



STRIKING A BETTER BALANCE

VOLUME II

STAKEHOLDER INPUTS: CONVERGING ISSUES AND DIVERGING VIEWS ON THE WORLD BANK GROUP'S INVOLVEMENT IN EXTRACTIVE INDUSTRIES

THE FINAL REPORT OF THE EXTRACTIVE INDUSTRIES REVIEW

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Preface

The Extractive Industries Review (EIR) process revealed that there are no unanimous “stakeholder group views” on many issues concerning the involvement of the World Bank Group (WBG) in the extractive industries. (A notable exception here might be the indigenous peoples stakeholder group, which for 20 years has maintained that there must be prior recognition of indigenous peoples’ rights.) In fact, there are often quite profound differences of opinion within stakeholder groups. But even if individual views are diverse, stakeholders often have concerns about the same issues.

The fundamental question the EIR sought to answer was, Can extractive industries be a vehicle for poverty alleviation through sustainable development and, if so, is there a role for the WBG to play to achieve this aim? This volume attempts to give a fair summary of the stakeholder views heard in the course of the consultation process. Many of these views were expressed at five regional workshops—in Latin America and the Caribbean, Eastern Europe and Central Asia, Africa, Asia and the Pacific, and the Middle East and North Africa—held in 2002 and 2003. Numerous private organizations, governments, and industry groups also submitted papers to the EIR on specific topics. More detailed presentations of each stakeholder group’s views are available in the Annexes. The main findings from the WBG’s internal evaluations of the Group’s role in the extractive industries are also included in this volume.

Chapter 1. Poverty Alleviation

Many stakeholders from civil society maintain that oil, gas, and mining projects quite often increase poverty and cause serious social and environmental problems. They note that resource extraction can create poverty directly by damaging subsistence economies and that promised local benefits do not always materialize. Indigenous peoples claim that their socio-cultural integrity and well-being are time and again undercut by extractive projects. Moreover, civil society points out that there is little evidence that extractive industries have actually contributed to poverty alleviation, a viewpoint somewhat supported by EIR commissioned research.¹

In contrast, the World Bank Group, extractive industry companies, and governments maintain that this sector can contribute to poverty alleviation. They note that some countries have severely limited choices and that for many, extractive industries can be the best route to development. The International Council on Mining & Metals (ICMM) points out that some progress in poverty alleviation can be achieved through industry's contribution to regional development via infrastructure creation, development of a domestic mining inputs industry, and local business opportunities.

Governments maintain that extractive industries can contribute to poverty alleviation. Benefits are accrued at the national level through tax revenues, foreign exchange earnings, debt payments, production sharing and rents, provision of jobs and infrastructure, and benefits from company social programs. At the wider regional level, large extractive projects can contribute to increased international cooperation, which can have positive repercussions for the development of a whole region.

Some members of civil society agree that extractive industries sometimes constitute an important part of a country's economy. For instance, Botswana and Papua New Guinea earn significant amounts of export income from the mining sector. However, civil society maintains that most people in other countries do not realize the potential benefits from resource extraction because the wealth is often not distributed fairly, nor is it used for poverty alleviation. At the Budapest workshop, civil society issued a statement claiming that extractive industry projects cannot demonstrate real development impacts. Nongovernmental organizations (

NGOs) at the Latin America and the Caribbean workshop pointed out that although extractive industries are important in more than 50 developing countries, people in most communities near extractive projects live below the poverty line.

Academic studies suggest that over the last three decades, the number of resource-rich states with disappointing development outcomes was larger than the number with successful ones.² At the same time, scholars agree that there is nothing inevitable about the "resource curse": while having a large extractive sector poses special challenges for a country, if these are

handled well the extractive sector can become a powerful engine for poverty alleviation. Many studies suggest that the key difference between oil- and mineral-rich states that do well and those that do poorly is the quality of government institutions and government policies.³

The WBG's internal evaluation noted that *“the extractive industries can be important contributors to a country's economic development, and often offer the first opportunities for foreign investment and private sector development. They generate government revenues, foreign exchange earning, and employment, often in depressed and remote areas. However, they also can aggravate or cause serious environmental, health, and social problems, including conflict and war. . . . The emerging consensus is that the under-performance of resource-rich developing countries is not inevitable, because most of the factors that explain it result from institutional and policy failure.”*⁴

There is general agreement that many resource-rich countries are making little progress in their efforts to develop. Almost all stakeholders agree that the root of this lies in the lack of good governance, which is characterized by a lack of accountability, weak democracy, a failure to recognize and respect human rights, weak legal systems and rule of law, and an overhanging burden of debt.

Chapter 2. Sustainable Development

Many NGOs argue that minerals, metals, oil, and gas are finite resources and thus by definition cannot be extracted sustainably.⁵ Furthermore, they say, the extraction of these resources often has harmful effects on the environment, on communities, and on people's health. The experience of indigenous peoples is that extractive industries create poverty and social divisions and that they do not respect indigenous cultures and customary laws.⁶

The WBG, the extractive industry (EI) companies, governments, and some members of civil society maintain that even if a resource can be depleted it can contribute to sustainable development, providing that the wealth it creates is used responsibly to improve human, social, and environmental capital. But the extraction and use of oil, gas, minerals, and metals must be done in a responsible way.

All stakeholders are concerned about the potentially heavy social and environmental footprint of these industries. WBG representatives characterized EI projects as “high risk,” presumably necessitating a higher degree of scrutiny than other projects.

Certain civil society representatives urge the Bank to withdraw from this sector, as they doubt that the WBG has enough influence to compel companies to respect the environment and the rights of local communities, indigenous peoples, and workers. Others argue that the WBG itself has exacerbated the negative impacts by facilitating increased investments in countries with insufficient environmental protection, poor governance, and weak human rights records. Legislative reforms sponsored by the WBG are alleged to have weakened crucial environmental protection in some countries, and indigenous peoples stress that projects sponsored by the WBG have not respected their rights and have facilitated destructive projects on their lands.

On the other hand, many people from industry, governments, the WBG, and civil society believe that only an institution like the WBG can tackle crucial governance issues. Many in industry and the Bank argue that WBG involvement can lead to improved industry performance, which would have an impact beyond the projects themselves.

The WBG internal evaluation concluded that “*with its global mandate and country development perspective, combined with public and private sector experience, the WBG is well positioned to help countries transform resource riches into sustainable development . . . much more needs to be done to improve implementation and monitoring of compliance with existing policies, and to address governance, transparency, and revenue management issues. Unless the WBG improves its performance in these areas, it will not be able to maximize the sector's contribution to sustainable development and face continued—and warranted—criticism.*”⁷

Chapter 3. WBG Country-level Activities

All EIR stakeholders commented on the institutional framework needed in order for industries to contribute to poverty alleviation through sustainable development. It consists of institutions, policies, laws, and regulations that are overseen by competent governments that plan for and manage extractive revenues with foresight. This framework should ensure sound revenue management for poverty alleviation, it should minimize and mitigate the social and environmental footprint of these industries, and it should assure legal protection for those who feel their rights have been violated.

Structural Reform Programs

An explicit aim of the WBG's extractive sector interventions at the country level is to help create an effective institutional framework and operating environment that will attract increased private-sector investment. In many countries the WBG has worked toward this aim by helping governments reform the oil, gas, and mining sectors, including the transition to market-based industries, by privatizing state enterprises and establishing regulatory frameworks and new government agencies, and assisting governments through capacity building to manage the sector better (such as the revenues and the social and environmental impacts). The whole package of WBG-prescribed country reforms is referred to as structural reform programs.

Academia, civil society, indigenous peoples, and governments criticize the structural reform programs, pointing out that large increases in investment triggered by liberalization of the mining and petroleum sectors have not been matched with the necessary strengthening of governance mechanisms, such as environmental management, protection of rights, and provision of remedies and legislation to address the inevitable impacts.

Some government representatives, however, stress that the work of the WBG in sector reform cannot be done by any other body, arguing that the WBG "due to its long-term engagement, political neutrality, expertise and holistic approach, is well placed to play a role in assisting developing country governments to overcome the financial, policy, regulatory, technical and institutional barriers to improved performance of the sector."⁸ A similar position is held by many stakeholders from multinational companies.

Developing-country government representatives ask that sector reform be done through grants, not loans, as it should not be considered a productive investment because it does not create wealth per se.⁹

The World Bank's internal review of the International Bank for Reconstruction and Development (IBRD)/International Development Association (IDA) support for extractive industries concluded that adjustment and technical assistance projects generate economic benefits through private-sector development, improved production levels, institutional

capacity building and policy reform, rehabilitation or closure of uneconomic mines, environmental cleanup, and the integration of artisanal and small-scale mines into the formal sector. Documentation and reporting on the economic benefits of projects, such as economic analyses after projects are completed and other quantitative indicators, have been limited, however.

The internal evaluators noted that *“the Bank’s efforts at commercialization, privatization, and improving the climate for private investment yielded largely positive returns in terms of increased investments and exports and reduced burden on state budgets. These efforts generally involved Technical Assistance Loans (TALs) that were relatively smaller than investment and adjustment loans. The positive results were associated with strong government commitment, the prior establishment of an appropriate legal and regulatory framework, and flexibility on the part of the Bank. However, even where earnest efforts were made, volatile commodity prices and macroeconomic crises adversely affected some of the outcomes.”*¹⁰

Privatization and Liberalization

The EIR received testimonials stating that in Eastern Europe many WBG mine closure projects in the coal sector were underfunded, at the expense of social and other concerns. The WBG was seen as providing bad advice to governments: in one example, this led to the establishment of a single company to monopolize mine closure programs. Stakeholders maintained that projects had not always been suitably categorized in accordance with their real impacts, that inappropriate models for restructuring had been used, and that too little time had been left between the pilot and follow-up stages. The result was communities that are now much poorer than before.

Representatives of government, industry, civil society, and the WBG agree that where privatization takes place, the private sector needs to be supported by a strong framework of laws and regulations that include environmental and social protection. Workshop participants stressed that the WBG should support the development of an effective legal and regulatory framework prior to privatizing the extractive sectors and should partner with other stakeholders to ensure that price liberalization and the closure of unprofitable state companies take place in a socially acceptable way.

Some government representatives maintain that the oil, gas, and mining sector should be developed by the private sector. Industry representatives suggest that the WBG should encourage liberalization and independent regulation of hydrocarbon pipeline transportation, so that gas and hydrocarbon reserves can be monetized effectively.¹¹

Stakeholders at the regional workshop for the Middle East and North Africa recommended that the WBG aim for an appropriate mix of local and foreign ownership to help retain value-added in each country.

Labor participants maintain that WBG funding should not be provided for restructuring or privatizing enterprises or sectors when employees do not have the freedom to join a union, when managers refuse to negotiate with an existing union, or when unions are not actively

involved in such processes. They also urge that the WBG “do no harm” by ensuring that country-level policy advice or loan conditions do not constitute de facto recommendations to violate core labor standards or other International Labour Organization (ILO) conventions ratified by the country.

The WBG’s internal evaluation recommended that the WBG continue its support of closing uneconomic mines, privatizing state-owned enterprises, and mitigating pre-existing environmental and social problems.¹²

Environmental and Social Aspects Related to Legal and Regulatory Reforms

Stakeholder representatives from companies, indigenous peoples, and civil society note that poor government capacity and poor legal systems can result in serious environmental and social problems on the ground. Furthermore, they agree strong and enforceable legal and regulatory systems are needed in resource-rich developing countries to ensure that extractive industries contribute to poverty alleviation and mitigate possible negative environmental, social, and human rights impacts.

Some company representatives feel that weak legal systems and regulation might limit their ability to implement stronger social policies. However, many from civil society believe that companies often play a role in weakening the environmental and social policies of poor but resource-rich developing countries.

Evidence from civil society as well as from some academics shows that in some cases, WBG structural reform programs have actually weakened social, human rights, and environmental policies in developing countries. Civil society representatives suggest that rather than strengthening government regulation, the zeal to implement policy reforms to attract investment has led to the diminution of state power and regulation just when it is most needed for protecting the environment, indigenous peoples, and local communities. Transnational companies have been the main beneficiaries, and loopholes remain in legal and regulatory frameworks.¹³

Civil society also questions whether the WBG’s structural reform programs have benefited the poor and notes that measures implemented under global restructuring of the mining, oil, and gas sector have replaced subsistence economies with market-based economies in rural communities around the fringes of WBG-supported EI projects, leading to increased poverty and dependency. These stakeholders point out the urgent need for new rules to include public participation and enhanced Strategic Environmental Assessment, Human Rights Assessment, and Social Assessment in WBG structural and sectoral adjustment lending programs.

Submissions to the EIR pointed out that women carry a particularly heavy burden from WBG reform programs of deregulation, liberalization, and privatization of extractive industries.¹⁴ Economists note that these reform programs do not recognize the large economic contribution that women provide—such as labor supply through childcare, shopping, housework, and cooking. Women’s unpaid contributions to the informal economy are largely invisible in standard economic models, which obscures the economic and social costs of extractive

industries on women's work and lives. An export-driven, privatized, and deregulated extractives sector dominated by foreign, transnational corporations has had enormous impacts on women, and this has not been considered by the World Bank Group.

Productive or income-generating activities relate to the market, while reproductive activities such as caring for the young and old, maintaining health and sanitation, and taking responsibility for food, fodder, fuel, and water are unpaid and usually female activities. Extractive industries have a detrimental impact on the reproductive economy by increasing the burden on women in non-income-generating areas. In short, World Bank support for government reform packages that seek to liberalize, privatize, and de-regulate extractive industry sectors transfer the negative burdens from the paid economy to the unpaid economy, exacerbate existing gender inequities in the household and the workplace, and worsen conditions of poverty and deprivation for women.

Indigenous peoples claim that mining laws that bypass their autonomy and territorial rights create public disorder, political and social instability, and legal uncertainty. They further point out that WBG-assisted legislative and policy reform projects lead to increased extractive activities on traditional lands, territories, and resources without concomitant guarantees for their rights, which often results in increased poverty, environmental degradation, and diminished social, spiritual, and cultural cohesion and well-being.

Case studies from Colombia and the Philippines that were conducted as part of an EIR-sponsored study highlighted that revised mining codes have intensified pressure on indigenous peoples' lands and have weakened or overridden the legal protections previously enjoyed by these people.¹⁵ In Colombia, mineral, oil, and gas reserves are exploited by companies that are unaccountable; they enjoy legal impunity while regularly violating national laws and using severely repressive measures to overcome local resistance. In Ecuador, the WBG has also promoted national mineral surveys—again without taking into account the rights of indigenous peoples or assessing the likely consequences of intensified mineral extraction. Such impacts often have their origins in national, regional, and international policy agreements, which commonly facilitate relaxation of laws, fiscal reforms, encouragement of foreign direct investment, and accelerated processes for handing out concessions to EIs. International agencies such as the WBG promote such changes through adjustment and programmatic lending, technical assistance interventions, country assistance strategies, and sectoral reforms.

Industry recommends that the WBG help governments develop resource sector policy by accelerating the transfer of knowledge concerning global “best practice” in environmental and social standards and by promoting government capacity to impose these standards.¹⁶ Furthermore the WBG should remain involved with established alliances to ensure that policies are accompanied by a mature, transparent, and functioning system of implementation and compliance.¹⁷

Workshop participants recommended that the WBG promote good governance by helping to create national and local environmental and social regulatory frameworks, policies, and standards that are adequate, integrated, transparent, and effective, with equitable regulations

for large- and small-scale enterprises. This should be done using participatory processes. The WBG should provide information on institutional models of good governance and should offer financial, legal, and technical assistance to establish institutions according to best international standards.

Government participants and academics want responsibilities clearly delineated and mandates simplified for each government agency that is involved in overseeing extractive industries. In many countries, for instance, several agencies have responsibility for environmental monitoring. Civil society representatives maintain that the WBG should provide support to develop strong institutional capability to administer the mining code.

Fiscal Policies and Decentralization

Civil society stakeholders note that many developing countries are offering broad concessions, including tax breaks, in the drive to achieve global competitiveness in exploiting oil, gas, and mining. This tax competition in natural resources has led the U.N. Economic Commission for Latin America and the Caribbean to warn about the dangers of exacerbating the concentration of economic activity in natural resources when the region still does not have an institutional system fully able to deal with the negative environmental and social effects.¹⁸ At the Budapest workshop, civil society noted that when foreign companies gain better economic conditions than domestic companies, market distortion and destruction of local economies can result.

Regional workshop participants in Africa requested that the WBG provide standards for national and local fiscal/tax policy in host countries. Also, the WBG should provide models of decentralization that enable local governments to tax projects run by companies in order to support community development programs. In order to maximize revenues, the Canadian government suggests progressive taxation: the higher the profits, the more taxes paid.¹⁹

Government Planning and Development Strategies

The instrument the WBG uses for addressing national planning and coordinating its own work across sectors is the Country Assistance Strategy (CAS), which builds on a Comprehensive Development Framework and a Poverty Reduction Strategy Paper, where these are available.

Improving the Country Assistance Strategy

Workshop participants in Asia and the Pacific recommended that the WBG improve linkages between individual investments by the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) and national development strategies as laid out in the CAS. The Compliance Advisor Ombudsman (CAO) also proposes that IFC and MIGA should continue to collaborate with IBRD/IDA on including macro-level and distributional issues relating to revenue management in Country Assistance Strategies.²⁰

Industry suggests that CASs for countries significantly dependent on mining should address the policy framework and capacity-building needs of the sector more systematically, especially with respect to better and more transparent management of national expenditure programs and their integration with regional planning needs and local community priorities.²¹ Others note that CASs should also focus on pro-poor policymaking and strong civil society participation to ensure executive branches are accountable.²²

Indigenous peoples note that CASs, Poverty Reduction Strategy Papers, and Comprehensive Development Frameworks all must include attention to their rights and whether these are adequately addresses in legislation and practice. Often these policy documents provide the framework for WBG involvement but do not in any way address indigenous peoples' rights and interests; on the contrary, they often outline programs that are highly detrimental to them.

Labor maintains that all Country Assistance Strategies should include an assessment of how well Core Labour Standards (CLS) are observed. Currently this is done only in IDA client countries. The WBG should join with the ILO in projects to promote respect of these labor standards, particularly those concerning the most vulnerable and poor, such as rural workers and unprotected or informal economy workers.

The WBG's internal evaluators noted that *"a review of the latest Country Assistance Strategies (CAS) in poorly performing resource-rich countries found that 64 percent recognize the special issues associated with the management of resource rents, but only in a few instances is the discussion linked to specific interventions. The inadequacy of linkages between EI sector activities and sustainable development was also highlighted by 47 percent of the WBG's EI sector staff who responded to a survey."*²³

They recommend that *"for all resource-rich countries the WBG should explicitly address extractive industries in the CAS. The CAS should explicitly discuss the sector's current and potential economy-wide linkages (for example, the importance of government revenues, their management, distribution, and use for development priorities) and reference the underlying governance assessment. This should guide future project design, facilitate monitoring and evaluation, and provide an agreed framework for WBG-wide coordination and collaboration in the EI sector."*²⁴

National Development Strategies

Many representatives of national governments asked for WBG assistance in formulating national development strategies that would balance the costs and benefits of extractive industries with other economic activities. These strategies should be based on accurate surveys and land use assessments and should take into account the broader framework of the international trade regime, as well as the long-term trends in trade for extractive products, comparing the costs and benefits of resource-driven development with alternative development routes. This request was endorsed by many participants from civil society.

Participants at regional workshops recommended that the WBG should work toward better national governance by helping governments develop long-term policies, strategies, and

structural frameworks for extractive industries, in order to help frame a national development plan that includes the establishment of a natural resource database. This plan should set standards for national and local fiscal and tax policies in host countries and should provide models of decentralization. The WBG should also support regional planning as part of its extractive industries interventions, with the aim of avoiding regions dependent on a single industry.

Industry representatives point out the importance of integrated national planning in achieving and maximizing the development impact of extractive industries projects. This planning should coordinate infrastructure development with regional needs, such as port facilities, roads, bridges, and airports; should promote an inputs industry and small and medium-sized businesses; and should use geophysical mapping to help with land use planning, environmental management, agricultural planning, and water management.²⁵

Maximizing Net Economic Benefits

When a country decides to go ahead and develop its oil, gas, and mining resources, many stakeholders would like to see the WBG help it draw maximum benefit for its people by keeping as much value as possible within the country, including value-added activities. In other words, net benefits should be maximized and then managed and distributed transparently and fairly.

Participants at regional workshops called on the WBG to help design model investment agreements and assist governments in negotiations with multinational companies. This request was also supported by participants from civil society and the Bank's International Advisory Group.²⁶ The Africa workshop participants wanted to ensure a fair allocation of revenues between government and the private sector. At the Budapest workshop, civil society pointed out that production-sharing agreements are often designed in a way that circumvents national legislation.

Participants in the Africa regional workshop wanted to build up and capture regional expertise. They advised the WBG to work in development partnerships and facilitate training, establish databases of African experts, avoid relying on experts and consultants from outside the region, and avoid adding to the "brain drain." Industry recommended that the WBG promote incentives for local human resource development.

Industry representatives stress that economic benefits for the country should be maximized by facilitating economic linkages, small- and medium-sized enterprises, and support for development of a domestic inputs industry.

Governments suggest the WBG should support research and development for value-added and semi-finished products in order to generate more employment and to retain more wealth in the country of origin.²⁷ A study sponsored by civil society calls on the WBG to support sustainable, value-added, mineral-based manufacturing in mining-dependent countries.²⁸

Industry notes that the major obstacles to exporting value-added products to industrial countries are subsidies, tariffs, anti-dumping duties, and nontariff barriers such as environmental, health, and labor standards; the WBG should encourage policies that promote viable value-added projects and ensure competitive downstream pricing, and at the same time it should facilitate international collaboration to improve access for value-added resources to industrial markets.²⁹

Recalling their own experience, Canadian government officials call for caution, arguing that value-added processing need not be the key for economic development, particularly if the manufacturing sector is inefficient.³⁰ Exports of crude natural resources have been the foundation of a strong Canadian economy, with mining and related industries a growing and increasingly high-tech sector. Policy intervention to divert resources into downstream manufacturing would result in significant opportunity costs by forgoing the economic rents from exploiting primary resources.

The CAO review of recent extractive industry projects recommended that IFC and MIGA improve the quality of their guidance to clients to ensure that economic opportunities, such as employment, procurement, and infrastructure, are maximized.³¹

Economic Diversification

Many stakeholder participants see a danger in a country being highly dependent on extractive industries because it is vulnerable to price shocks and would suffer if projects closed without alternatives for income generation and livelihoods.

Civil society representatives maintain that extractive industries projects tend not to foster the economic conditions that the World Bank Group maintains are necessary for poverty alleviation, including sustained economic growth, economic diversification, and the creation of income-generating opportunities for the poor. They contend that extractives-based economies tend to grow more slowly than other economies. By drawing capital away from other sectors and by inflating the value of a country's currency during a resource boom, the extractives sector can make diversification into higher value-added forms of production extremely difficult. Thus countries can remain trapped in a situation of extractive commodity dependence.

At the regional workshops in Asia and the Pacific and in Africa, civil society participants called on the WBG to encourage economic diversification in countries dependent on extractive industries and to help cancel the heavy debt burden of poor countries. They stressed that sustainable development requires institutional development, environmental protection, and infrastructure and human capital support, asserting that WBG investment in single extractive industries projects will rarely on its own have major sustained development impacts.³²

Regional workshop participants recommended that the WBG evaluate past experience and share knowledge on economic diversification. The Bank should support professional skills

and research development and should promote and evaluate social development in all sectors of society. The WBG should promote the removal of export barriers between countries and regions—for example, for agriculture products and textiles—in order to stimulate local industries.

Regional Development Planning

Workshop participants recommended that the WBG work with governments to build capacity at the regional level and assist in creating regional development plans. Dependence on extractive industries can be much higher at the regional level.

ICMM points out that important poverty alleviation effects can be achieved as a result of industry's contribution to regional development through infrastructure creation, the development of a mining inputs industry, and local business opportunities. These benefits are maximized when synergies are secured by regional development plans; the WBG is seen as having a pivotal role in this. ICMM points out that alternative sources of economic growth, such as agriculture and tourism, often lack the critical mass to achieve a change that can lead to sustainable alleviation of poverty.

Industry and government representatives recommend that the WBG expand its capacity-building efforts to help regional and central governments set up development plans in mining areas, in order to ensure achieving the full range of potential benefits and to establish the base for sustainable development.³³

The Quality of Governance

There is now an international consensus that sound public governance and respect for human rights are vital ingredients of pro-poor development in connection with extractive industries. Indeed, different aspects of good governance were brought up time and time again by all stakeholder groups throughout the EIR consultation process.

Democracy and Participation

Stakeholder participants from civil society, academia, and EI companies, as well as some from governments, emphasize the importance of the quality of democracy for achieving good development outcomes in the extractive industries sector, and they have a number of suggestions for the WBG to promote democracy and the rule of law more actively in its client countries.

Government representatives suggest the WBG should focus on good governance, and they would like support from the Bank in building state capacity. One individual expressed his concern about the WBG's "double game" in helping both governments and civil society, suggesting that the Bank's primary role should be to help reinforce the authority of the state. The U.K. government, on the other hand, stressed that the WBG should continue to advocate participation, accountability, and transparency as the key elements of good governance.³⁴

Academics suggest that resource wealth, notably from oil, may hinder the development of democratic institutions.

Civil society asserts that the WBG should insist on minimum conditions of good governance and should only support extractive industries in countries with effective democratic institutions.³⁵ Workshop participants asked the WBG to promote freedom of the press, judicial reform, and effective, fair, and consistent implementation and enforcement of the law. The WBG also should help countries draft appropriate legislation. Academics suggest investments in justice, security, and public functions to enhance national development.

At the Africa workshop, civil society participants suggested that national legislatures should have a greater role in budget allocations than the executive branch and should have the right to approve all new WBG loans to governments or private-sector investors. At the Budapest workshop, they noted that lending in the mining and oil sectors should be conditional on full transparency and public accessibility to production-sharing agreements, profit-sharing agreements, and other similar documents.

The CAO has noted that the broader criteria of revenue management, corruption, political stability, and the potential to stimulate economic development have a profound influence on project sustainability. It recommends that IFC and MIGA collaborate closely with IBRD and IDA to ensure that corruption, political instability, and conflict are explicitly dealt with in the appropriate operational instruments—such as Public Expenditure Reviews or CASs—of the countries where they are likely to support oil, gas, or mining. In addition, the investment and underwriting departments should collaborate with their environmental and social counterparts to more explicitly analyze and report where the potential for in-country corruption, political instability, or conflict is likely to have adverse impacts at the project level or to increase as a result of the project.³⁶

Revenue Management

All stakeholder groups agree that the disposition of accrued revenues is of fundamental importance if the extractive industries are to contribute effectively to poverty alleviation and sustainable development. They point to problems of transparency of revenue flows, corruption, limitations in government capacity to manage revenue flows and deal with their impact on the macroeconomy, the utility of resource funds, the distribution of revenues at all levels, and the need to use revenues for poverty alleviation.

Transparency of Revenue Management and Flows

Most stakeholders agree that oil, gas, and mining operations should only be allowed where net benefits can be secured, counting all externalities, and where all rights are respected, and then it must be in a manner that will maximize benefits for the country and its citizens. Revenue flows to the government from royalties and taxes constitute a major benefit in resource-rich

countries, but they also entail real dangers in terms of macroeconomic management needs, as well as temptations for corruption and mismanagement.

There was a strong consensus from all stakeholder groups about the need for increased transparency of payments and revenues as a means to achieve better poverty alleviation outcomes in the extractive industries sector. Civil society, through the Publish What You Pay (PWYP) campaign, is pushing strongly for a legal mechanism for members in the Organisation for Economic Co-operation and Development (OECD) that would require extractives companies to report publicly, on a country-by-country basis, aggregate taxes, fees, and other payments made to governments. It is hoped that such a mechanism, rather than a voluntary effort, would prevent nontransparent or corrupt government officials from obtaining confidentiality agreements, which prevent companies disclosing any revenue payments to government. In the case of oil revenues, however, full transparency would not be achieved by this route since the significant revenues earned by national oil companies would not be disclosed.

Governments are also actively involved in efforts to increase transparency in the oil, gas, and mining sector. Significant initiatives include the Extractive Industries Transparency Initiative (EITI) launched by U.K. Prime Minister Tony Blair, the Group of Eight (G8) declaration on Fighting Corruption and Improving Transparency, and the OECD's Guidelines for Multinationals Enterprises. The EITI initiative has received support from a number of companies and developing-country governments. Resource-rich developing countries have yet to sign on to the EITI, but at a stakeholder workshop in London a number of them agreed to continue discussions about adopting the initiative's principles. (Those agreeing were Azerbaijan, the Democratic Republic of Congo, East Timor, Equatorial Guinea, Ghana, Indonesia, Kazakhstan, Mozambique, Sierra Leone, and Trinidad and Tobago; in addition, the Nigerian government has committed to proceed with the initiative.) New Partnership for Africa's Development is also playing an important role in promoting this initiative, using its experience with government reporting processes and developing expertise alongside bilateral donors.³⁷

Many EI companies see transparency and corruption as the most important governance issues, and they fully support the idea of transparency. They point out, however, that implementation requires care to ensure that there is widespread accurate reporting without provoking adverse reactions from host governments. Moreover, legislation in one country can easily be counteracted by contrary legislation in a host country. Therefore the best approach is believed to be mutual discussion leading to agreed procedures.

Industry points out that transparency of payments is only the first step. There are many countries where the magnitude of payments is well known, but large sums still go astray. Most stakeholders agree that the WBG can play a role in promoting transparency initiatives. The PWYP campaign calls on the G8 countries to cooperate with the WBG in ensuring compliance with EI disclosure standards among member countries and companies operating in their jurisdiction.

Workshops participants recommended that in order to achieve revenue transparency, the WBG should set standards for disclosure of revenue flows and their use and should hold both governments and companies accountable for compliance. They suggested that the WBG could serve as an information clearinghouse, aggregating financial data from individual companies to ensure that confidentiality is respected. And they urged the WBG to develop links with civil society and with any initiatives on revenue transparency.

The WBG's internal evaluation noted that *“the promotion of transparency is an essential tool for building good governance.”* It recommended that *“the WBG should vigorously pursue country- and industry-wide disclosure of government revenues from EI and related contractual arrangements (such as production sharing agreements, concession and privatization terms). The Bank should work toward and support disclosure of EI revenues and their use in resource-rich countries. IFC and MIGA should also strongly encourage (and consider requiring) their private sector clients to publish their payments to governments.”*³⁸

Revenue Governance

Even where revenues are received transparently, there are many difficulties in managing potentially large inflows of earnings. These stem from the volatility of fiscal revenues, as well as the pressure they can put on the foreign exchange rate, leading to an appreciation of the currency to the detriment of competitiveness in other sectors. Corruption is equally a concern, as is unwise spending, such as in large public works projects that are unsustainable.

The WBG's internal evaluators found that *“while the WBG is aware of the underlying causes for the underperformance of many resource-rich countries—primarily unsound revenue management and poor governance—it has yet to formulate and implement viable approaches to address them.”*³⁹

Workshop participants proposed that the WBG should help countries build capacity to manage revenues, particularly in areas of revenue leakage. They suggested that the WBG should improve synergies between its various arms—IBRD/IDA, IFC, and MIGA—and the International Monetary Fund (IMF) in order to leverage conditionalities on countries to promote sound revenue management.

Industry maintains that the WBG is endowed with specific expertise and has programs available to develop revenue management capacity in the mining, oil, and gas sector. These are essential for helping developing countries design and manage government revenue systems that will ensure sustainable development and poverty alleviation.⁴⁰ Specifically, the WBG should increase linkages between macroeconomic and EI sector work to help governments manage the volatility and exhaustibility of revenues, working with industry to design contracts that will help minimize volatility for host governments. Because revenues from projects do not begin to flow until well after start-up and may peak some years later, the WBG should consider methods that would smooth out revenue flows over the entire life of the project.

Some stakeholders recommend the use of resource funds as a tool to address revenue governance. (See Box II–1.) Workshop participants recommended that the WBG develop guidelines for using such funds to manage EI revenues while encouraging governments to use them for socioeconomic development, to stabilize price fluctuations, and to sustain social services in areas affected by privatization, mine closure, or restructuring. Resource funds should be subject to regular, independent auditing by a steering committee that includes public representatives.

Box II–1. Resource Funds

Nonrenewable resource funds can be used to direct resource revenues toward social development and economic stabilization. They can provide additional funding for environmental and social programs and can ensure savings from resource revenues for the time when reserves and resource income eventually run out, helping to avoid the pitfalls of the “resource curse.”

There are three main types of resource funds:

- Stabilization or contingency funds use preset accumulation and withdrawal rules to regulate the economy and avoid economic shocks.
- Savings funds save revenues so that future generations can reap some benefits when the resource eventually runs out.
- Virtual funds deposit money directly into national accounts to help finance the current state budget.

The three key criteria for successful governance of a resource fund are clear goals for the fund, high levels of transparency, and accountability.

In many cases, a nonrenewable resource fund (often called an oil fund or a mining fund) can be the most effective tool for ensuring the fair and effective distribution and use of resource revenues.

Government needs to define clearly the goals that it expects the resource fund to fulfill; its accounts and management decisions need be publicly disclosed and the diversion of funds needs to be prevented through a good reporting system. Rules governing the management of a natural resource fund need to include provisions to improve accountability through appropriate representative bodies and other state agencies that have overlapping lines of supervision. Meritocratic human resource practices are an additional, essential component of good governance of resource funds.

Source: Stern 2001, Heilbrunn 2002.

Civil society urges the WBG to strengthen public accountability of revenue management.

Furthermore, the WBG should build up civil society's capacity to act as a watchdog on government revenue management, for instance using decentralized networks with local government, community leaders, and other civil society members to monitor on-the-ground impacts and revenue use.⁴¹ Political will is required to allow this degree of public scrutiny.

Academics warn that large resource revenues can provide temptations for corruption, rent-seeking behavior, and patronage.⁴²

Workshop participants recommended that the WBG develop conditionalities on corruption for companies and governments and should suspend assistance when these are violated. Also, the WBG should combat corruption by helping countries strengthen their civil services, provide adequate remuneration for government employees, improve implementation and enforcement of laws, and minimize legal loopholes to improve accountability. Companies suggested they too should have policies prohibiting any form of bribery.⁴³

Workshop participants wanted to see the WBG, in cooperation with the IMF, support local, national, and international anti-corruption campaigns and organizations. The WBG should address issues of collusion by supporting transparency of project contracts and planning, as well as the public disclosure of assets of government employees.

The internal WBG evaluators were more skeptical on the usefulness of resource funds: *"In general, the same elements of disciplined economic management are needed to make a success of a resource fund as are needed to run an economy effectively. Thus, recourse to resource funds is unlikely to yield better results than pursuing equitable distribution and effective utilization of EI revenues through sound fiscal policies."*⁴⁴

Revenue Distribution

Stakeholders see revenue distribution as a crucial determinant of whether extractive industries contribute to poverty alleviation and sustainable development. Revenue needs to be adequately distributed between local and national governments, among different branches of government, and between the public and the private sector.

Company representatives suggest that it is important that revenue be distributed mainly to areas affected by projects. Where governments fail to do this at the local level, companies should work closely with the community. At the Budapest workshop, civil society suggested the focus should be on why wealth from resource extraction is not fairly distributed, does not contribute to economic development, and has not responded effectively to the priority need for poverty alleviation.

Workshop participants proposed that in order to develop fair and efficient revenue distribution, the WBG should provide "best practice" models of legislative frameworks and mechanisms and should encourage cooperation among stakeholders, acting as an honest broker when conflict arises. Revenues should be distributed equitably between government branches at the local, regional, and national levels and to affected communities, keeping in

mind the needs of present and future generations. The impact of distribution measures should be assessed.

Given that IFC and MIGA do not have the leverage to deal with revenue management concerns directly, the CAO proposes that these organizations continue to collaborate with the IBRD and IDA on including macroeconomic and distributional issues related to revenue management in Country Assistance Strategies.⁴⁵

Revenue Use

Industry urges the WBG to use its full leverage to ensure project revenues are used transparently for sustainable development.⁴⁶ Civil society research recommends that extractive industries should only be supported in countries with a clearly defined revenue use plan for the elimination of poverty.⁴⁷

The CAO proposes that IFC expand its currently drafted guidance note on Revenue Distribution and Management in IFC Projects to include implementation procedures, report on steps taken to mitigate adverse impacts, and enhance revenue management and distribution. In countries where the sector as a whole makes a significant contribution to the economy, such guidance should also apply to the larger projects. The CAO suggests that IFC and MIGA factor the lack of leverage over revenue management into project decisionmaking in lower-impact projects and report on the rationale for supporting such projects.⁴⁸

What Level of Governance?

Stakeholder participants from all groups call on the Bank to treat governments differently, depending on the quality of governance. Workshop participants suggested that the WBG should not get involved with governments with bad governance records and should offer preferential loan rates and debt relief to those with a good track record. Civil society stressed that the WBG has directly supported mining, oil, and gas ventures without heeding the lack of good governance and of institutional or regulatory capacity in project areas or countries, and it called on the Bank to develop and enforce conditionalities.

Many industry contributors believe that the WBG should adopt a systemic approach and build good governance and countrywide reforms within the institutional and policy frameworks rather than tie WBG interventions to the specific concerns of individual investment or technical assistance projects. Industry representatives are more hesitant to state outright that the WBG should not be involved in extractive industries in countries with weak governance. They note that the WBG's mission mandates it to work where there is poverty, regardless of whether or not the country context is difficult or easy. In fact, industry wants the WBG to reorient its involvement in the sector toward the poorest developing countries and to provide advice and capacity building on governance, as well as advice on environmental regulation, including the management of mine closure in a way that addresses environmental liabilities and minimizes social disruption.⁴⁹

The WBG's internal evaluators would like the WBG to "*tailor its support for resource extraction on the basis of an assessment of the quality of governance.*" WBG should avoid supporting EI investment where governance is weak, they suggested, unless it can ensure reliably that projects will contribute to sustainable development, particularly that fiscal revenues will be used efficiently to support development priorities.

For countries with weak macroeconomic and sectoral governance, the WBG's primary focus should be on strengthening governance. The internal evaluators noted that "*the Bank should compensate for the lower level of lending that may be appropriate for resource-rich countries with weak macro and sectoral governance, by devoting greater management attention and administrative budget for advisory and analytical activities aimed at improving the policy, institutional, and governance framework for EI.*"⁵⁰

Regarding the question of sequencing WBG interventions, the evaluators stressed that "*the Bank has no strategy for sequencing governance interventions in the EI sectors or coordinating them with work done in other sectors. . . . Where the Bank sought to increase investment in the EI sectors, it pursued this objective either before supporting better risk management, or simultaneously. But as the experience in Papua New Guinea and Kazakhstan illustrates, working to establish the prerequisites for good development outcomes from EI investments in parallel with, or after supporting expansion of the sector, poses a major challenge and is a high-risk strategy in countries with poor macro and sectoral governance.*"⁵¹

Chapter 4. WBG Project-level Interventions

Participants from all stakeholder groups maintain that the extractive industries' contribution to poverty alleviation and sustainable development is severely damaged or intrinsically impossible when social and environmental impacts are not adequately addressed. Stakeholders believe that projects should at the very least not harm people and the environment. Furthermore, all stakeholders maintain that projects should go beyond “doing no harm” to generate real benefits, which should be assured throughout and beyond the life cycle of a project and beyond WBG involvement in a project. They agree that communities should benefit specifically from extractive industry development in their proximity.

The World Bank Group has developed a number of Safeguard Policies to mitigate adverse impacts and encourage best practice throughout the industry. These provide a mechanism for integrating environmental and social concerns into decisionmaking. In general, they provide that:

- potentially adverse environmental impacts affecting the physical environment, ecosystem functions, human health, physical cultural resources, and specific social impacts be identified and assessed early in the project cycle;
- unavoidable adverse impacts be minimized or mitigated to the extent feasible; and
- timely information be provided to stakeholders, who should have the opportunity to comment on both the nature and significance of impacts and on the proposed mitigation measures.

EIR stakeholders have different suggestions regarding the overall thrust of the WBG in project-level activities. Representatives from civil society criticize the lack of focus on the poor and the disregard for the environment in WBG projects.⁵²

Industry representatives suggest that WBG activities should include capacity building and advice on governance, socioeconomic and geographical surveys to supply essential baseline data, and advice on environmental regulations, including the management of mine closure in a way that addresses environmental liabilities and minimizes social disruption.⁵³

A statement from civil society representatives at the Europe and Central Asia workshop in Budapest noted that WBG projects are often politically driven, despite prohibitions in the WBG charter. In some cases, they claim, the WBG gets involved due to strong political pressure from OECD governments to protect the interests of companies based in their countries.

Participants at the Africa workshop called on the WBG to accept some responsibility for project failures and to establish an appropriate accountability mechanism.

“No-Go” Zones

Many EIR participants from civil society strongly believe that there is a need for stringent regulations preventing EI activities in certain areas, known as “no-go” zones. Some EI companies understand this need, but there is still a wide gap concerning the criteria for such zones. According mainly to civil society participants, the following should be considered no-go zones: regions engulfed in armed conflict, areas of high biodiversity and protected areas, and cultural heritage and indigenous peoples lands.

Regions Engulfed in Armed Conflict

The issue of armed conflict was raised only by civil society participants, who at the close of the Africa workshop called on the WBG to give a clear guarantee that there will be no funding of projects in countries that are ruled by undemocratic regimes or involved in armed conflicts or where extractive projects may create conflicts. Some EI company representatives confirm that operating in conflict zones and in the presence of armed rebels who have the capacity to sabotage pipelines, for example, makes it very difficult to ensure environmental and human safety.

Countries with High Corruption

Civil society in Africa wants a clear guarantee from the WBG that there will be no loans for mining projects in countries where the rate of corruption is high and where there is no acceptable mechanism to tackle corrupt revenue management.

High Biodiversity and Protected Areas

Many large international environmental NGOs are seriously concerned with the impacts of the oil, gas, and mining industries on fragile ecosystems and the biodiversity they contain.⁵⁴ At a minimum, extractive industries are asked to respect the IUCN Amman 200 Resolution, which calls on the industry to stay out of IUCN Category I–IV Protected Areas. Workshop participants called on the WBG to identify and respect no-go areas in order to protect and manage biodiversity. Academics and civil society representatives note the importance of ensuring that the rights of indigenous peoples are respected in protected areas.⁵⁵

Cultural Heritage Areas and Indigenous Peoples Lands

Civil society calls on the WBG not to fund projects that destroy traditional ways of life or damage existing conditions at the local level.

Civil society participants, as well as some participants from governments and companies, ask that the WBG require prior informed consent for all new EI development through its environmental impact assessments.

Some NGOs suggest that territories of indigenous peoples be included as no-go zones. In many cases, the indigenous peoples’ representatives that participated in the consultation

process did not make a similar request. However, they did ask for prior recognition of their rights to lands, territories, and resources traditionally occupied and used and that extractive industry companies obtain their “free prior and informed consent” (FPIC). The EIR also heard that many indigenous peoples in the regions consulted do not feel that their rights over territories and lands are being respected by extractive industry companies, governments, or the WBG. This has led to indigenous peoples urging the WBG to put a moratorium on oil, gas, and mining investments until these rights are formally recognized.

Use of Certain Technologies and Substances

The use of certain technologies is suggested as another criterion for the WBG to reject a project categorically. The use of cyanide is strongly criticized by civil society, who suggest a mix of measures including strict regulation and standards, monitoring, audits, information sharing, and citizen oversight boards in mines that involve cyanide. Some would like to see the WBG support a ban of the use of cyanide entirely until it is proved to be successfully and stringently managed. The International Cyanide Management Code has been criticized by civil society for not going far enough in establishing protection.

Civil society asks the WBG to develop clear guidance for the prediction, monitoring, and management of acid drainage and for clear public consultation where it is a potential outcome. Civil society participants call on the WBG to clearly forbid the use of highly toxic methods of oil exploration—synthetic mud, for instance—and the generation of hazardous waste or the dumping of waste into the water. Some representatives of civil society suggest that open pit mining and submarine tailings disposal should also be banned.⁵⁶

Screening of Projects

Stakeholders urge that all projects be carefully assessed by the WBG. (See Box II–2 for the conclusions on project assessment from the WBG internal review conducted by the Operations Evaluation Department and the CAO Office.) Part of the assessment should be an investigation of the capacity of both companies and governments to mitigate environmental and social impacts effectively, as well as the commitment of the actors involved to be accountable.

Assessing Potential Social and Environmental Impacts

The WBG’s environmental assessment (EA) process requires proposed projects to be assessed to ensure they are environmentally sound and sustainable. The diligence of the EA depends on the potential impact of the project: the Bank does an environmental screening of each proposed project to determine the appropriate scope of the EA. Projects are categorized depending on their likely environmental impact:

- *Category A:* Likely to have significant adverse environmental impacts. Borrower is required to conduct a full EA, examining the project’s potential negative and positive environmental impacts, comparing alternatives (including a “no project” option), and recommending any measures needed to prevent, minimize, mitigate, or compensate for adverse effects and improve environmental performance.

- *Category B*: Likely to have less significant adverse effects than a Category A project. As before, an EA is required to examine impacts and provide remedies. The scope of the EA varies from project to project, but is narrower than Category A projects.
- *Category C*: Likely to have no or minimal environmental impact. No EA required.

EIR participants at regional workshops recommended that the WBG take a holistic, multidimensional approach to the environment and to environmental assessments. Civil society notes that serious environmental damage from EI operations can result in loss of livelihoods or loss of access to resources such as clean water, even if in reality a community is not physically displaced from its existing habitat. The WBG should understand, assess, and clearly identify such socioeconomic linkages to environmental issues. Indigenous peoples call for assessments to incorporate environmental, social, cultural, and health impacts.⁵⁷

Industry notes the need for the WBG to promote more comprehensive impact identification and mitigation planning that clearly defines a mitigation strategy for each impact. At the regional workshop for Eastern Europe and Central Asia, civil society emphasized that social impacts are not properly assessed and that mitigation measures are either postponed or shifted to other institutions. This is the case not only for new extraction projects, but also for those that aim at sorting out social impacts, such as coal sector adjustment programs. Very little attention is given to labor standards, or they are subject to softening in the name of “labor flexibility.”

Civil society also urges the WBG to assess if projects violate customary land rights. When an extractive company is granted the legal right by national governments to exploit resources in certain territories, this can lead to evictions of rural farmers, forest dwellers, and indigenous peoples who do not hold nationally recognized legal title to the lands they have lived on for many generations. Indigenous peoples also can lose access to land that may hold cultural and spiritual significance for them. Indigenous peoples and local communities alike consider this a violation of their basic human rights, a position supported by contemporary international human rights law.

Civil society calls on the WBG to use independent parties to conduct environmental assessments on all potential extractive industries investments, using the best available standards. EAs should also be conducted for project expansion. Workshop participants urged the WBG to increase the transparency of its environmental assessment process.

Assessing the Actors Involved

Company representatives acknowledge that the assessment of a company’s capacity and experience to use environmental best practices should be considered equally as important by the WBG as the ability to repay a loan. For instance, the WBG should only lend to projects where the capability to deal with oil spills can be demonstrated.

Support should only be given to individual projects, companies note, when the WBG is confident that governance is of sufficient quality to ensure an effective contribution to poverty alleviation and sustainable development.⁵⁸ Civil society calls on the WBG to support mining

projects only when host countries have agreed to independent monitoring of social, environmental, and human rights impacts.⁵⁹

Box II–2. Conclusions of WBG Internal Review Regarding Project Assessment

Social issues are currently treated inadequately in the screening process.

The incomplete address of social issues in the EA policy is leading to variance in the treatment and approach to social issues.⁶⁰

If IFC wishes to continue to make the EA process the central planning tool that acts as the context for SP implementation, IFC must ensure that a comprehensive approach to social issues, including social assessment, is part of the EA process.⁶¹

Social and environmental specialists should be more involved in screening.

The review found that, in cases where social specialists were engaged early in the project, it was more likely to take broad approaches to social issues and to assess potential impacts beyond the specific safeguard issues. Similarly, the project was more likely to correctly identify issues covered by the social safeguard policies.⁶²

The WBG should provide adequate resources and incentives for the participation of qualified environmental and social specialists at the preparation, appraisal, and supervision of all projects that are likely to have adverse impacts.⁶³

Initial screening process is most important factor for compliance with safeguards.

The most important inadequacies in the implementation of safeguards can be associated with shortcomings at the initial project screening. Another important source of problems, and a possible explanation for the decline in safeguards implementation from approval to implementation, relates to inadequacies in supervision and reporting.⁶⁴

Clearer guidance regarding the screening process is needed.

The WBG should provide clearer and more consistent guidance for the categorization of projects, the identification of applicable safeguards at the initial project screening, the appropriate scope and nature of the EA instruments, and the reporting and evaluation of safeguards implementation.⁶⁵

Although the Bank's safeguard policies embody some common principles, there are also inconsistencies among them and within the system as a whole. For example, the environmental assessment policy covers all significant environmental impacts, but the social impacts it covers need to be clarified.⁶⁶

Attitudes and abilities of WBG partners should be considered in screening.

IFC should ensure that in its selection of partners, as project sponsors or financial

*and that a specific assessment of their capacity is included at pre-appraisal.*⁶⁷

Safeguard Policies

During a project's early environmental screening, which identifies anticipated social and environmental impacts and classifies projects into one of four categories, the applicable Safeguard Policies are determined. (The relevant policies address environmental assessment (Operational Policy (OP)/Bank Procedure (BP) 4.01), natural habitats (OP/BP 4.04), pest management (OP 4.09), involuntary resettlement (OP/BP 4.12), Indigenous Peoples (Operational Directive (OD) 4.20), forestry (OP 4.36), the safety of dams (OP/BP 4.37), cultural property (OPN 11.03), projects on international waterways (OP/BP 7.50), and projects in disputed areas (OP/BP 7.60).)

All stakeholders agree on the importance of social and environmental protection. Many EI company participants note that the WBG Safeguard Policies, especially those of IFC/MIGA, have helped to ensure more responsible social and environmental practices within the EI sector and thus helped companies internalize environmental and social costs.

Participants from NGOs, on the other hand, maintain that WBG involvement in the EI sector, despite its Safeguard Policies, has not been effective in mitigating various environmental and social risks. On the contrary, WBG-related EI projects have often had serious negative environmental and social impacts at the local level. Rather than helping to internalize social and environmental costs, the Safeguard Policies often serve the interest of EI companies in acquiring "creditworthiness" for project financing.

Many from civil society strongly criticize the WBG for developing Safeguard Policies without adequate consultation with indigenous peoples and local communities. The policies have become weaker over time and are often ignored in the field.

The EIR found that EI company associations are often progressively and proactively improving their environmental and social standards to meet the demands of civil society. On many issues, EI industry associations like the International Petroleum Industry Environmental Conservation Association and ICMC are more progressive and forward-thinking than the WBG in its Safeguard Policies. Examples of this include the policies and procedures concerning human rights and "social license" that a number of EI companies are adopting and their efforts to develop and adopt guidelines for product stewardship.

Many EI companies maintain that the voluntary adoption of WBG Safeguard Policies by large banks involved in EI project finance—that is, banks that sign on to the 2003 Equator Principles—is a step in the right direction for sustainable development. Civil society participants criticize the Equator Principles, however, emphasizing that they have too many loopholes and do not have a sufficient mechanism to monitor borrower practices.

Project Design

Planning for Pro-poor Benefits—Community Development

Many local communities and the NGOs working with them report that they receive insufficient benefits from projects. Companies allegedly promise various benefits, but they seldom deliver them. Many people in communities near WBG-supported EI projects were reportedly living in abject poverty, without access to health, sanitation, or education facilities.

EIR-commissioned research on community perspectives of WBG-supported projects revealed that benefits for local communities, such as electrification or potable water systems, do not reach the poorest “because tariffs are out of reach or distribution systems are not egalitarian.”⁶⁸ Furthermore, communities were not aware of the WBG’s involvement in the project, “suggesting a lack of transparency and access to information at local levels,” which also led to inflated views of project scale and company profits. This research points out the need for community-based poverty assessments.

There is a strong consensus among all stakeholder groups that communities located at or near project sites should benefit substantially from the development of local resources. Civil society participants in Bali maintained that EI projects often create social rifts and conflict among host communities.

Stakeholders would like to see the WBG make community development a central focus in project planning, maximizing local benefits to achieve long-term sustainability and spelling out clearly the responsibilities of different actors.

Community development plans should be established with the full participation of communities in all decisionmaking to ensure that projects respect local alternative livelihoods.

Early consultation should be mandatory for all project planning and should involve all groups in the social and economic hierarchy. Community development plans should be transparently funded and administered, and communities should be given support to enable them to act on their own behalf.

Government representatives suggest that community development should always be part of company programs.

Industry representatives, on the other hand, warn of reinforcing the cycle of corporate dependence. This should be replaced by creating

multistakeholder partnerships and by cooperating with community leaders on long-term planning for sustainable communities beyond the life of the project.

All stakeholders note the importance of designing community development plans that build capacity within the community to maintain development projects after decommissioning,

thereby avoiding the creation of “ghost towns.” Industry participants suggest that WBG funding for projects should be approved on a life-cycle basis, including decommissioning and rehabilitation plans with realistic cost provisions.

Workshop participants called on the WBG to facilitate cooperation between governments, companies, and local communities to build the long-term business capacity and skills of local people, to improve sustainability, and to reduce dependence on expatriate labor. Industry participants promoted the concept of “trusts,” like the PNG Sustainable Development Program Company at the Ok Tedi mine, which fund sustainable development programs for up to 40 years after closure.⁶⁹

Industry, government, and civil society call on the WBG to facilitate local capacity building through on-the-job training for managerial posts and technology spillover, to support local entrepreneurs through micro-finance, to involve local service providers in delivering project-related services, and to involve local NGOs in assisting government where appropriate. Cooperation with regional development banks in local development should focus on providing capital, information, and technology to small and medium-sized enterprises, monitoring new businesses to ensure sustainability.

The CAO’s review of recent extractive industry projects suggested that IFC and MIGA should ensure that all clients are familiar with IFC’s Investing in People guidance and understand the importance of direct community participation and explicit consideration of the longer-term sustainability of community investment projects.⁷⁰

Planning to Mitigate Social and Environmental Risks

Civil society representatives report severe impacts from WBG-facilitated EI ventures, not only directly from mines or wells but also from spills of poisonous chemicals such as cyanide and mercury, ruptured oil pipes, breached tailings dams, and long-term pollution through acid mine drainage. Civil society notes that in many cases problems arise because of poor project governance—such as insufficient emergency response plans, lack of access to information, and outright intimidation.

Civil society reports many social and economic problems created by extractive industry projects. Examples of these include people feeling intimidated when they speak out in consultation processes, disputes over compensation payments, the proliferation of prostitution near projects, and a notable increase in HIV/AIDS cases due to the influx of workers. Near the Lihir gold mine in Papua New Guinea, for instance, women reported increased problems caused by squatters, alcohol-related violence, criminal activities, the breakdown of marriages, and an increased number of single mothers in the villages.⁷¹

An Unequal Burden on Women

The Oxfam Community Aid Abroad Mining Ombudsman has documented numerous grievances from women in mining communities, including those living close to WBG

projects, concerning violations and infringement of their human rights. Women have often been sidelined in consultations over compensation, for instance, and do not have equal access to jobs at the projects, leaving them in general with little or no control over and access to any of the benefits from mining development. Moreover, where they can secure employment, women suffer active and often brutal discrimination in the workplace. As a result of mining development, women have become more dependent on men. They also risk becoming more impoverished, particularly in women-headed households.⁷²

The traditional roles and responsibilities of women are marginalized as the community becomes more dependent on the cash-based economy brought about by mining development. Mining projects employ primarily men, which increases the workload of women. They bear greater responsibility for the household, and food provision through traditional means becomes increasingly difficult when water sources and land are polluted. Women bear both the physical and the mental strain from mining development, especially if it involves resettlement.

Women are known to suffer an increased risk of HIV/AIDS and other sexually transmitted diseases, family violence, and rape. Often this is fueled by alcohol abuse and a transient male work force.

Participants at regional workshops recommended that the WBG ensure active and equitable participation of women in community development and decisionmaking processes as a condition for loans. Where necessary, this can take place in separate fora. Civil society suggests that the WBG should build into their projects adequate and effective protection measures that account for the special needs and rights of women. Indigenous women require particular attention because often their religious and spiritual connections to the environment and land are not recognized, especially if they are displaced by extractive projects.

The Rights of Workers

Labor, a distinctive part of civil society, maintains that there is often hesitation and conflicting views within the WBG about the benefits of adopting the ILO Core Labour Standards. In late 1999, the WBG began to observe the CLS systematically in countries eligible for concessional lending, but not in all Country Assistance Strategies. Labor notes that the promotion of the CLS would be in line with the WBG's overarching goal of poverty alleviation.

Labor is concerned specifically that the IFC and MIGA have only partially adopted the CLS as a contractual requirement for project financing, and labor representatives recommend that all of the CLS should be adopted by the entire WBG and integrated into their operations in several ways. The CLS should be a contractual requirement for project financing, they should be included in the procurement guidelines as mandatory elements of the Bank's Standard Bidding Document (currently only some voluntary labor standards are included), and they should be applied to export credits financed by the IFC and MIGA.

Recognizing its poverty alleviation objective and the necessity to reduce workplace risks faced by the poor, the WBG should join with the ILO to promote key ILO health and safety conventions, as well as the convention guaranteeing regular and full payment of wages.

Participation and Transparency

It is generally accepted by all stakeholder groups that successful extractives projects require effective mechanisms for local communities to participate in project planning and decisionmaking, especially on matters that affect them directly. There is, however, no agreement on exactly what “meaningful participation” entails. Civil society calls on all actors to respect and recognize the rights of host communities to reject investments that will harm their livelihoods and violate human rights.⁷³ Indigenous peoples, backed by national and international NGOs, are striving to ensure that governments, the WBG, and EI companies respect their internationally guaranteed right to give free and prior informed consent to activities that affect them.

The majority of EI companies are hesitant about using FPIC. They maintain that this is an unclear notion that it can be interpreted in different ways by different people. They also point out that if all individuals in the community must give consent it would at the very least greatly lengthen project development schedules and costs, while in the worst case it could make the project hostage to the bargaining of small and unrepresentative groups. Moreover, company representatives point out, FPIC is a standard that does not exist even in countries that do respect the views and interests of local communities and have appropriate governance methods.

Civil society representatives note that industry’s caution may be unnecessary: first, FPIC does not require that every single person consent to a project; second, experience in countries such as the Philippines, where this right is incorporated in domestic law, shows that although FPIC is not without problems, industry is able to work with and respect this right.

All stakeholder groups broadly agree, however, on the main problems and challenges involved in conducting meaningful consultations. Civil society points out that some local communities and indigenous peoples do not have the capacity or the institutions to negotiate in an international context. They report that a lack of good will on the part of companies often compounds these problems, and consultations are often only conducted as a formality to fulfill legal obligations or WBG procedures.

Stakeholders from all groups emphasize that meaningful participation depends critically on the availability of accessible information. Civil society representatives report that documents that should be disclosed and provided to communities in the consultation process are often not physically accessible or are not available in the local language. Moreover, consultations often are not announced properly, and affected communities are not informed about their rights or their entitlement to comment on the various project documents.

Civil society calls on the WBG to ensure that independent environmental research and analysis for projects is available to the public. The public should also have access to independent monitoring and evaluation during project implementation.

Stakeholders note that meaningful participation requires open and inclusive consultation processes. Civil society representatives report that often only select people or groups are invited to consultations; those who oppose a project are ignored, threatened, or harassed. At times, consultations are organized at an inconvenient time or location, and often the process is not adequately monitored by WBG staff.

In Chad, the WBG's independent Inspection Panel found that the Bank's policy on consultation with affected communities had been violated. Consultations with affected communities held prior to 1997 were conducted in the presence of armed security forces. Later, they took place in the presence of government officials. Neither practice was conducive to an open airing of views.⁷⁴

Civil society representatives also highlight the failure to include women adequately in the consultation process, even where the local community followed a matrilineal tradition, as in the communities surrounding the Lihir mine in Papua New Guinea. Here, many injustices against women were the result of the MIGA-supported company negotiating only with men and failing to take account of women's perspectives. Women account for 70 percent of the poor in the area, and this proportion is growing.

Improving Environmental and Social Mitigation and the Safeguard Policies

The reported social and environmental impacts are an indication of why the WBG's Safeguard Policies have come under criticism from civil society groups. Civil society also criticizes the current ad hoc approach of the WBG to social and environmental protection and at the Budapest workshop called on the WBG to incorporate clear and logical environmental management plans into mining and oil projects, based on active public participation, and to include the development of risk prevention schemes and provide public access to them.

Participants at regional workshops stressed that the WBG needs to address the gap between its Safeguard Policies on paper and their application in practice. Industry leaders and the WBG "agree that enhanced compliance with Safeguard Policies is feasible and desirable."⁷⁵ Industry representatives note that most companies have started sustainable development programs on the ground and want to engage the WBG and other stakeholders to improve implementation of the Safeguard Policies.⁷⁶

The U.K. government encouraged the WBG to "develop greater consistency and coherence for the existing safeguards policies ensuring that they are fully implemented." Furthermore, it "believe[s] it critical to move the safeguards policies from compliance checklists to more strategic considerations of developmental benefits. Project-level social and environmental impact assessments and management will be relatively limited in their influence and value if they are not framed by up-stream strategic assessment of policy options."⁷⁷

Industry representatives point out the need to think more creatively about leveraging and acknowledging the contribution that extractive industries can make, moving beyond project compliance to a broader, strategic planning mindset.⁷⁸

Civil society representatives recommend that the WBG join with civil society in environmental education efforts on “best practice.” The WBG should also educate communities about its Safeguard Policies and the measures it implements to ensure compliance. The U.K. government maintains that participation and information disclosure, now a requirement of environmental assessment procedures, should be encouraged more generally.⁷⁹

Industry representatives suggest that the WBG should help develop tools to bridge the gap between when funds become available and when they are most needed, pointing out that “the biggest impact on communities can be at the start . . . of a project, and at . . . closure. Yet local and national governments receive few taxes or royalties during these periods.”⁸⁰

There is strong concern about the perceived lack of closure plans for WBG-related extraction projects, including projects that still are in the proposal stage. Communities have expressed their concern to the EIR that these plans are put in place too late.⁸¹ Company representatives also reiterated the need for mechanisms to ensure that Safeguard Policies are applied throughout the entire life cycle of a project, including provisions for closure and post-closure periods.⁸²

Workshop participants recommended that the WBG develop guidelines and require, as a condition of financing, that sufficient funds are put in place for closure from the start of any new EI development. This should be independently verified, and the closure plans should be made accessible to the public. Participants suggested that the WBG should consider establishing an insurance system for regions affected by mine closure.

The CAO review of recent extractive industries projects recommended that IFC and MIGA apply available guidance on closure to all EI projects and ensure that social considerations are taken into account. Measures should be implemented to ensure that funds allocated to closure are protected, even after WBG exit.⁸³

See Box II–3 for recommendations on Safeguard Policies from the WBG internal reviews.

Box II–3. Conclusions of WBG Internal Reviews Regarding Safeguards

Safeguard Policies need to be integrated into the project design early.

For the safeguard policies to have the optimal opportunity to meet their effectiveness objectives and to contribute to positive impacts, they need to be integrated well in early stages of project design and to be a tool in increasing the capacity of a committed sponsor.⁸⁴

Safeguard Policies should be expanded to include areas previously not covered.

The involuntary resettlement policy and other social policies would benefit from a framework that encompasses all project social impacts by integrating either a social assessment or social impact policy.⁸⁵

[WBG] should address identified gaps such as those related to consultation and disclosure, community development, social issues of mine closure, security, hazardous materials management, acid rock drainage, gas flaring, and transportation of oil. It should also recognize the expanding awareness of the human rights dimension of WBG policies and projects, and explore possible avenues for addressing the issues, especially where it lags industry best practice, such as regarding site security.⁸⁶

Despite the existence of the Natural Habitats and Environmental Assessment Policies, there is insufficient guidance on ecological assessment and mitigation.⁸⁷

This review found a number of areas where no policy or adequate guidance exists, and therefore the treatment of the EA by the environmental specialist became the only safeguard for the issues being treated. In some cases, IFC has committed to developing guidelines and/or guidance, and this has not materialized. These areas include treatment of cyanide and cyanide processes in mining operations and mine closure.⁸⁸

This review found that health issues are of increasing concern to sponsors and communities. IFC policies give little guidance on how to consider health issues either through health impact assessment as part of environmental and social assessment or by giving guidance on conducting stand alone health and safety assessment where necessary.⁸⁹

IFC and MIGA should strengthen the available guidance on closure to apply to all extractives projects, and include a requirement to ensure that social considerations are taken into account. They should also develop and implement measures to ensure that funds allocated to closure during their involvement with a project are ring-fenced, even after they exit.⁹⁰

Existing Safeguard Policies should be updated as necessary.

Given the wide use of the WBG's guidelines, it is particularly important that they be comprehensive yet practical, and regularly updated to reflect lessons and evolving good practice standards.⁹¹

In consultation with its stakeholders, the WBG should periodically adjust its policy framework for extractive industries to ensure that it remains up-to-date with evolving industry practice. It should resolve remaining inconsistencies such as those between requirements for different mine types (such as funding for mine closure), onshore versus offshore oil projects, safety of dams, and involuntary resettlement.⁹²

In areas where technical, scientific and professional standards are steadily advancing, it is necessary for IFC to have in place a regular, if not continuous, monitoring and update system. This should be addressed as a matter of urgency.⁹³

Safeguard Policies should reference international standards where appropriate.

With the exception of the child labor policy, no other policies make explicit mention of international agreements, norms, or standards to which countries and the World Bank Group ascribe. . . . This review identified several case study examples where IFC policies were adopted by local or national governments as models of best practice. IFC policies could achieve greater traction if they referenced international standards.⁹⁴

At present, IFC policy only addresses two of the four labor standards. It does not treat the right to collective bargaining and freedom to organize. IFC's experience with the child and forced labor policy is important learning for other international financial institutions, and IFC's commitment to the remaining labor standards should be examined.⁹⁵

WBG incentives should be revised to ensure that staff do not see Safeguard Policies as a hindrance.

The WBG is missing opportunities to help its clients address adverse impacts in the sector mainly because of an internally generated aversion based on the significant costs and risks associated with its safeguard policies.⁹⁶

Implementation and Monitoring

Participants at regional workshops recommended that the WBG revamp and enforce monitoring procedures to help bridge the “implementation gap” of its Safeguard Policies. (See Box II-4 for the conclusions of the WBG internal reviewers regarding project implementation.)

Corporate best practice suggests that monitoring and reporting should be continuous throughout project implementation and not merely a post facto review. With continuous monitoring and regular, open reporting, any deviations or problems can be detected early and remedial action taken. Company representatives warned that should the WBG leave the extractive sector or even reduce its activities, the impetus to improve monitoring and reporting of safeguard measures would be reduced.

Workshop participants would like to see the WBG develop a system of social, environmental, safety, and financial performance indicators and use the U.N. Development Programme's Human Development Index instead of gross domestic product to evaluate benefits from extractive industries. Furthermore, the WBG should establish a project governance board with representatives from each stakeholder group to monitor projects.

Box II-4. Conclusions of WBG Internal Reviews Regarding Project Implementation

The implementation process needs to be strengthened.

The WBG needs to strengthen the implementation of projects within its existing policy framework. Given the potential impacts of resource extraction and the controversy surrounding the sector, rigorous implementation of safeguard policies by the WBG is a minimum requirement for it to operate in a world concerned with sustainable development.⁹⁷

Clearer guidance on the implementation of Safeguard Policies is required.

The findings point, in particular, to the need for clearer and more consistent guidance for the EA categorization of sectoral adjustment and technical assistance projects, the identification of applicable safeguards at the initial project screening, the appropriate scope and arrangements for monitoring of safeguards implementation, and the reporting and evaluation of results at project completion.⁹⁸

The Bank's safeguard policies contain a long list of requirements that have been subject to differing interpretation and as yet no independent and generally agreed criteria have been established to determine if a project is in substantial compliance.⁹⁹

The [Safeguard Policies] were originally conceived and written for a different audience and for different circumstances than those under which they are used by IFC today. Therefore, they must be made more specific and easy to use, with clear targets and guidelines on how to use them.¹⁰⁰

Monitoring of compliance should be improved.

The study found that in only 41 percent of the projects in the sample, the task teams had adequately supervised and reported the implementation of safeguard policies. About 30 percent of the projects in the sample (all of which were likely to have adverse impacts) included environmental or social specialists in at least one supervision mission, which is about half the level projected in the supervision plans prepared at appraisal. . . . These issues are important since they account for the entire slippage in the projects' consistency with safeguards from the approval to the implementation stage.¹⁰¹

An important requirement, often overlooked, is that of monitoring and evaluation of safeguard compliance "on-site," which was effectively implemented in only about 33 percent of the projects reviewed. This weakness in the compliance oversight and supervision system, if allowed to persist, can lead to substantial and costly failures for the borrower as well as the Bank.¹⁰²

Accountability within the WBG should be strengthened.

Management and senior management should be held accountable for specific environmental and social goals derived from performance at the project and portfolio level.¹⁰³

Representatives from both industry and civil society groups propose the use of third-party independent monitors as a possible mechanism, combined with greater transparency and dissemination of evaluation reports to improve the effectiveness of the Safeguard Policies. Moreover, monitoring compliance with safeguards should continue beyond the term of the WBG's financial interest in the project.¹⁰⁴

Civil society suggests coordinating local authorities, companies, and grassroots entities for monitoring schemes. This should include full public disclosure of all documents related to safety, public health, environment, and social impact of the operating facilities. Civil society participants also recommend that the WBG require companies to seek viable and independent financial assurance measures to address unintended local impacts, such as those on community property, biodiversity, health, and the sacred sites of indigenous peoples.

Capacity Building for Project Governance

EIR participants from all stakeholders maintain that it is important for the WBG to assist governments in sound project governance through capacity building. Assistance programs should focus specifically on strengthening the capacity of environment ministries to assure adequate supervision of the design and implementation of instruments for environmental protection, such as environmental and social impact assessments, as well as to monitor and enforce legislation effectively.

Many EIR participants from government agencies express the need for the WBG to provide technical assistance to government officials. In addition to receiving assistance and capacity building for supervising and monitoring projects, local counterparts should be trained in WBG procurement guidelines. All participating agencies must be involved during project design to prevent bureaucratic bottlenecks in implementation due to jurisdictional overlaps.

At the Africa workshop, civil society representatives pointed out that “softer” components of a project, such as capacity building, environmental protection, and regional development, should keep pace with “harder” components like construction. Furthermore, noted a local NGO, there should be more follow-up on WBG-funded projects.

Conflict Resolution

Representatives from all stakeholder groups affirm the importance of having effective mechanisms to manage conflicts that can spring up during a project.

Industry representatives, in discussions with the EIR secretariat, stated that consent between stakeholders is an essential part of sustainable development, and grievance mechanisms can ensure that there are no unsolved conflicts or human rights abuses. Moreover, there should be prior agreement on necessary precautions, mitigation, and compensation.

Indigenous peoples' representatives note that the right of prior informed consent must be made effective by providing adequate information and by having a permanent process of negotiation between indigenous peoples and project developers. Mechanisms for redress of grievances, arbitration, and judicial review are required.¹⁰⁵

Academic commentators agree that there should be a clear and accepted dispute resolution mechanism provided in any project. Formal channels of communication should be established to address concerns and resolve conflicts as they arise.

A number of workshops made recommendations on mechanisms for conflict resolution. The workshop in Latin America suggested that the WBG include conflict management tools and processes in project agreements and that the WBG support technical and conflict resolution training for all players, as well as host roundtables for dialogue. The Asia Pacific workshop recommended that the WBG conduct social analysis on the root causes of conflict to underpin its policy advice.

Participants at the Africa workshop made a number of recommendations for the WBG in this area: develop an effective conflict management mechanism, possibly by strengthening existing mechanisms such as the CAO and the Inspection Panel; use external dispute resolution mechanisms where appropriate; assess pre-existing and potential conflicts before making initial investments; incorporate due diligence on pre-existing potential conflicts into Country Assistance Strategies; prevent and manage conflict through early consultations with stakeholders; and help countries develop the necessary legal and regulatory framework for conflict resolution mechanisms, including promoting judicial reform and establishing tribunals for arbitration.

Chapter 5. Dialogue and Partnerships

Representatives from all stakeholders call upon the WBG to use its convening power to promote dialogues and partnerships among the different actors in the extractive industries sector, thereby building trust amongst stakeholders. These sentiments were expressed by participants in the workshops for Latin America and Africa, who recommended that the WBG facilitate international and regional dialogues between governments, industry, and civil society through roundtables, training, seminars, and workshops in order to encourage cooperation and promote sharing of experiences and best practices.

Industry representatives state that collaborative relationships, shared objectives, and mutually agreed upon division of roles are crucial to align strategies at the country level and reduce wasteful duplication and competition among key actors. They call on the WBG to provide leadership in programs of reform at the national level, making use of the synergies within the different institutions of the WBG, collaborating with the IMF, and partnering with governments, industry, and civil society. In particular, the WBG should develop closer ties with and learn from companies that are working with realities on the ground—that is, with programs, issues, and strategies in countries where national strategies are being developed.¹⁰⁶

The Ugandan government submission to the Africa workshop called upon the WBG to pursue sustainable development in extractive industries by seeking government commitment and strong partnerships with all stakeholders in implementing policy objectives.

Academic commentators note that many successful community development programs involve bilateral and multilateral partnerships between governments, industry, civil society, international organizations, and other stakeholders. The WBG could create a partnership among development institutions, including export credit agencies, to agree at the very least on basic, common standards for community engagement and development.

Chapter 6. Standards and Guidelines

Environmental protection and the health and social conditions of local communities depend crucially on the quality of industry practice, as well as on the standards and the capacity of governments to monitor and enforce compliance. In addition to looking at the WBG's internal standards and guidelines, stakeholders also look at the Bank's role in helping to shape standards and guidelines for industry and government.

Workshop participants recommended that the WBG work with other stakeholders to prepare and disseminate social and environmental guidelines for extractive industries from exploration to closure, including detailed analysis of environmental and social impacts of projects. Some participants also recommended that the WBG require borrowers to demonstrate their use of best practices and their commitments to environmental and social issues, and that it condition lending on a voluntary corporate code of ethics that companies incorporate in their contract systems. Separate guidelines should be prepared on best practices and standards for artisanal and small-scale mining.

Industry wants the WBG to encourage good practice in individual projects by applying standards and criteria for funding and reviewing them regularly. These may be particularly valuable where national oil companies are involved, as these businesses may not come under the same international pressure to conform to international good practice.

Civil society representatives reject the use of voluntary codes of conduct, highlighting the need for mandatory standards and legally binding enforcement mechanisms. They call for binding agreements between governments, industry, civil society, and the WBG, which should be enforceable in the courts as necessary. Formal policies and appeals procedures should be developed to ensure accountability for loan operations, official aid, and development programs and projects. Civil society wants a binding Code on Corporate Accountability.

Industry representatives call on the WBG to continue to use its convening power to advance discussions on complex issues. In the absence of appropriate government regulations, the WBG should require that companies meet a minimum level of social, environmental, and health standards. It should only fund projects that contain acceptable health, safety, and environmental management systems. It should develop performance standards for sustainable development that are ambitious but realistic; the WBG could also play a useful role in auditing and verifying these standards.

Governments also suggest that the WBG train government officials about environmental guidelines, and encourage industry associations to require compliance with standards, certification, and good relations with local people. They also recommend that the WBG push for industry compliance with environmental standards, such as ISO 14000 certification.

Academic commentators recommend that the WBG require adherence to existing or emerging norms and agreements (for example, the OECD's Principles of Corporate Governance) as a condition for supporting projects.

Chapter 7. World Bank Group Institutional Issues

A number of civil society participants commented on issues relating to the internal structure of the WBG and the way that it “does business.” The WBG is criticized as being insulated from the financial, political, and moral consequences of its actions. Borrowers have to repay loans regardless of the success or failure of the investments, so the WBG does not take on any financial risk.¹⁰⁷ The WBG’s approach to problem-solving is technocratic and state-driven, with little appreciation or understanding of the role of transparency, scrutiny, accountability, and the role of civil society, they claim. Economic and sector research is carried out by the same units that have operational and investment responsibilities, with potential for conflicts of interest.¹⁰⁸

These issues make internal incentives and accountability mechanisms more important in order to ensure the quality of lending decisions, according to civil society representatives. The WBG internal culture is criticized, however, as creating perverse incentives to lend large amounts of money as quickly as possible, sacrificing the ability to ensure project compliance with environmental and social standards.¹⁰⁹ A system of outside indicators and independent external reviews is suggested as one possible remedy.

The methods used to provide development assistance are also criticized. The WBG’s project-based mode of providing assistance is condemned as outdated, resulting in a fragmented approach to development that causes serious discontinuities and poor follow-up.¹¹⁰ WBG loans tied to structural adjustment conditionalities have produced policy reforms designed to increase private-sector investment in extractive industries, regardless of the development consequences.¹¹¹ The WBG has not been able to mainstream environmental issues throughout its operations.¹¹²

The U.K. government notes a “lack of coherence in the WBG’s work in the sector,” suggesting that the Oil, Gas, Mining and Chemicals Department should partner with other departments “such as the Corporate Social Responsibility group, the Community-driven Development group and the Social Development network as a whole. These partners should be part of an integrated and holistic approach to the design of extractives-related engagement.”¹¹³

Civil society and indigenous peoples’ representatives call for greater coordination between the various institutions of the WBG.¹¹⁴ More specifically, all policy and procedural reforms should be applied across the entire WBG, accompanied by binding systems of accountability. Greater coordination between WBG institutions was also recommended at the Africa workshop.

Civil society representatives stress that the good intentions of the WBG must translate into good practice in the field. One issue raised is the need for improved transparency within the WBG itself. It is vital that all elements of the WBG work in a clear and transparent manner,

adhering to its own policies to make informed decisions guided by the rights and opinions of civil society.

Specifically, civil society calls on the WBG to make detailed information about its investments available to the public prior to project approval. During project preparation, environmental and social impact assessment processes should be followed scrupulously. The WBG should adhere to the principles and procedures of the UN Economic Commission for Europe Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters (the Aarhus Convention), making it mandatory for its own direct activities.

A statement from civil society at the regional workshop in Africa called on the WBG to improve the accountability of the complaint investigation and resolution mechanisms by enhancing their transparency and strengthening their independence. It also called on the WBG to commission an independent review of the impacts of existing investments in the extractive industries, in order to determine how to correct and compensate for past damages to communities.

EIR-supported research into civil society perspectives concluded that these stakeholders believe the WBG should strictly adhere to the precautionary and polluter pays principles for all extractive industry activity.¹¹⁵

A submission from the Ghana Minerals Commission cautioned the WBG to appreciate local limitations when devising strategies and policies for extractive industries. It recommended that the WBG maintain open lines of communication and establish a high degree of trust between WBG supervision teams and other stakeholders, and that WBG studies include detailed plans for implementation of recommendations.

Academic commentators state that there should not be a single uniform WBG policy toward all mining in the developing world; the challenge is to tailor encouragement for mineral development to local conditions and to ensure that it contributes to sustainable development and poverty alleviation. Participants at the Africa workshop called for a more streamlined WBG organization, with the capacity for moving quickly from analysis to implementation of projects.

Recommendations from the regional workshop in Budapest included simplifying and shortening WBG processes without compromising fundamental standards, changing the WBG charters to allow participation in political processes, and strengthening resident missions so that they can facilitate public participation in countries with undemocratic governments.

Recommendations from the Africa workshop included using flexibility in the application of WBG guidelines in consideration of the prevailing conditions in borrowing countries, ensuring that internal decisionmaking processes are consistent and transparent, and improving the communication of internal procedures and guidelines to those working in the field.

The WBG internal evaluation of extractive industries called on the WBG to develop and implement a sector strategy for extractive industries, with a focus on improving governance in borrowing countries: *“The Bank, together with other members of the World Bank Group needs to design and implement a sector strategy that closely integrates resource extraction with sustainable development through the effective management of EI revenues in support of developmental priorities and the reliable mitigation of adverse environmental and social impacts. Where macro and sectoral governance are weak, the Bank’s assistance should focus on strengthening macro and sectoral governance. In such cases, the Bank should carefully assess and report on the risks that EI fiscal revenues may not be used for development priorities. The Bank should not support significant sector expansion unless it can adequately mitigate these risks. Where macro governance is sound but sectoral governance is weak, the Bank should focus on improving sectoral governance.”*¹¹⁶

Chapter 8. Special Issues

Artisanal and Small-scale Mining

Representatives from a range of stakeholders express concerns about the damaging environmental and social impacts of uncontrolled artisanal and small-scale mining (ASM), especially from itinerant miners. On the other hand, a regulated ASM sector can play an important developmental role (see Box II–5), through boosting employment, supporting communities, and alleviating poverty. Many stakeholders would like to see the WBG get more actively involved in helping governments improve their policies and their ability to regulate a successful small-scale mining sector, so that it can truly contribute to sustainable development.

Box II–5. Small-Scale Mining in Papua New Guinea

In Papua New Guinea (PNG), small-scale gold mining is legally recognized by the State and is under the administration of a Division of the Department of Mining. All alluvial gold is reserved for national citizens only. Small-scale mining is well regulated in PNG as a consequence of the country's mining history, the development of its mining law, and a very strong customary ownership rights to land. Today 97 percent of the land is owned by indigenous peoples and 3 percent by government. Mining regulations are enforced by Mining Wardens and Mines Inspectors. Courts and police also are used to ensure enforcement.

Small-scale mining in PNG is also well supported by international aid agencies and industry. The support includes education and training, as well as micro-finance programs, and comes from AusAid, the World Bank, the Japanese Social Development Bank, the Asian Development Bank, and Sysmin (the European Union). Overall, these programs have significantly improved miners' awareness of the hazards of mercury. Miners in large river systems, from which thousands of people derive their food, have stopped using mercury. There is also greater awareness of overall environment and safety issues and a steady increase in annual production.

It is estimated that PNG has 50,000 small-scale miners, whose income benefits approximately 400,000 other people and who produce up to 145,000 ounces of gold per year, equivalent to \$45 million. The average annual income per miner is \$900, which is substantially higher than the overall average income in PNG of \$250.

With good regulations in place, mine closures can be planned in a more sustainable way. At the Bulolo mine, for example, a well-planned closure led a small-scale mining company to develop a sustainable timber plantation project, using infrastructure established by the mining operations. This plantation is still viable today, sustaining a

after mine closure.

Source: Neale 2003.

Industry notes that the WBG could help improve the quality of the lives of millions of artisanal and small-scale miners around the world by helping them acquire legal title to mineral rights. This would let them trade their rights or use them for collateral to obtain financing. Many industry representatives who participated in the EIR's regional workshop in Africa suggested that the WBG adopt the Harare Declaration, which contains guidelines to provide a framework encouraging the development of the ASM sector as a legal and sustainable activity and optimizing its contribution to social and economic development.

Civil society representatives highlight the potential benefits of ASM, maintaining that it can play a greater role in poverty alleviation than large-scale mining can. At the regional workshop in Africa, they asked for a clear commitment by the WBG and governments to support artisanal mining by protecting land and mining rights and by providing financial and technical assistance to improve their productivity, minimize social and environmental risks, and enhance access to markets. It was also noted that large mining developments should not prevent local people from earning income from ASM activities. Indigenous peoples cautioned that support for ASM should only be undertaken in cases where their land and their resource and other rights have been fully recognized and guaranteed.

Several participants suggest that ASM issues should be integrated into a country's overall development strategy, perhaps by incorporating them into the Poverty Reduction Strategy Paper. A U.N. staff person at the Bali workshop maintained that solutions to ASM must be dealt with in a community development framework. Others recommend that help to areas with substantial ASM activity be channeled into promoting economic diversification.

A number of academics recommend that negative social, environmental, and health impacts associated with ASM can be mitigated through effective education campaigns, such as on HIV awareness. Participants at the regional workshops recommended that the WBG should address the issue of children living and working at ASM sites and should support HIV/AIDS initiatives for the ASM sector.

The workshops urged the WBG to support the formalization and regulation of the ASM sector through granting legally transferable mineral titles, developing regulatory regimes, providing technical support, and initiating capacity building for mining groups and government regulators.

In March 2001, the WBG was one of the sponsors of the Communities and Small-Scale Mining (CASM) initiative. CASM aims to improve the economic, social, and environmental performance of ASM activity. It operates as a forum bringing shareholders together to discuss and share best practice in ASM and to improve the level of information available regarding the sector. It also aims to match potential projects with sources of funding. Several Bank

projects have had ASM issues as significant components; project involvement has included improving the legal framework and formalization of ASM activities, increasing tax revenues, providing capacity building for government staff, improving production and efficiency, and improving environmental awareness and management.

The WBG internal evaluators report on extractive industries concluded that “*where appropriate, the WBG should help integrate artisanal and small-scale mining (ASM) with the formal sector and internalize their environmental and social impacts, while at the same time creating alternative employment opportunities and supporting the consolidation of ASM activities for greater efficiencies and economies of scale.*”¹¹⁷

Participants at the regional workshops recommended that the WBG make a commitment to ASM and work on internal capacity building to prepare itself for increased involvement. It was recommended that the WBG increase its involvement with CASM through a greater allocation of funds and by providing regional community development specialists to work with the organization. CASM should not only match projects with funding but should also devise and implement solutions with ASM communities. One mechanism for doing this was to develop model pilot projects with ASM communities in each WBG region in order to demonstrate solutions that work.

Human Rights

Human rights is a particularly important issue for extractive industries, given the sector’s checkered history of human rights violations. Areas of concern include indigenous peoples’ and minority rights, workers’ rights, women’s rights, children’s rights, use of security forces, public rights to participation, and rights related to environmental protection.

The WBG has adopted a dual approach to human rights, positioning itself as a champion of economic, social, and cultural rights while trying to avoid getting entangled in issues related to civil and political rights. WBG staff refer to their Articles of Association, which prohibit interference in “the political affairs of any member.” This argument, while legally questionable, is routinely deployed by WBG staff and can be said to be part of the culture of the Bank. Many commentators from civil society and academia label this approach an abdication of responsibility. They maintain that the WBG is subject to international law and has the obligation to uphold international legal standards, including human rights standards, both within its internal operation and in its dealings with states and companies. They also state that human rights are international—a concern of the global community, not just internal political affairs—and therefore they cannot be ignored by the WBG.

Another argument against WBG inaction on human rights is that the vast majority of member countries have themselves adopted human rights standards, through ratifying human rights treaties and incorporating them into domestic legislation. The WBG, in its involvement with countries, should work to ensure that these countries are in compliance with the treaties they have signed.

Civil society representatives and academics recommend that the WBG recognize and act on the relationship between human rights and development by explicitly adopting a “rights-based” approach to development.¹¹⁸ This explicitly ties development policies, objectives, projects, and outputs to international human rights standards requiring, among other things, that development be directed toward fulfilling human rights. In essence, this converts development goals and objectives into rights, entitlements, responsibilities, and accountability.

Under a rights-based approach, the WBG should abide by, protect, and promote international human rights standards, including the ILO Core Labour Standards. The WBG should acknowledge that it is subject to international law with an obligation to uphold human rights standards. It should incorporate these standards into its own operations and should ensure compliance on the part of countries and companies it is involved with. All programs and policies pursued by the WBG should be consistent with international human rights standards, and the WBG should not support new projects that deprive people of their basic rights.

Industry representatives also maintain that the WBG should require companies to comply with basic conditions regarding human rights, including the ILO Core Labour Standards, and that companies should have their human rights policies audited by external parties. Companies should commit to respecting the rights of local communities and have guidelines on security arrangements that are consistent with international standards for law enforcement, such as the U.S./U.K. Voluntary Principles on Security and Human Rights.

Participants at the regional workshops recommended that the WBG recognize its obligations under the international human rights system and develop policies accordingly. The WBG should ensure that human rights standards underpin sustainable development goals, and these rights should be incorporated into project implementation frameworks.

Other workshop recommendations included incorporating human rights conditionalities into WBG lending, backed by a system of education, monitoring, and enforcement. The WBG should not get involved in countries with a proven record of gross and systematic human rights violations, participants recommended. Where human rights violations occur at a project level, the WBG should withhold further support until the allegations are investigated and resolved in accordance with national laws and international standards. The WBG should also work to promote human rights in member countries through education, capacity building, and knowledge sharing.

Internal WBG evaluations have addressed human rights issues. The evaluators recommended that the WBG “*recognize the expanding awareness of the human rights dimension of WBG policies and projects, and explore possible avenues for addressing the issues, especially where it lags industry best practice, such as regarding site security.*”¹¹⁹ The CAO report *Extracting Sustainable Advantage?* recommended that “*IFC and MIGA should more systematically consider potential risks to human rights at the project level, take appropriate steps to mitigate them, and provide clearer guidance to clients on both of these aspects.*”¹²⁰

Indigenous Peoples' Rights

Indigenous peoples have continuously maintained that their rights have not been respected in extractive industries projects supported by the WBG. More generally, the question of control over land and resources has surfaced as one of the most contentious issues within the cycle of oil, gas, and mining exploitation and has created a legacy of distrust, impoverishment, violence, and conflict over the last three to four decades, often ending in gross human rights violations and even bloodshed.

At the root of these problems is an at times entirely different world view of natural resources. National governments and EI companies have one perspective, whereas indigenous peoples and some local communities have another. The former consider the natural resource, be it oil, gas, or minerals, a means of generating wealth, while indigenous peoples have multiple relationships, including economic, spiritual, cultural, and in some cases kinship, to the same lands—lands that are fundamental to their identity, survival, well-being, and security.

Some indigenous peoples have collaborated with industry or undertaken their own extractive projects in order to benefit from the wealth derived from exploiting oil, gas, or minerals. Nonetheless, in all cases indigenous peoples require prior recognition of rights to their traditional lands, territories, and resources and respect for their right to give free prior and informed consent.

Each government has a different view concerning control over land and resources. Many governments believe it is their sovereign right and that all citizens should defer the issue of natural resource extraction to the state for the greater benefit of the nation. Others recognize that resource rights may be vested in private persons or collectives, such as indigenous peoples, and that the public has a right to participate in decisions on these issues.

Indigenous peoples and others point out that sovereignty has never been and is not now absolute but rather is conditioned by, among other considerations, international human rights and environmental law, the former requiring that human rights be recognized and guaranteed in domestic law and respected in practice. Indigenous peoples and local peoples alike consider resource extraction operations that do not recognize and respect their rights to be contrary to human rights law, a view supported by international instruments and jurisprudence.

While indigenous peoples' rights have received a great deal of attention in the past 30 years—numerous advances have been made internationally and in domestic legislation—these rights are not uniformly guaranteed in all countries. And in some nations, only rudimentary protections exist. In countries with higher levels of protection, EI companies find it more straightforward to deal directly with national governments and indigenous peoples.

This view has also been expressed by U.N. bodies that have looked at this issue. The UN Center for Transnational Corporations, for instance, concluded that “TNCs’ performance was chiefly determined by the quantity and quality of Indigenous Peoples’ participation in decision making” and “the extent to which the laws of the host country gave Indigenous Peoples the right to withhold consent to development.”¹²¹ It also concluded that “TNCs find it

easier to involve Indigenous Peoples in decision-making when Indigenous Peoples' rights to their lands are secure” and, in general, that “land rights are a necessary precondition for effective participation.”¹²²

On the same point, a recent U.N. workshop on indigenous peoples and natural resources development stated that the participants, including industry representatives, “recognized the link between Indigenous Peoples’ exercise of their right to self-determination and rights over their lands and resources and their capacity to enter into equitable relationships with the private sector. It was noted that Indigenous Peoples with recognized land and resource rights and peoples with treaties, agreements or other constructive arrangements with States, were better able to enter into fruitful relations with private sector natural resource companies on the basis of free, prior, informed consent than peoples without such recognized rights.”¹²³

There is a growing awareness among EI companies that it is important to engage and work directly with indigenous peoples and communities and to respond to local concerns and create opportunities that meet local aspirations, a concept that is integral to the industry’s elaboration of the concept of “social license.” Given different national situations, however, companies point out that this concept is difficult to implement in all countries. It may be said that EI companies find it easier to operate in countries like Canada, Australia, the United States, and Papua New Guinea than they do in many developing countries in Asia and the Pacific and in Africa, where the legal position of indigenous peoples remains less clear.

There are a few noteworthy initiatives in which governments, EI companies, and indigenous peoples have participated in multistakeholder dialogues to develop a common vision on how they would like to see these industries evolve (see, for example, the Whitehorse Mining Initiative in Canada). However, not all of these initiatives are universally supported by indigenous peoples.

Although the issues related to control over land and natural resources are quite real in developing countries, and often underpin many of the conflicts that evolve out of oil, gas, and mining development, the WBG seems to have mostly avoided the issue, according to the stakeholders. The approach used seems to assume that national governments have sovereign control over land and resources and that this is a sufficient analysis of the situation. It also assumes that sovereign governments are capable of practicing a strong rule of law and can protect their citizens’ rights and the environment. In this theoretical context the WBG uses a partial approach, providing financial support and political insurances for EI companies, while avoiding or minimizing the internationally recognized legal rights of indigenous peoples and others.

WBG policies make little mention of human rights. For example, the Safeguard Policies on indigenous peoples and involuntary resettlement seek only to mitigate the impacts of destructive development schemes. They permit forced resettlement. However, in order to lessen the consequences for vulnerable social groups, specific plans are required during project preparation that, in the case of indigenous peoples, are meant to secure their lands and ensure participation in WBG-funded projects. Yet many indigenous peoples are quite critical

of the ability of the Safeguard Policies to protect them from the many adverse impacts of oil, gas, and mining projects.

The WBG Safeguard Policies have been developed without consultation with indigenous peoples and local communities. They have become weaker over time and are often ignored in the field. The current indigenous peoples policy, for instance, was developed without indigenous peoples' participation and has since been strongly criticized by them. The World Bank is reviewing its policy on indigenous peoples, but the revision has been repudiated repeatedly by indigenous peoples, both for the manner in which the associated consultations have been carried out and for the fact that the revised draft policy fails to uphold their rights and is weaker than the policy it is designed to replace.

Indigenous peoples maintain that the current Safeguard Policy (OD 4.20) and its draft replacement (OP/BP 4.10) do not provide meaningful safeguards, are inconsistent with their internationally guaranteed rights, and, in the context of extractive industries, are woefully inadequate.¹²⁴ For WBG-funded extractive operations on indigenous peoples' lands, OP 4.10 merely requires that the borrower "(a) informs these groups of their rights to such resources under statutory and customary law; (b) informs them of the potential impacts of such projects on their livelihoods, environments and use of natural resources; (c) consults them at an early stage on the development of the project, and involves them in decisions which affect them; and (d) provides them with opportunities to derive benefits from the project."

Indigenous peoples and others also maintain that compliance rates with the Safeguard Policy are far below acceptable. This view is supported by the recent Operations Evaluation Department review of OD 4.20, which found that this crucial policy was applied, fully or partially, only in 50 percent of projects affecting indigenous peoples. And of those, only 14 percent had the required indigenous peoples development plan, a key component of the Safeguard Policy.

A case study on indigenous peoples in Cameroon presented at the EIR-sponsored indigenous peoples workshop in Oxford described how the application of the Bank's Natural Habitats policy, which requires the funding of compensatory conservation measures to "offset" habitat destruction, has had negative impacts on indigenous peoples by excluding them from the national parks set up in their forests.

At the workshop on this subject, indigenous peoples called on the WBG to ensure that all future EI development upholds indigenous peoples' rights and to require companies to obtain the prior, free, and informed consent of indigenous peoples before operating in their lands and territories. The WBG should require private-sector clients to uphold human rights in line with their international obligations, and the WBG itself should observe international law and be bound by it in legally accountable ways.

The CAO's safeguard review noted that "*there is tremendous lack of clarity and specificity in who should be treated as indigenous, what impacts should trigger the policy, and, other than the preparation of an Indigenous Peoples Development Plan, what should be done for Indigenous Peoples.*" Furthermore, the review points out that "*many sources in this review*

suggested that the Indigenous Peoples policy be replaced with a policy that would address affected peoples or vulnerable groups. This means that specific remedies would still need to be more explicit."¹²⁵

Legacy of the Past

Representatives from civil society, industry, and governments all recognize the importance of dealing with the legacy of past extractive industries activity and offer various suggestions for a WBG role in this.

Civil society representatives call upon the WBG to assume responsibility for damage caused by past projects to ecosystems and to the social and economic situations of communities. Participants at the Budapest workshop noted that the WBG should provide funds from its own capital base for compensation for damages and for the physical restoration of affected areas. They also call for an investigation into WBG-accumulated ecological debt for decades of oil, gas, and mining lending.¹²⁶

Industry representatives claim that the WBG should maintain a commitment to solving environmental legacy problems. More specifically, they call on the WBG to address the environmental legacy of past mines in order to create a positive climate for future investment and to expand the scope of activities to include the legacy of artisanal and small-scale mining.¹²⁷

Government representatives state that companies that polluted the environment ought to do the cleanup.¹²⁸ WBG technical assistance can and should have a significant impact on rehabilitation of mined areas.¹²⁹

Recommendations from the Africa workshop included developing programs to help governments address the legacy of the past (including physical rehabilitation of orphaned mines, land regeneration, water quality, community welfare, and access issues) and establishing compensation funds for people harmed by past developments. Recommendations from the Latin America workshop included establishing a database of environmental and social damage, categorized by the levels of risk, and identifying mitigation techniques to clean up abandoned sites.

Climate Change and Energy Policy

There is a broad consensus that climate change is important and that the extractive industries are large contributors to the problem. Several regional workshops recommended that the WBG assume a greater role in improving the policy environment for tackling climate change. Suggested WBG activities included enhancing its role in removing barriers to implementing climate change policies, such as technical assistance for capacity building, regulatory reform, and technology transfer; encouraging the development of market-based mechanisms for sharing the burden of emissions reduction, such as carbon-trading schemes; and working to accurately reflect the costs of climate change related to extractive industries and elsewhere,

such as through internalizing external costs relating to emissions and working to remove perverse subsidies for fossil fuels.

There is a consensus among stakeholders that reducing the carbon intensity of economic growth is necessary to preserve the environment. The debate is over the best way to do this, taking into account possible tradeoffs between growth and emissions reduction, and the future role of the WBG in this area.

The EIR looked at civil society perspectives on this issue.¹³⁰ The study concluded that civil society wanted the WBG to support a transition to renewable energy through encouraging the phasing out of subsidies for fossil fuels, to be replaced by an energy tax, with subsidies for renewables; increased investment in renewable energy projects; and promotion of renewable technologies. The WBG should also withdraw from investment in coal-related projects, except for decommissioning unprofitable mines, mitigating the social and environmental impacts of mine closure, and rehabilitating previous damage caused by coal mines. The study also concluded that civil society does not want public funds to be spent on oil investments.

A statement from civil society at the Eastern Europe and Central Asia regional workshop condemned the fact that WBG investment in energy efficiency and renewables is negligible compared with its investment in fossil fuel extraction and utilization. The statement called for the WBG to adopt an action plan within five years for the complete phasing out of financing for any new fossil fuel and mineral exploration, transportation, and industrial processing.

Labor and industry representatives stated that access to clean, reliable, and affordable energy goes to the heart of sustainable economic development and poverty alleviation, acknowledging the importance of issues such as climate change, local and transboundary air pollution, and energy security. Improving access to modern energy sources will profoundly improve the quality of life for millions of people. A shift in developing countries away from traditional energy sources will often involve increased use of fossil fuels, but countries will need to develop on a path of lower carbon and energy intensity.

Labor and industry representatives also maintain that the WBG has a role to play in influencing developing countries to adopt a low-carbon economic growth strategy by encouraging clean energy technologies, including renewables; improved energy efficiency; and energy market reform. Given the long “lock-in” period of energy infrastructure, which may be in place for decades, the WBG has an opportunity to encourage greater use of renewables and clean technologies in countries that are trying to expand access to modern energy supplies rather than passively watching them invest in and install infrastructure for fossil fuels. One way to do this in the near term is to encourage a shift to natural gas from other fossil fuels. The WBG should act as an honest broker in seeking a pragmatic and holistic approach to future energy policy in developing countries.

Recommendations from the regional workshops included leveraging policy frameworks to encourage low carbon growth; encouraging the use of alternative fuels and reducing barriers to implementation; encouraging fuel switching from coal to gas; helping to develop low-

carbon-intensity regulatory standards and sector planning; and helping to mobilize financing for low-carbon-intensity and low-energy-intensity development.

Metal Recycling

All stakeholder groups recognize the importance of recycling for achieving sustainable development. Recycling reduces the need for extracting virgin minerals. In addition, energy costs for processing scrap metal are often considerably lower than for extracting virgin ore. Accordingly, a substantial and growing proportion of metals are being recycled. The debate among stakeholders is on the best way to increase the use of the recycling and on the role that the WBG should play in this process.

EIR research into civil society's views found that this sector wants to see a greatly increased use of recycling, with virgin extraction at a fraction of current levels.¹³¹ This scenario envisages a world in which recycling is a national priority, manufacturing processes are built around recycling, and less harmful substitutes are used for materials that cannot be recycled. The WBG should drastically reduce its involvement in primary extraction and should redirect resources to promoting recycling. It should also work with governments to develop economic instruments to promote resource efficiency and recycling and to reduce the need for virgin materials.

Mining companies argue that with an increasing world population and a higher standard of living, especially among the poor, there will continue to be a growing need for virgin metals and minerals. As a result, new mines will need to be developed. This does not detract from the fact that mining companies and metals producers are increasingly promoting the safe production, use, recycling, and disposal of metals and their products. The International Council on Metals and the Environment (the precursor organization to ICMM) suggested that reuse and conservation can be promoted through community recycling programs (as with aluminum beverage cans) and by making corporations financially responsible for their own pollution.¹³² Longer-term proposals include improved product design, material identification markers on products (to make it easier to identify components for recycling), and reducing trade barriers to international commerce and shipping of scrap metal.

The U.K. government's submission to the EIR mentions the pressing need for increased use of recycling, while noting that even if recycling reaches its full potential, new extraction of minerals still will be necessary. This position is similar to that adopted by Natural Resources Canada in its 1996 Mining and Mineral Policy paper.¹³³

Academic commentators note that developing countries often have high levels of materials recovery and recycling in situations where effective collection systems and markets exist. In addition, recycling is often an employment-intensive industry.

Acronym List

ASM	artisanal and small-scale mining
BP	Bank Procedure
CAO	Compliance Advisor Ombudsman
CAS	Country Assistance Strategies
CASM	Communities and Small-Scale Mining initiative
CLS	Core Labour Standards
EA	environmental assessment
EI	extractive industries
EIR	Extractive Industries Review
EITI	Extractive Industries Transparency Initiative
FPIC	Free Prior and Informed Consent
G8	Group of Eight (industrial countries)
IBRD	International Bank for Reconstruction and Development
ICMM	International Council on Mining & Metals
IDA	International Development Association
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
MIGA	Multilateral Investment Guarantee Agency
NGO	nongovernmental organization
OD	Operational Directive
OECD	Organisation for Economic Co-operation and Development
OP	Operational Policy
TAL	Technical Assistance Loan
PWYP	Publish What You Pay campaign
WBG	World Bank Group

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Notes

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- ¹¹ BG Group 2002.
- ¹² OED, OEG, and OEU 2003, vol. 1, p. 10.
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- ¹⁴ See Sadasivam 1997.
- ¹⁵ Forest Peoples Programme and Tebtebba Foundation 2003.
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- ⁵¹ OED, OEG, and OEU 2003, vol. 2, p. 50.
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- ⁸³ CAO 2003.
- ⁸⁴ CAO 2002, p. 9.
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- ⁹⁸ OED, OEG, and OEU 2003, vol. 1, p. 7.
- ⁹⁹ OED, OEG, and OEU 2003, vol. 2, p. 21.
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- ¹⁰⁶ Lihir Management Company submission to Bali Workshop.
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- ¹²⁰ CAO 2003, p. iv.
- ¹²¹ UN 1994, para. 20.
- ¹²² UN 1994, para. 22.
- ¹²³ UN 2002.
- ¹²⁴ The indigenous participants in the EIR Latin America and the Caribbean regional workshop declared their support for the Inter-American Working Group on Indigenous Rights of the Organization of American States, regarding the WBG's revision of Operational Policy on Indigenous People.
- ¹²⁵ CAO 2002, p. 34.
- ¹²⁶ FOE 2002a.
- ¹²⁷ ICM 2002; BG Group 2002.
- ¹²⁸ Government of Indonesia 2003.
- ¹²⁹ Afenu 2003.
- ¹³⁰ Goodland and Kirana 2003.
- ¹³¹ Goodland and Kirana 2003.
- ¹³² Jeffrey 2001.
- ¹³³ Natural Resources Canada 1996.