementing a new minerals strategy, which is intended to balance private and public sector roles. They are also drafting the national geological map, undertaking public administrative and enterprise reform, and modernizing the mining code. The country is pursuing more open markets and is looking for opportunities for regional integration and complementary relationships.

Case Studies

The consultation included a series of regional case studies on poverty alleviation, governance, environmental issues, public vs private sector led development, and structural adjustment.

Poverty Alleviation

Saudi Arabia government perspective

Two factors underpin poverty in Saudi Arabia: rural-urban migration of unskilled people, and illegal immigrants from the annual *haj*. The government has upgraded basic infrastructure and social services to cope with the problem. There is free education, training, and medical care. Overall, a substantial proportion of oil revenues has been devoted to developing basic infrastructure, and for building hospitals, schools, and housing to enhance people's quality of life.

Some participants found it difficult to understand the reality of poverty in a rich country like Saudi Arabia, and suggested the presence of NGOs could help deal with the situation. Other suggestions were to focus specifically on poverty alleviation, greater private sector diversification, and encouraging self-reliance.

Governance

Algerian Technical Assistance Loan

The representative from SONATRACH, the Algerian state oil and gas company, provided a detailed overview of the company, its history, and its current operations. It currently employs 120,000 personnel and has an annual turnover of \$18 billion. The company has embarked on a program of partnerships with international oil and gas companies for capital and expertise, in order to strengthen and improve its domestic position and spread some of the investment risks. It also is expanding into international joint ventures.

The company has invested substantially in social services and facilities for its employees. It has an environmental program for protecting sensitive areas, and is developing less polluting products.

The technical assistance loan is aimed at supporting the government in implementing a new energy and mining policy. The policies are focused mostly on good governance – putting in place a legal and regulatory framework that promotes transparency, public accountability, and governance in the wider sense. The separation of the policy, regulatory, and commercial functions is essential. At the moment, SONATRACH combines a number of these functions, and the distinction between what is government and what is SONATRACH is not always clear.

Another component is assisting the company to restructure and commercialize public enterprises, primarily in the mining and electricity sectors. Once there are new laws and appropriate regulatory agencies, the technical assistance loan will provide assistance for capacity building. In the upstream sector, private sector participation is already taking place.

A number of other initiatives are underway including new laws governing mining, electricity, and hydrocarbons; new regulatory agencies for electricity distribution and mining; restructuring the electricity and gas distribution utility; and a national environmental action plan and new environmental legislation. Further studies are well advanced on opening up the downstream sector of the hydrocarbon sector, including refining, transport, storage, and retail distribution of products.

The main goal of the mining component of the technical assistance loan is to generate employment in remote rural areas by developing the sector. The sector will be opened up to national and foreign private investment, and regulatory functions will be separated from production ones. Several other features are being worked on including a legal and regulatory framework that has transparent procedures, a mining cadastre, the government's information sharing function, and restructuring state-owned mining companies.

In the discussion following the presentation, questions were asked about the policy reform process and targets for governance, poverty alleviation, the economy, external debt, and how the public will be affected. Because the current emphasis is on establish policy 'frameworks' for different sectors, details will emerge during the process of translating the frameworks into legislation and regulations. The main focus right now is on separating the functions of public and private sectors in order to create a more competitive and efficient operating environment, with greater transparency and accountability.

Other questions were raised about the environmental component, the need for external financing, the past mining legacy, and issues related to environmental impact assessments conducted by outsiders.

Environmental Issues

Mining and the environment

The President of the Association Tunisienne pour la Protection de la Nature et de l'Environnement, suggested that a new approach was needed to solve the conflict between mining extraction and environmental activities, by bringing together all the key stakeholders - ecologists, NGOs, civil society, environmental experts, extraction companies, and financial institutions – to find an appropriate balance between extraction, community development, and the environment. The World Bank could play a convening role in facilitating a balanced dialogue towards a sustainable solution in which everyone benefits, and then could promote the approach elsewhere.

Extractive industries and community development

The President of the Association Tunisienne Femme et Environnement, spoke about the relationship between extractive industries and community development. Extractive industries can impact

communities adversely in a variety of ways by affecting health, loss of biodiversity, pollution of air and water, and soil degradation. Women in particular can be strongly affected. Measure must be in place before a project begins, to avoid or minimize these impacts. Benefits must clearly be visible, backed up by institutions that practice good governance.

Given these difficulties and complexities, why does the WBG not invest directly in more effective poverty alleviation activities such as education, infrastructure, and access to clean water, and leave investment in the extractives sector in other hands? The Bank also should support development of renewable energy sources and improving energy efficiency, and foster a climate for investment in this sector.

In the discussion some participants felt the presentation was overly negative and that industries like mining bring many benefits to rural populations, particularly basic infrastructure and social services. Others felt that the environment for renewables was too early, requiring massive investments to satisfy demands, but that would vary within specific country contexts. A Bank representative commented that they are currently supporting renewable energy projects in the region. Other issues discussed were impacts on the environment from privatization, assigning appropriate responsibility between the WBG and governments, and cross-border pollution.

Public vs Private Sector Led Development

Aramco, Saudi Arabia

Aramco is 100% state owned; it provides 95% of Saudi Arabia's oil supply and 10% of the world supply. It is a large, fully-integrated organization with its own production, refining, transport, and marketing capacity, employing some 55,000 people. The Aramco spokesperson provided a detailed description of the company's global operations, and its ongoing plans for consolidation and expansion. The company has an active environmental program for monitoring the impact of its operations, especially in sensitive areas, and it works closely with universities and other agencies on environmental research programs. It also has an extensive social program encompassing education and home ownership. Employees experience a wide range of benefits, including training in-house and study abroad.

In the discussion, the issue of the efficiency of state-run enterprises was raised. In this regard, Aramco benefited from its previous legacy as a private corporation. Other questions were posed about internal subsidies between operations, its mining sector activities, and its contribution to poverty alleviation in the Kingdom. To reduce its dependence on government funding, Aramco is bringing in private sector partners to invest in large scale infrastructure projects. A series of questions was asked about investing in renewables, the impact of the Iraqi war, the separation between the company and the state, and the employment of women. Several questions were raised about Aramco cooperating with neighbouring countries to assist in technology sharing and poverty alleviation.

Structural Adjustment

Sustainable Development Impacts of Policy and Institutional Reforms

A Senior Program Officer from the Macroeconomics Program Office of WWF-US presented the results of commissioned research on the interaction between structural adjustment programs and extractive industries. As the goal of the World Bank is sustainable development and poverty reduction, social, environmental, and economic factors were looked at. The research examined three of the

Bank's lending mechanisms: structural or sectoral adjustments, technical assistance, and advisory services.

The research was based on three country-case studies in Peru, Tanzania, and Indonesia, and had three main objectives: determining the sustainable development consequences; identifying the determining factors; and improving World Bank development outcomes. The presentation elaborated the case study in Peru, examining in turn structural reforms, extractive industry sector reforms, failures in markets, policies, and institutions, the general effects of reforms, and economic, poverty, and environmental outcomes.

Among the main conclusions were that the impact of structural reforms on expansion of extractive industries has increased environmental degradation, not reduced poverty, and produced harmful macroeconomic imbalances and capital flows. Thus structural reforms linked to expansion of extractive industries have not contributed to sustainable development. Moreover, IMF and World Bank policy lending programs are significantly concentrated on providing opportunities for private business, mainly foreign investors, and they give little attention to strengthening the rights of the poor and improving environmental management.

Among the recommendations was to make sure that poverty and environmental degradation have central importance in any structural reforms, and that they are considered from the beginning, not added on as an after thought. The World Bank should concentrate on improving the social and environmental performance of extractive industries. Governance should strengthen the rights of the poor. The policy lending of the Bank should concentrate on diversifying economies away from natural resource intensive sectors.

In the subsequent discussion one participant cautioned against generalizing from the results as it always is necessary to understand relationships and context, which vary from country to country. Another comment was about the conflict between development and the environment, and a discussion ensued about how there are always tradeoffs between poverty reduction and environmental protection, with the question being: what tradeoffs are acceptable?

Working Groups

DAY ONE

On the first closed day the plenary divided into three working groups that looked at three topics: Governance and Revenue Management, Poverty Alleviation, and Economic Diversification.

Governance and Revenue Management

The first working group discussed the question “*What are the main obstacles in terms of Governance and Revenue Management for Extractive Industries that prevent sustainable development?*” The group identified 11 obstacles: (1) lack of participatory democracy; (2) corruption, lack of transparency and accountability; (3) excessive military and security expenditure; (4) lack of capacity for long term planning and monitoring; (5) insensitivity to in-country context; (6) lack of good fiscal and macro-framework, poor revenue management; (7) lack of community access to benefits; (8) foreign investment dominance and lack of local domestic enterprises; (9) weak legal system; (10) insufficient technical capability; and (11) poor communication capacity and resources.

In the discussion there was a suggestion that the private sector doesn't like democracy because the environment is more unpredictable. This was refuted by a company representative. Another participant agreed that most companies prefer transparency and the democratic system, because it is competitive and fair. Several others supported the view that companies are often the source of corruption in developing countries.

Poverty Alleviation

The second working group discussed: “*What are the main obstacles for Extractive Industries to contribute to Poverty Alleviation in your region?*” The group listed 12 main obstacles: (1) government attitude not conducive to private sector involvement; (2) poor revenue management/distribution; (3) extractive industries are capital intensive which excludes local private sector involvement; (4) extractive industries create economic and social issues; (5) price fluctuations are beyond government control; (6) governmental subsidies benefit the rich not the poor; (7) communities and NGOs ignorant of decision-making process; (8) the Arab-Israeli conflict; (9) projects lack continuity and long term planning for mine closure and job security; (10) unfair revenue distribution and allocation for community development; (11) revenues go abroad; and (12) lack of added-value processing.

There was a very active discussion about restricting foreign direct investment (FDI). Several participants were against FDI, citing the legacy of the past when foreign companies dominated the oil industry. Other participants mentioned that most governments are trying to attract FDI in order to help the poor. The prevailing attitude was that foreign companies export their profits and are not interested in local development or helping the poor. Privatization was another concern, as some felt it was not necessarily a good thing. It was suggested that countries have to be careful in dealing with multinational corporations to ensure contracts are to their advantage.

Additional concerns were expressed about foreign control, corruption and bribery, and compromised environmental standards. If foreign investment is not carefully managed and monitored, it possibly may destroy the environment.

Economic Diversification

The third working group discussed the question of “*What are the main requirements for Economic Diversification in resource dependent countries in your region?*” The group first identified the need for: the right political will; a good investment climate; basic infrastructure - physical, education, and health; a functional banking system; easy market access; and value-added industries if there is foreign investment. They then found five major obstacles to economic diversification: (1) bad governance; (2) subsidies; (3) standardization of education, research, and development activities; (4) trade barriers; and (5) finance issues for SMEs.

In the discussion after the presentation the need was expressed by several speakers to have some form of protectionism to forestall the negative impacts of uncontrolled globalization. FDI should be directly linked with diversification.

DAY TWO

On the second day of the closed sessions the working groups discussed what the World Bank *should* and *should not do* in the MENA region regarding Environmental Issues, Private vs Public Sector Led Development, and Structural Adjustment.

Environmental Issues

The environmental working group felt the World Bank should assist governments in building environmental capacity. New approaches are needed, and environmental and social concerns should be imbedded in all Bank lending, in accordance with its objectives and in line with country-specific guidelines. The WBG needs to be more participatory in its processes, especially during project design, evaluation, and implementation. It also needs a shared communication strategy, and ensure that civil society is well-informed in such things as EIAs. The Bank should have a focus on mine rehabilitation and clean technology transfer, and should balance investments in extractive industries equally with investments in renewable energy. It also should facilitate relationships between civil society and the national governments in the region.

The working group felt that the World Bank should not ignore civil society, as well as mechanisms for implementation and follow up. It should not bring in external experts, and should not seek repayment from failed projects it has advised. It also should not be complacent towards governments when projects lack transparency and do not have positive impacts on the population and environment.

The plenary discussed national vs local priorities, making environmental standards and regulations country specific, renewable energy issues, and the role of NGOs in relation to governments.

Private vs Public Sector Led Development

This working group recommended that the World Bank, through its lending and advisory services, should support privatization gradually, help small business to boost job creation, and support local development projects including small industries. It should help develop a suitable legal, legislative, and regulatory framework for sustainable development, as well as help with institutional and political reform. The Bank should also assist in contract negotiations with foreign investors, and support capacity building for planning, management, and monitoring, including support for third party monitoring institutions. In doing this it should coordinate with other international organizations, such as regional development banks and UN agencies.

The World Bank should not do any of this unless capacity is built, grassroots constituents have been consulted, and the social structure of individual countries is accounted for. The World Bank should not support state-owned extractive industries, subsidized projects, or projects that do not fulfil sustainable development goals. EIA studies carried out by governments should not be supported.

Most of the plenary discussion centred on whether it is appropriate or not to use subsidies. There was also some discussion on the preferences for either private or public sector involvement in development.

Structural Adjustment

This working group recommended that the World Bank should have a coherent strategy in which poverty and the environment have central importance when designing structural adjustment loans. The

Bank should do mandatory core poverty and environmental diagnostic analysis as a prerequisite at the country assistance strategy level, so that the analysis underpins the design of the policy lending program. At the individual structural adjustment loan level or other policy lending level, make mandatory social and environmental assessments, and include specific poverty and environmental structural benchmarks. Conditionalities for structural adjustment loans should include: providing unemployment benefits; promoting democracy; privatizing energy and extractive industries; reducing military budgets and corruption; supporting good revenue management; and having environmental and social support programs.

The plenary expressed concerns about the suitability of structural adjustment loans for developing countries, where conditions can be very different from developed countries. The Bank group should look into the conditions in developing countries, and try to support the poorest of the poor

Perspectives of the Region

Resource Blessings, Resource Curses, and the Bank

The Chairman of George Washington University's Department of International Business spoke about the challenge to transform the non-sustainable, depletable resource wealth of a country into sustainable wealth by converting it through investment into human capital and physical capital. He suggested that the Bank can assist potentially in three areas: capital for projects, technical assistance, and income stabilization for revenue management.

Capital is helpful if the private sector is not willing to invest or is not willing to invest enough. Given the interest of the private sector in investing and the limited capital available to the Bank, the onus is on the Bank to explain why it should lend for extractive industries at all.

The WBG has tremendous resources for technical assistance. It is in a unique position to take lessons learned in one country and apply them in other countries. No private sector organisation can do this. The WBG can make loans for technical assistance, which most private banks will not because of the difficulty in paying back. Another area for technical assistance is the operational governance of state-owned enterprises.

Regarding income stabilization, the extractive industries are subject to booms and busts, and the poor are particularly vulnerable to these fluctuations. The Bank has been giving technical advice on booms and busts since the late 1980s. But it's very difficult to conclude that either the WBG or IMF has made any progress at all in helping countries in this area.

In the discussion a question was raised about economic diversification, and the answer was that the first thing to invest in is education and health care. The way to transform depletable capital into sustainable capital is to make investments in infrastructure and in human capital. In most cases, the best use of World Bank capital in extractive industries is for technical assistance, where with a relatively small amount of money it can make a tremendous difference.

Opportunities for employment generation and poverty alleviation in extractive industries of MENA countries

The Head of the Department of Mining Engineering at Papua New Guinea University of Technology spoke about opportunities for employment generation and poverty alleviation in the region. There are

many large undeveloped metal and mineral resources, which could generate huge employment opportunities and assist with poverty alleviation in communities adjacent to extractive operations.

Mining investments bring infrastructure development to remote areas. Mines generate spin-off businesses to service the mining facilities, and act like a catalyst for overall industrial development in surrounding areas. New mines increase tax revenues for the government, and efficient use of the capital will make the whole economy cheaper. Foreign direct investment is essential in generating this kind of development.

In the discussion, points were raised about fiscal and legislative changes in some MENA countries, and the need for transparency. It was suggested that investment opportunities had to be marketed to potential investors.

Opening Remarks to Final Session

In the final session Dr. Salim reminded the participants that the purpose of the workshop was to help the EIR team understand the views of the various stakeholders - government, business, and civil society – in order to identify areas of consensus and dissention on the possible future role of the World Bank in extractive industries. The EIR team will make recommendations to the Bank that must be feasible, practical, and forward-looking. That is the focus of the workshop.

Dr. Salim identified five main issues from the last three days: economic diversification, global warming, revenue management, poverty alleviation, and localization. Economic diversification is needed in order to move away from dependence on non-renewable resources. Also, because of global warming, we need to move away from our dependence on fossil fuels and diversify. The second issue is revenue management. How can revenue from natural resources contribute to promoting the livelihoods of people, their welfare, and their quality of life? The third issue is poverty. How can we achieve poverty alleviation in this region? The key is public participation and basic democratic rights that allows people to rise up and take charge of their own lives, in order to improve their standard of living. Fourth and fifth is 'localization', giving people an opportunity to develop and to meet the competition of globalization by strengthening local capacities in this region.

The EIR team would like concrete suggestions to propose to the World Bank. How should the Bank behave in setting up programs, in projects, in processes, in policies, in order for the MENA countries to diversify their economies, improve their revenue management, alleviate poverty in a broad sense, introduce public participation, and build up local capacities?

Final Recommendations

The working groups spent the last morning discussing five topics: Economic Diversification, Governance and Revenue Management, Poverty Alleviation, Public Participation and Basic Democratic Rights, and Foreign and National Ownership. In making recommendations, the groups looked at "*What the World Bank should do*" and "*How should they do it*".

Economic Diversification

The working group summarized the issues they discussed: (1) evaluate and share past experience; (2) develop specialized professional skills, research, and social evaluation; (3) promote social

development in all different sectors of society; (4) relate lending policy to reform; (5) scrutinize loans against project viability; (6) promote removal of barriers between countries; (7) and make an inventory of resources:

In plenary, different opinions were expressed about the role of the World Bank in creating a regional and national network for exchanging and sharing experiences and information. Privatization of education and health care was raised. One participant noted that a lot of the recommendations are things that should be done regardless of whether there's an extractive industry or not. It's simply good management and sound economics.

Governance and Revenue Management

The working group came up with five key points for the Bank to address: (1) make engagement of the Bank conditional on achieving governance benchmarks; (2) help achieve transparency in revenue management; (3) provide technical assistance in the form of studies and advice; (4) provide training for capacity building to complement financial or technical assistance; (5) and help establish a monitoring system with a monitoring group that ensures compliance with revenue management regulations.

During the discussion on this topic, some current and relevant initiatives of the International Council for Minerals and Mining (ICMM) were presented. The role of NGOs was discussed again in relation to the monitoring group concept, with one participant suggesting that conditions should be made better for NGOs or civil society to monitor projects that are being implemented. One participant stressed the need for a mandatory Code of Conduct because nobody abides by ethics and morals anymore. One of the working group members clarified that the intention of the Code of Conduct was to have certain activities to insure transparency, environmental and social sustainability, and other objectives, that these were not intended as an ethical choices. A final suggestion was that countries should try solving their own problems first, before seeking help from the Bank.

Poverty Alleviation

After much contentious discussion, this working group came up with a set of eight recommendations for the WBG: (1) capacity building for local people who are affected by the activities of extractive industries; (2) satisfy local people's minimal basic needs with directly targeted programs; (3) assist in creating an environment conducive to enhancing small-scale enterprises; (4) help develop a mechanism to compensate for people's losses from extractive projects; (5) ensure that a gender perspective is incorporated in the design and different phases of projects; (6) help in setting up a mechanism that provides fair distribution of revenues; (7) facilitate the involvement of local communities in poverty alleviation programs; and (8) facilitate the participation of civil society organizations and NGOs.

In the plenary discussion, it was mentioned that the World Bank has a negative image among the public, and this can be a problem when trying to implement WBG programs. It was suggested that the important role of civil society organisations should not be mixed with that of government. The World Bank should provide support more proactively for small and medium enterprises. One speaker believed there was a direct relationship between growth and poverty alleviation. Another warned there was a danger in believing that the World Bank is going to play a role in poverty alleviation. There was a suggestion that civil society organizations had been compromised by receiving direct funding from the Bank.

Support for Iraq was discussed. At the moment the Bank's only role in Iraq is in assessing needs; no decision has been taken on the form of intervention and what the World Bank could actually do. There was a suggestion that poverty alleviation in the region should not be limited to the Bank, and that rich countries can help out the poorer ones.

Public Participation and Basic Democratic Rights

This working group presented a set of five recommendations for the Bank: (1) draw up a governance contract with countries that have a poor record of governance; (2) distribute the governance contract to government, local authorities, and civil society; (3) set up a complaints committee within the World Bank; (4) include prior informed consent in the contract; and (5) ensure compliance with international conventions, like ILO's.

It was suggested that the Bank should draft a periodic report on the state of governance in any country in question, with a scoring system on key issues. This information should be published, using appropriate communication media. Public access to other information is also important. Another suggestion was for the Bank to establish a committee to deal with governance matters. A World Bank representative clarified that the World Bank Institute currently does something similar and that the information is publicly disclosed through its web site. All the reports on projects are in the Public Information Centers, and are readily available on the website. Some participants complained about the high cost of WBG documents.

Foreign and National Ownership

The working group on foreign and national ownership identified six items that the Bank could contribute to: (1) attract investment for added-value; (2) encourage development of small- and medium-scale enterprises and activities; (3) remove regional trade barriers, develop local industries, and guarantee that there is a real benefit for local industries and the economy; (4) insure an appropriate mix of local and foreign ownership to keep value-added in the country; (5) make a black list of foreign and local enterprises which do not respect the appropriate environmental and social legislation; and (6) guarantee transparency in environmental reporting.

In the plenary discussion some concern was expressed over the proposed intensive and potentially controlling role of the World Bank in the affairs of countries in the region. The intention of the working group was for the Bank to act as an advisor or consultant, not one of enforcement. Another concern raised was about the depletable nature of extractive industries, and the consideration of future generations. It was suggested that a good government would set aside money for the future.

Closing Remarks

The consultation was closed by a Senior Advisor from the International Finance Corporation and the Eminent Person, Prof. Dr. Emil Salim. Dr. Salim reminded participants that one of the main purposes of the EIR is to find out how to correct the imbalance in the extractive industries sector that leaves civil society disempowered and vulnerable in relation to government and industry. The World Bank has to strengthen civil society in order to begin to address its main objective of poverty alleviation through sustainable development. To achieve full sustainability, the Bank must put social development and environmental development on an equal footing with economic development.