

**EXTRACTIVE INDUSTRIES AND SUSTAINABLE DEVELOPMENT:  
AN EVALUATION OF THE WORLD BANK GROUP'S EXPERIENCE  
(REPORT ON THE INDEPENDENT EVALUATIONS BY OED/OEG/OEU)**

**WORLD BANK GROUP MANAGEMENT RESPONSE**

**SEPTEMBER 17, 2004**

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## ABBREVIATIONS AND ACRONYMS

AAA	Analytic and advisory activities
AFTPS	Africa Region Private Sector Unit
ASM	Artisanal and small-scale mining
BTC	Baku-Tbilisi-Ceyhan Pipeline Project
CAO	Compliance Advisor/Ombudsman
CAS	Country Assistance Strategy
CO <sub>2</sub>	Carbon dioxide
CASM	Communities and small-scale mining
CES	IFC Environmental and Social Department
COC	IBRD/IDA/IFC Oil, Gas, Mining and Chemicals Department
CODE	Committee on Development Effectiveness
DFID	Department for International Development
EI	Extractive industries
EIR	Extractive Industries Review
EITI	Extractive Industries Transparency Initiative
ENH	Empresa Nacional de Hidrocarbonetos
FY	Fiscal year
GGFR	Global Gas Flaring Reduction Initiative
GHG	Greenhouse gas
HGA	Host government agreement
HIPC	Heavily Indebted Poor Country
HIV/AIDS	Human immunodeficiency virus/acquired immune deficiency syndrome
IBRD	International Bank for Reconstruction and Development
ICMM	International Council on Mining and Metals
IDA	International Development Association
IEA	International Energy Agency
IFC	International Finance Corporation
IGA	Inter-government agreement
IMF	International Monetary Fund
IUCN	World Conservation Union
LICUS	Low-income countries under stress
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MMSD	Mining, minerals and sustainable development
NGO	Nongovernmental organization
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department
OEG	Operations Evaluation Group
OEU	Operational Evaluation Unit
OP	Operational Policy
PPAH	Pollution Prevention and Abatement Handbook
PRSP	Poverty Reduction Strategy Paper
SAL	Structural adjustment loan
SECAL	Sectoral adjustment loan
SEED	Southeast Europe Enterprise Development
SME	Small and medium enterprises
TA	Technical assistance
UJV	Unincorporated joint venture
UN	United Nations
WBG	World Bank Group

# DRAFT WORLD BANK GROUP MANAGEMENT RESPONSE TO THE JOINT OED/OEG/OEU EVALUATION

## I. INTRODUCTION

1. This paper presents the response of the Managements of the World Bank, IFC, and MIGA to a four-volume evaluation of the World Bank Group's (WBG's) activities in the extractive industries (EI)—oil, gas, and mining—by their respective independent evaluation units, the Operations Evaluation Department, Operations Evaluation Group, and Operations Evaluation Unit (OED, OEG, and OEU).<sup>1</sup> The evaluation was completed in June 2003, and was considered at a meeting of the Committee on Development Effectiveness (CODE) on July 9, 2003. At that meeting, Executive Directors agreed that Management should delay its response to the evaluation pending the receipt of the report of an independent Extractive Industries Review (EIR) consultation. The EIR report has now been received and a draft Management Response to it has been prepared.

2. *A Thorough and Timely Review.* Management welcomes the joint evaluation report. It provides a thoughtful and thorough review of the WBG's activities in EI. A particular contribution of the evaluation was its careful assessment of the impact of WBG activities through a review of a wide range of IBRD/IDA, IFC, and MIGA projects, which included country and project visits in many cases. The report makes an important contribution to understanding the development issues that are key for the WBG's activities in the sector, provides a valuable reference source, and offers a comprehensive set of recommendations that can help guide future WBG activities in EI. It is especially timely because attaining the Millennium Development Goals (MDGs) in the poorest countries is a pressing challenge that will require a substantial commitment of resources by the international community. In many developing countries, especially those in sub-Saharan Africa, well-managed development of natural resource endowments can make a vital contribution toward reducing poverty and attaining the MDGs.

## II. OED/OEG/OEU FINDINGS

3. The joint evaluation report shows that, on balance, WBG activities in the EI sector have added value and have contributed to the development of the countries concerned. Indeed, EI projects have performed at least as well as projects in other sectors: nearly 80 percent of IBRD/IDA's EI projects have been at least moderately satisfactory. IFC's and MIGA's operations in support of private sector activities in EI were as successful as other operations in their development outcome and financial performance dimensions, despite the fact that EI investments were typically in more difficult country environments. Against this background, OED/OEG/OEU's independent evaluation lays out specific areas for attention and provides important perspectives on key issues for each institution and for the WBG as a whole with regard to its support for EI development.

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<sup>1</sup> Volume I is the overall summary of a joint OED/OEG/OEU sector review of the World Bank Group's activities; Volume II is OED's review of the Bank's activities; Volume III is OEG's review of IFC's activities; and Volume IV is OEU's review of MIGA's activities.

4. **Summary of Key Messages.** Management has noted the following key messages from OED/OEG/OEU's independent evaluation:

- Extractive industries have contributed to sustainable development when projects met appropriate economic and environmental criteria.
- The private sector is usually the most appropriate vehicle for new investment.
- The WBG's support for EI projects has generally been effective.
- The WBG has added value in the environmental and social aspects of its projects.
- The WBG social and environmental policies and experience with their implementation have been useful to others and have helped set industry standards.
- The WBG should remain engaged across the whole of the EI sector, in support both of governments and of private sector investment.
- In a number of important areas the WBG can improve its performance and help ensure that its EI activities make a more effective contribution to sustainable development.

5. **Areas of Overlap with EIR.** As was expected, the EIR covered many of the issues raised by OED/OEG/OEU, although with different emphases. Notably, the EIR is more broad-ranging in its coverage of human rights and governance issues and global environmental concerns. The Management Response to the EIR thus complements the Management comments presented below and provides a wider context for the WBG's strategy.

### III. MANAGEMENT COMMENTS

6. This section sets out Management comments on the WBG's strategy, project implementation issues, and approach to partnerships with sector and project stakeholders—the three broad categories of recommendations in the OED/OEG/OEU evaluation report. Management broadly accepts the recommendations of the report in these areas and has already begun moving to implement them. Complementing the comments in this section, the Annex provides detailed responses to the specific recommendations of the overall report and of the individual OED, OEG, and OEU components.

7. **Other Work Under Way.** In some cases, the precise nature of the ultimate WBG response will depend on the outcomes of other processes now under way, such as IFC's revision of its safeguard policies and guidelines, and its review of its disclosure policy. In other areas, such as the recommendation that the WBG should give increased attention to the human rights dimensions of activities benefiting from its support, Management proposes to wait for the outcomes of ongoing IBRD/IDA and IFC reviews of this issue. However, in the case of EI-specific issues such as, for example, use of security forces to protect private EI project sites, Management proposes to move now to establish appropriate WBG requirements.

## **A. World Bank Group's Strategy**

8. The OED/OEG/OEU evaluation, the EIR consultation process and reports, and other recent documents,<sup>2</sup> constitute a major body of work that reviews trends, issues, and the role of the WBG in the EI sector and provides the foundation for the WBG's strategy in the sector. The OED/OEG/OEU evaluation, in particular, emphasizes that the WBG should take a broader, more integrated approach to its activities in EI that should (a) address the ultimate impacts of projects in terms of how the revenues from projects are used for poverty reduction and economic and social development; (b) ensure that Country Assistance Strategies (CASs) for resource-rich countries explicitly address the sector's economywide linkages and focus on policy and institutional capacity development; and (c) continue to support private sector development and environmental sustainability. Across all of these activities, OED/OEG/OEU recommends that WBG involvement should be guided by governance capacity at the sector and national levels.

9. ***Sector Contribution to Development Goals and WBG Role.*** For many developing countries, especially the poorest countries that risk failing to reach the MDGs, the EI are a valuable asset that can and should generate some of the resources that are urgently needed to spur poverty reduction and support economic and social development. Because of the important promise that EIs hold for the economic and social development of many poor countries and because each of the WBG's constituent institutions (IBRD/IDA, IFC, and MIGA) can add substantial value in this process, all of the WBG institutions will aim to remain engaged in EI development by providing financing, technical assistance, and analytic and policy advice in line with their respective mandates and specializations. As developing countries succeed in reducing poverty, their people will increase their consumption of goods and services that are produced with EI inputs, enjoying greater warmth, light, and mobility because of their access to modern sources of energy.

10. ***Sector Development Vision Based on Private Sector Financing.*** In most country circumstances, the appropriate sector development model will continue to be one based mainly on private enterprises, in which all or most investments are financed by private investors and projects operate within an appropriate framework of government oversight to ensure maximum contribution to the sustainable development of affected communities and the country. However, the WBG will support appropriate public sector projects. Overall levels of WBG financing are likely to be broadly in line with those of recent years, that have accounted for less than 5 percent of total WBG financing and 3 percent of investments in EI in developing countries. The WBG can and should help advance improved industrywide approaches to environmental and social practice, making an impact well beyond the modest investments that benefit from the WBG's support. To enhance its effectiveness in this regard, the WBG will leverage its impact by establishing partnerships with stakeholders and supporting demonstration projects that test new standards and approaches.

11. ***Emphases in WBG Activities.*** Because in most countries much of the investment for EI development can be mobilized from the private sector, IBRD/IDA's emphasis will be on helping governments create appropriate policy frameworks and build capacity for improved sector management. Financing of public sector extractive industry investments is likely to remain rare.

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<sup>2</sup> See *Background Paper - World Bank Group Activities in Extractive Industries*, Oil, Gas, Mining and Chemicals Department, World Bank/IFC, August 2001. This paper and other documents relevant to the WBG strategy are available at [www.worldbank.org/ogmc](http://www.worldbank.org/ogmc).

In IFC and MIGA, support for private sector investment will focus on local, regional, and smaller companies (including service companies), gas, and local energy supply projects. Support for larger projects will be concentrated where WBG involvement can make a significant contribution to sustainability. In all of its operations, the WBG will work with project sponsors to help encourage and facilitate broader and more sustainable development impacts at the community level.

12. ***An Integrated Approach.*** Management agrees that the WBG needs to take an integrated view of its activities in EI. This will require as a starting point that, in all the projects that the WBG supports, Management will always consider their ultimate impact on communities, the environment, and the macro economy. Management will exercise selectivity in this regard: for each project for which WBG support is proposed, there should be a strong case for WBG involvement and a demonstrable value-added in terms of enhanced sustainable impact. In addition, whenever possible, the WBG will seek to actively engage with countries to help them address their EI issues, even when the WBG is not engaged in EI specifically. Management also agrees that for all its activities, governance issues and risks need to be taken into account during project design and appraisal.

13. ***Criteria for Engagement.*** The overriding objective of WBG engagement in EI is to promote poverty reduction through sustainable development. IBRD/IDA, IFC, and MIGA will refocus on this objective in their work on project design, appraisal, supervision, and reporting. In selecting and implementing projects, the WBG will be guided by its safeguard policies and guidelines, good practice approaches, and its best judgment. While limiting WBG support for EI development would not serve the interests of WBG clients, the design and implementation of projects in EI need to be fully informed by the national, local, and sector governance risks. The assessments of these risks and, where appropriate, measures to address them will be an integral part of the criteria the WBG will use to determine the extent and form of its involvement.

14. ***Focus on Governance at the Country Level.*** As detailed in the Annex, Management will sharpen its focus on governance issues and risks in countries that are heavily dependent on EI. In particular, CASs for such countries should identify and consider how best to address key EI issues, including related governance issues, and should also provide an overall framework for any WBG activities in the EI sector. Management's proposed approach is to adopt a two-tier classification of countries to recognize differences in terms of resource dependency and focus attention on the most resource-dependent countries where improvement in governance promises to have the largest development impact.<sup>3</sup>

15. ***Mitigation of Governance Risks.*** In large projects, the WBG will require that specific measures be put in place to address the risks that revenues will not be well used. For smaller projects, WBG's appraisal and decision processes will evaluate and report on the governance

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<sup>3</sup> *Resource-rich* countries are those in which EIs account for, or are expected soon to account for, more than 50 percent of government revenues and potentially include, for example: Algeria, Angola, Azerbaijan, Botswana, Chad, Congo (R), Congo (DRC), Equatorial Guinea, Gabon, Iran, Iraq, Kazakhstan, Libya, Nigeria, Oman, Syria, Sao Tome, Sudan, Timor-Leste, Turkmenistan, Venezuela, and Yemen. Countries with *substantial resources* are those in which extractive industries account for, or are expected soon to account for, 30 to 50 percent of fiscal revenues or exports and include potentially, for example: Bolivia, Cameroon, Central African Republic, Chile, Colombia, Ecuador, Egypt, Ghana, Guinea, Guyana, Indonesia, Jamaica, Jordan, Kyrgyz Republic, Mali, Malaysia, Mauritania, Mexico, Mongolia, Mozambique, Namibia, Niger, Papua New Guinea, Peru, Russia, Sierra Leone, South Africa, Suriname, Tanzania, Togo, Trinidad and Tobago, Ukraine, Uzbekistan, and Zambia. The usefulness of the two-tier approach and relevance of the specific thresholds will be reviewed in light of implementation experience; the corresponding country groupings will be periodically updated as necessary.

risks to projects; if they are high and cannot be adequately mitigated, the WBG will not support the project. Governance risks are more likely to be acceptable in EI projects that generate small fiscal revenues. In some instances, WBG support will be warranted even in weak governance environments, if projects are expected to generate real benefits.

16. ***Sequencing of WBG Assistance.*** OED/OEG/OEU raised concerns about the sequencing of governance capacity building and emphasized the importance of addressing capacity weaknesses at the sector and national levels. While Management agrees that governance capacity building, which is a priority for the WBG, can be an uncertain and lengthy process for which the risks need to be weighed and mitigated to the extent possible, the WBG also needs to be able to make judgments based on the specific circumstances of the country and the project, as well as likely development outcomes with and without its engagement. This judgment will be guided by analysis of a country's economic policies and institutions, evaluation of quantitative and qualitative indicators of governance capacity, and assessment of the performance of ongoing WBG and IMF-supported programs. When expectations about project outcomes and decisions about WBG support depend on such a judgment, Management will lay out clearly the rationale for its proposed approach.

17. ***Resource Implications.*** As was stated above, the overall level of WBG activities in EI is not expected to change materially from current levels; new financing commitments in support of projects should remain in line with recent experience and will be concentrated in IFC and MIGA. However, the focus of activities will shift in accordance with the priorities described in para. 11 and in response to changes in country demands reflected in new CASs, which set out the amount of financing commitments to a country in view of competing alternatives and priorities for WBG engagement. As CASs for resource-dependent countries focus increasingly on EI issues, WBG activities in EI could increase—especially analytic and advisory services, economic and sector work, and TA operations to address, for example, management of EI revenues and related governance issues. Such activities will be coordinated with (or often directly integrated into) related initiatives in support of improved economic policymaking and strengthened public financial accountability and management.

18. ***Shift Toward Environmental and Social Development Expertise.*** As IFC and MIGA have increased their focus on environmental and social issues in recent years, there has been a significant increase in staff with skills in those areas. In IBRD/IDA, the number of environmental and social staff working on policy and technical issues has also increased in recent years. The major shifts have largely occurred, but stronger focus on ensuring sustainable impacts will require appropriate resources for the WBG project teams in particular EI projects. Project teams will often require earlier and more extended involvement of environmental and social specialists to ensure implementation of safeguard policies; resources for enhanced disclosure and community consultations; and resources for appraising and supervising value-added activities to increase local benefits and participation in projects. Whether some or all of the additional costs can be recovered from clients will depend on the institution and the project. Management will ensure that project budgets are based on an evaluation of these factors and will make realistic allowances for the costs of staff involved in more detailed preparations and supervision.

## **B. Project Implementation Issues**

19. OED/OEG/OEU offer challenging recommendations to enhance the development impact of WBG operations in support of EI development. Because the vast majority of recent and future projects are or will be supported by IFC and MIGA, in line with the WBG's strategic emphasis on supporting private sector development, the following sections are concerned mostly with recent developments and ongoing initiatives in IFC and MIGA.

20. ***Screening and Classification of Projects.*** Management is aware that the implementation of WBG projects could be improved by carrying out more effective screening and classification of projects, involving environmentalists and social specialists throughout the project life, enhancing the reporting of results from projects, and evaluating the sharing of benefits from projects more explicitly. OED's finding that some IBRD/IDA projects were incorrectly classified and consequently inappropriately supervised reflects, in part, the process of significant change in the WBG's adoption and implementation of safeguard policies and guidelines over the period covered by the evaluation. With the lessons of experience and proposed revision of guidelines, these problems are being addressed. The close involvement of environmental and social specialists in EI projects through the project life cycle is a key part of WBG engagement in these projects. Management's clear objective will be to ensure that the excellent levels of compliance noted by OEG in some areas of the IFC's EI activities become the norm for all WBG activities in the sector.

21. ***Growing Contribution from Environmental and Social Specialists in IFC and MIGA.*** In IFC and MIGA, which account for most of the new EI investment projects financed by the WBG, the resources devoted to environmental and social due diligence and additional work with clients have increased considerably over the last 10 years. In both IFC and MIGA, Management is taking steps to ensure that environmental and social specialists are more productively integrated with investment staff. While maintaining an independent quality assurance function, IFC has also begun to mainstream environmental and social responsibility so that investment departments see it as a core part of their activities and responsibilities. In May 2004, MIGA added environmental and social staff to its risk management staff, so that a more holistic view will now be possible in assessing projects.

22. ***Sustainability Initiatives in IFC.*** IFC's overall corporate sustainability initiative has increased staff's focus on sustainability issues. Most EI sector staff have now taken part in specialized sustainability training to enhance their awareness of issues and best practice. The contribution that projects can make in the environmental and social arenas, including through enhanced local development, has become a key component of IFC's business in EI. Enhanced analysis of the benefit sharing, which will be part of project design, will further increase this focus and will be applied in IBRD/IDA and MIGA as well. However, the WBG will need to carefully balance attention to social and environmental dimensions against the extra burden such attention imposes on developing country clients and the additional supervision and appraisal costs it entails. IFC's EI activities already account for a disproportionate share of IFC's budget for environmental and social specialists. EI operations are also intensive users of resources for other development impact-enhancing activities, such as small and medium enterprise and corporate governance initiatives.

23. ***Recent Changes in MIGA.*** Management underscores the important changes that have taken place in MIGA since May 1999, when the Board approved MIGA's own specific

environmental assessment and disclosure policies and procedures, and May 2002, when MIGA adopted its own interim issue-specific safeguard policies. Although MIGA's clients have found these safeguard policies to be helpful, Management recognizes that further improvements can be made as WBG views evolve.

24. ***Revision and Updating of MIGA Safeguard Policies.*** Management has made a serious effort in the past five years to address a range of widely acknowledged difficulties in determining how to apply safeguard policies to private sector investors and what is meant by compliance with safeguard policies (see, for example, recent CAO reports on the subject).<sup>4</sup> Differences among experienced professionals in interpreting and implementing safeguard policies can pose a serious challenge, one that is of particular concern to MIGA because of the unique legal and financial implications of denying a claim or canceling a guarantee for noncompliance. MIGA staff will work with IFC staff on updating IFC's safeguard policies, and will take the opportunity to clarify safeguard policy applicability and implementation issues in MIGA-supported operations. Once IFC's updating process is completed, MIGA will revise and update its own safeguard policies in an equivalent manner, in line with the commitment MIGA Management made to the Board in May 2002.

### **C. Partnerships for Wider Reach**

25. OED/OEG/OEU recommended a number of ways to enhance the impact of WBG activities on industrywide practice, well beyond the small number of operations that the WBG supports directly. Management agrees with OED/OEG/OEU recommendations in this regard. The WBG will seek to use its international convening power more effectively by making its safeguard policies and guidelines more relevant and accessible, promoting the disclosure of fiscal revenues, developing and monitoring indicators of sustainable development with other stakeholders, and increasing local community participation in projects through meaningful consultation throughout project life.

26. ***Setting Industry Standards in Partnership with Others.*** A number of important initiatives are under way that will help enhance WBG's impact on industry practice. First, IFC has begun the two-year process of revising its safeguard policies and guidelines, and is giving priority to EI-related issues. For example, revised *Precious Minerals Mining Guidelines* were available in draft for public comment from July 2004. The updated safeguards will be key for sustaining the catalytic role that IFC has assumed in its important partnership with the Equator Banks. Second, IBRD/IDA's proposed revised policy covering Indigenous Peoples (OP 4.10) is expected to be considered by its Board by end 2004, and will contain provisions to help ensure that Indigenous Peoples benefit from development. Finally, the WBG will work in partnerships with governments, industry and civil society to advance best practice and contribute to the sustainable impact of EI development more broadly in initiatives such as the Global Gas Flaring Reduction Partnership, which set voluntary global standards for addressing gas flaring.

27. ***Growing Emphasis on Revenue Transparency.*** Transparency about government revenues and expenditures generally is an important dimension of the macroeconomic policy dialogue between borrowing governments and IBRD/IDA; in this respect, a priority area for IBRD/IDA assistance is to help increase government capacity and accountability. In the area of transparency about EI revenue, the WBG has joined with the UK Department for International

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<sup>4</sup> See *A Review of IFC's Safeguard Policies*, CAO, January 2003, *Insuring Responsible Investment?*, CAO, December 2002, and other reports accessible at: [www.cao-ombudsman.org](http://www.cao-ombudsman.org)

Development (DfID) and other partners to support the Extractive Industries Transparency Initiative (EITI), which aims to promote EI revenue transparency at the country level. At the project level, the WBG will now require disclosure of EI revenues and the key terms of relevant contracts for all large projects that benefit from its support; for smaller projects, in two years the WBG will require disclosure of material EI-related payments to governments except when there is a compelling reason to not do so.

28. ***Reporting on Outcomes.*** Management recognizes the need for enhanced reporting on the outcomes of WBG activities in EI and its rationale for engagement. In IFC's ongoing review of its disclosure policy, Management will establish new requirements for investors to make more information about projects available to communities, will enhance the reporting on IFC activities in the sector, and provide for greater disclosure of its rationale for supporting new EI projects. As a part of this process, IBRD/IDA and IFC will continue to work with other stakeholders to develop meaningful, consistent indicators of the contribution of EI to sustainable development.

29. ***Focus on Community Involvement.*** Appropriate consultation with people who will be affected by projects is a core WBG requirement for sustainable development, especially for EI projects that take place in remote areas and may have relatively large effects on local communities. The WBG proposes to adopt use of a process of free, prior and informed consultation with affected communities that leads to broad acceptance by the affected community of the project as a condition for its involvement and will work with investors to promote best practice in this respect, and to generally enhance the involvement of and benefits to communities in the context of EI developments that benefit from WBG support.

#### IV. CONCLUSIONS

30. Altogether, the WBG has embarked upon a fundamental change in its approach to EI investments. Its past mode of operation presumed that expected overall potential benefits to countries (energy resource development and revenue generation) justified new investments. In its new mode of operation, concerns about the ultimate developmental impacts, including the management of revenues generated by EI projects and the specific, realizable benefits to communities, are regarded as the starting point for discussions of WBG involvement. In moving forward, Management will continue to encourage coordination among activities in IBRD/IDA, IFC, and MIGA, with each institution serving its respective clients, pursuing objectives in line with its mandate, and using its own business models and processes. Coordination among the three institutions has already benefited from preparation of this joint Management Response and will continue to be facilitated by the joint IBRD/IDA/IFC Oil, Gas, Mining and Chemicals Department which ensures strong links between IBRD/IDA and IFC, and by the Energy and Mining Sector Board, which ensures links to Regional and country programs and MIGA. At the country level, enhanced attention to EI issues in the CAS will serve to strengthen coordination with the WBG's country assistance programs.

31. ***Tracking Progress in Implementation of the New Approach.*** Management expects to measure implementation of the comprehensive set of reforms implied by the new approach as follows:

Short-Term Indicators – within one year

- a. New guidance and processes that address EI-specific safeguard issues such as mine closure/decommissioning; use of security forces; monitoring and disclosure of environmental, social, and economic impacts; transparency requirements for new investments; gas flaring; acid rock drainage; and HIV/AIDS.
- b. New guidelines and processes for disclosure of information about WBG-supported EI projects and about activities in EI, including development of sustainability indicators.
- c. Development of a database for all IFC projects that indicates position regarding all key sustainability indicators (including mine closure/decommissioning plans, safeguard compliance, gas flaring, and use of security forces).
- d. Clearer guidelines for WBG environmental categorization of projects.
- e. CASs for resource-rich countries and countries with significant resources start to address relevant EI-related issues.

Three-Year Indicators

- f. The extent to which new CASs have dealt with extractive industry issues in resource-rich countries and countries with significant resources.
- g. Effective implementation of partnership initiatives (including GGFR, CASM, and EITI) involving civil society, industry, and governments, and outcomes of these partnerships in terms of contributing to the development of sector best practice.
- h. Revenue transparency improvement through effective implementation of programs in participating countries under the EITI.
- i. Support for sustainable new private sector EI investment at average levels broadly comparable to those of the recent past.
- j. Continuing levels of IBRD/IDA financing in line with recent average with a focus on:
  - i. Oil and gas: environmental management, TA (especially for transparency, revenue management), and gas industry development.
  - ii. Mining: coal sector restructuring, TA, and mining sector policy reform.
  - iii. Capacity building for social and environmental monitoring in both sectors

32. Management proposes to report on progress on its activities in EI every year. It also proposes to set up a working level advisory group with representative of governments, industry, civil society, and other parts of the WBG to provide inputs and perspectives on the WBG's activities in EI.

## Annex

# Recommendations of the Joint OED/OEG/OEU Evaluation and Management Response Matrix

## A. RECOMMENDATIONS OF THE OVERVIEW REPORT

	Recommendation of the Overview Report of the Joint OED/OEG/OEU Evaluation	Management Response
<b>1</b>	<b>Formulate a Sector Strategy</b>	
<b>1a</b>	<p>The WBG needs to design and implement a sectoral 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 WBG's assistance should focus on strengthening governance. In such cases, the WBG should carefully assess and report on the risks that EI fiscal revenues may not be used for development priorities. The WBG should not support significant sector expansion unless it can adequately mitigate these risks. Where macro governance is sound but sectoral governance is weak, the WBG should focus on improving sectoral governance, and should only support the sector in conjunction with adequate provisions to overcome sectoral governance weaknesses.</p>	<p>Management accepts this recommendation. The overall approach to EI activities, as set out in this Management Response and in responses to individual recommendations, provides a framework for the WBG's activities in EI that gives a central place to promotion of good governance and increased transparency. Management has identified indicators of implementation progress for its strategy, and it will monitor them. Management will strengthen its efforts to promote use of fiscal revenues for development priorities and to mitigate risks due to poor governance. The ultimate objectives are sustainable impacts at the local, national and global levels. The appraisal reports for new EI projects in countries with weak governance will clearly assess the risks that EI fiscal revenues may not be used for development priorities. See also responses to OED 1a and OEG 1b. Overall, the level of activities of the three institutions in EI is not expected to increase materially and will not demand additional resources. Resources are expected to continue to be allocated to EI activities through the country and regional resource allocation processes on the basis of country and regional priorities. Trust funds and partnerships will continue to be an important source of additional resources for EI activities, especially for programs outside the scope of single-country programs and specific projects.</p>
	<b>Address EI Issues in CASs</b>	
<b>1b</b>	<p>For all resource-rich countries the WBG should explicitly address extractive industries in the CASs. The CAS should explicitly discuss the sector's current and potential contribution to sustainable development (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. The different agencies of the WBG should routinely work together to enhance the development impacts of EI projects, for example in the form of public-private partnerships with respect to community development programs.</p>	<p>Management accepts this recommendation and has developed a two-tiered approach to improving the focus of CASs on relevant EI issues. This approach uses a higher cut off for <i>resource-rich</i> countries (more than 50 percent of government revenues derived from EI) than that used by the Evaluation (15% of exports) so as to exclude relatively less EI-dependent but to include non-exporting countries. With limited staff and country resources and competing priorities, the WBG will thus focus on the most resource-dependent countries and on countries where it can have the most impact. The proposed approach already targets more than 50 countries (with substantial overlap with the evaluation list). CASs for resource-rich countries will be expected to address relevant EI issues and related governance issues. In countries with substantial resources (where 30-50 percent of government revenues or exports are from EI), the CAS will be expected to identify key EI sector issues and whether and how IBRD/IDA will be involved in addressing them. This does not rule out CAS discussion on EI issues in other countries where they are important, and the thresholds and guidelines will be reviewed in the light of experience. Where possible, IBRD/IDA, IFC, and MIGA will work together as recommended by OED/OEG/OEU. Moreover, IBRD/IDA will encourage resource-rich countries and countries with substantial resources to address relevant EI issues in their own overall development strategies, such as PRSPs. The WBG institutions will work pro-actively in</p>

	<b>Recommendation of the Overview Report of the Joint OED/OEG/OEU Evaluation</b>	<b>Management Response</b>
		the EI sector to identify opportunities for cooperation. COC will continue effective implementation of major partnership initiatives such as the Gas Flaring Reduction Partnership, CASM, and the EITI, and report on their progress.
	<b>Governance</b>	
<b>1c</b>	Promote Governance Improvements: 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. This would enable the Bank to establish and maintain continuity of engagement and facilitate responding quickly to opportunities for assistance when they arise.	Management accepts this recommendation. Where the WBG is not involved in financing operations but where EI issues are important and where governance is weak, the WBG will aim to devote greater resources to technical assistance and analytic and advisory activities that can, for example, help countries manage their resource industries more effectively, including addressing relevant broader policy, institutional, and governance issues. The CAS for resource-rich countries with weak macro and sectoral performance will identify the needs for TA in this area, and will discuss whether and how IBRD/IDA should be involved in meeting these needs. Implementation of this recommendation may require additional IBRD/IDA administrative budget resources for certain countries. Including its activities relating to transparency, over the next three years, Management will aim to increase the level of nonlending activities aimed at policy improvements compared to the past three.
	<b>Support Private Sector Development and Environmental Sustainability</b>	
<b>1d</b>	In all countries, the World Bank Group should continue its support to close uneconomic mines, reform and privatize state-owned enterprises, and mitigate pre-existing environmental and social problems.	Management accepts this recommendation. There remains an important role for IBRD/IDA to assist governments to restructure their mining and coal industries, including helping to close uneconomic coal mines and to mitigate social and environmental problems. Much of the world's oil industry is government-owned and, where appropriate, IBRD/IDA will consider supporting government efforts to improve the effectiveness of these operations, where governments have ruled out privatization for the foreseeable future.
<b>1e</b>	Where appropriate, the World Bank Group 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.	IBRD/IDA will continue to work with others, particularly through CASM, to develop effective approaches and best practices. Given country differences, the CAS for countries where ASM is important will be expected to consider approaches that are integrated effectively into overall country and poverty reduction strategies. Clearly an important component of any overall approach is to create better opportunities for those involved in other parts of the economy. COC will aim over a three-year period to develop three or more operations that aim to integrate ASM into the broader economy and/or improve its social, environmental, or economic outcomes.
<b>2</b>	<b>Improve Project Screening and Monitoring</b>	
<b>2a</b>	The World Bank Group 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. This needs to be followed up through the entire implementation framework, from good practice guidelines to appropriate monitoring and training.	WBG will provide updated guidance for the categorization of projects concerned with EI. This guidance will address project screening and the use of appropriate assessment instruments. Sectoral approaches will be used for periodic reporting and evaluation of safeguard aspects of EI projects. This information will be disseminated through periodic training activities for staff from the WBG, clients, and other parties.

	<b>Involve Specialists Throughout</b>	
<b>2b</b>	The World Bank Group 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. This will ensure that such impacts are adequately addressed through the upstream design of appropriate mitigation strategies or project alternatives, as well as through the retrofit of timely remediation measures should unexpected impacts materialize during project implementation.	This is agreed and is dealt with more specifically in the responses to recommendations of OED (2b), OEG (2a, 2b) and OEU (1b, 2a, and 3c) below.
	<b>Enhance Reporting of Results</b>	
<b>2c</b>	The Bank should strengthen reporting of its results by ensuring that project completion reports include an ex post economic rate of return or net present value or, where that is not feasible, a cost effectiveness analysis to determine whether the project represented the least-cost solution to attain its objectives. IFC should develop and use a reporting template for environmental and socio-economic sustainability indicators, building on industry initiatives. MIGA needs to adopt more standardized and timely reporting mechanisms on environmental and social safeguards compliance and ex post development outcomes. The WBG should prepare completion reports for every significant non-lending/guarantee issuance activity.	Management accepts this recommendation, as is detailed in the response to the recommendations of OED (2c) and OEG (2c). As noted in responses to the OEU recommendations (see 1a, 2a, and 2d below), MIGA is taking steps to implement more standardized and timely reporting mechanisms on safeguard compliance and development outcomes, especially of Category A projects. Management will ensure that an “activity completion summary” or equivalent for all significant nonlending EI activities in IBRD/IDA, IFC, and MIGA is prepared.
	<b>Evaluate the Sharing of Benefits</b>	
<b>2d</b>	.Evaluate the sharing of benefit: At appraisal and during supervision, the WBG should systematically estimate the distribution of project benefits among different stakeholder groups (government at different levels, private companies, and local communities), evaluate its sensitivity to different scenarios, and discuss the acceptability of benefit-sharing with key stakeholder groups.	Management agrees that an analysis of the distribution of the benefits of extractive industries developments should be part of the WBG’s project evaluation and supervision work. The appraisal report for EI projects will be expected to assess the sensitivity of distribution to different assumptions about key project variables. The extent of discussions of benefit-sharing with key stakeholder groups will need to be considered carefully in the project and country context, given the role of governments (and sometimes constitutions) in setting the distribution of EI revenues.
<b>3</b>	<b>Update Policy Framework</b>	
<b>3a</b>	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. It 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	Agreed. See responses to recommendations of OED (3a), OEG (3a), and OEU (3c) below.

	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, for example, regarding site security.	
	<b>Promote Disclosure of Revenues from EI</b>	
<b>3b</b>	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.	Management accepts this recommendation because increased transparency about resource revenues is an important step toward better governance and the use of resources in resource-rich countries. IBRD/IDA is now actively supporting the EITI led by DfID, and in this context, is working in a number of pilot countries. In addition, the WBG will support other initiatives as appropriate, and will work for greater transparency of revenues and expenditures within its country programs. In the context of new EI investment operations, WBG support will be conditional on transparency commitments by investors. Disclosure of payments to governments will be required effective immediately for major projects and will be expected for all projects in two years, when appropriate implementation modalities are expected to have been developed and tested under the EITI and similar activities. Over the next three years, IBRD/IDA will aim to complete five or more EITI pilots with countries and will aim to mainstream the approach to revenue transparency more broadly in the WBG.
	<b>Develop and Monitor Sustainability Indicators</b>	
<b>3c</b>	Together with other stakeholders, the World Bank Group should develop indicators of economic, social and environmental sustainability, establish baseline data, provide for adequate monitoring over the life of the project, and report and evaluate the results during supervision and in project completion reports. The World Bank Group should also encourage more independent outside monitoring, ideally using local capacity (that may have to be developed).	Management accepts this recommendation. The WBG will work with stakeholders to define appropriate sustainability indicators that can be used to monitor and report on outcomes. OP 4.01 requires the collection of baseline data. IFC has recently produced a good practice note ( <i>Addressing the Social Dimensions of Private Sector Projects</i> ) that provides guidance on collection of baseline data; a similar exercise is planned for environmental data. These notes can also serve to guide IBRD/IDA and MIGA. The development of independent local capacity for monitoring the impact of EI projects is important. Capacity building within governments is already a key objective of IBRD/IDA activities in the sector. Development of community/civil society capacity can help with project monitoring and can often be considered in the project context. In the case of very large projects (such as in the Chad-Cameroon pipeline or BTC pipeline projects), the creation of independent monitoring groups may be practical and effective, and will be considered. In some cases it may be appropriate to develop local capacity to play a role in such forms of oversight. In addition, see the responses to the recommendations of OEG (2a) and (3c) below.
	<b>Increase Local Community Participation</b>	
<b>3d</b>	The WBG should support enhanced community consultation and participation throughout the life cycle of EI-projects. The WBG should assist countries to increase involvement by local communities in EI decision-making processes, and ongoing consultation throughout the project life cycle, including closure.	Management agrees with this recommendation. Enhanced community consultation and participation in EI projects is a key area of evolving best practice for the WBG. See the response to recommendation of OEG (3d) for details.

## B. RECOMMENDATIONS OF THE OED EVALUATION REPORT

	Recommendation of the OED Evaluation	Management Response
<b>1</b>	<b>Formulate a Sector Strategy</b>	
<b>1a</b>	<p>The Bank, together with other members of the WBG 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 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.</p>	<p>Management accepts this recommendation. The overall approach to EI activities, as set out in this Management Response and in responses to individual recommendations, provides a framework for the WBG's activities in EI that gives a central place to promotion of good governance and increased transparency. Management has identified indicators of implementation progress for its strategy, and it will monitor them. Management will strengthen its efforts to promote use of fiscal revenues for development priorities and to mitigate risks due to poor governance. The ultimate objectives are sustainable impacts at the local, national, and global levels. The appraisal reports for new EI projects and relevant sector reforms in countries with weak governance will clearly assess the risks that EI fiscal revenues may not be used for development priorities. See also OEG 1b.</p>
	<b>Address EI issues in CASs</b>	
<b>1b</b>	<p>For all resource-rich countries the Bank should explicitly address extractive industries in the CASs. The CAS should discuss the sector's economy wide linkages (such as the importance of government revenues, their management, and distribution) 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.</p>	<p>Management accepts this recommendation and has developed a two-tiered approach to improving the focus of CASs on relevant EI issues. This approach uses a higher cut off for <i>resource-rich countries</i> (more than 50 percent of government revenues derived from EI) than that used by the evaluation (15% of exports) so as to exclude relatively less EI-dependent but to include non-exporting countries. With limited staff and country resources and competing priorities, the WBG will thus focus on the most resource-dependent countries and on countries where it can have the most impact. The proposed approach already targets more than 50 countries (with substantial overlap with the evaluation list). CASs for resource-rich countries will be expected to address relevant EI issues and related governance issues. In <i>countries with substantial resources</i> (where 30-50 percent of government revenues or exports are from EI), the CAS will be expected to identify key EI sector issues and to discuss whether and how IBRD/IDA will be involved in addressing them. This does not rule out CAS discussion of EI issues in other countries where they are important, and the thresholds and guidelines will be reviewed in the light of experience. Where possible, IBRD/IDA, IFC, and MIGA will work together as recommended by OED/OEG/OEU. Moreover, IBRD/IDA will encourage resource-rich countries to address relevant EI issues in their own overall development strategies, such as PRSPs. The WBG institutions will work proactively in the EI sector to identify opportunities for cooperation, and to develop private-public partnerships. A good-practice note on EI issues will be prepared and disseminated as part of the guidelines for CASs and engagement in LICUS.</p>
	<b>Governance</b>	
<b>1c</b>	<p>Promote Governance Improvements: 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</p>	<p>Management accepts this recommendation. Where the WBG is not involved in financing operations but where EI issues are important and where governance is weak, the WBG will aim to devote greater resources to technical assistance and analytical and advisory activities that can, for example, help countries</p>

	<b>Recommendation of the OED Evaluation</b>	<b>Management Response</b>
	administrative budget for advisory and analytical activities aimed at improving the policy, institutional, and governance framework for EI. This would enable the Bank to establish and maintain continuity of engagement and facilitate a quick response to opportunities for assistance when they arise.	manage their resource industries more effectively, including addressing relevant broader policy, institutional, and governance issues. The CAS for resource-rich countries with weak macro and sectoral performance will identify the needs for TA in this area, and will discuss whether and how the WBG should be involved in meeting these needs. Implementation of this recommendation may require additional administrative budget resources for certain countries. Over the next three years, Management will aim to increase the level of nonlending activities aimed at policy improvements (including those related to revenue transparency) compared to the past three.
	<b>Support Private Sector Development and Environmental Sustainability</b>	
<b>1d</b>	In all countries, the Bank should be ready to support the closure of uneconomic mines, privatization of state-owned enterprises, and mitigation of pre-existing environmental and social problems.	Management accepts this recommendation, as there remains an important role for IBRD/IDA to assist governments to restructure their mining and coal industries, including helping to close uneconomic coal mines, and mitigating social and environmental problems. Much of the world's oil industry is in state hands and, where appropriate, the Management will consider whether IBRD/IDA should become involved, for example, to help governments improve the effectiveness of these operations, where governments have ruled out privatization for the foreseeable future.
<b>1e</b>	Where appropriate, the Bank 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.	IBRD/IDA will continue to work with others, particularly through CASM, to develop effective approaches and best practices. Given country differences, the CAS for countries where ASM is important will be expected to consider approaches that are integrated effectively into overall country and poverty reduction strategies. Clearly an important component of any overall approach is to create better opportunities for those involved in other parts of the economy. COC will aim over a three-year period to develop three or more operations that aim to integrate ASM into the broader economy and/or improve its social, environmental, or economic outcomes.
<b>2</b>	<b>Improve Upstream Project Screening</b>	
<b>2a</b>	The Bank should provide clearer and more consistent guidance for the categorization of sectoral adjustment and technical assistance 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. This needs to be followed up through the entire implementation framework, from good practice guidelines to appropriate monitoring and training.	IBRD/IDA will provide updated guidance for the categorization of sectoral adjustment and technical assistance projects concerned with EI. This guidance will address project screening and the use of appropriate assessment instruments. Sectoral approaches will be used for periodic reporting and evaluation of safeguard aspects of EI projects. This information will be disseminated through periodic training activities for staff from the Bank, clients, and other parties.
	<b>Provide for Adequate Specialist Involvement</b>	
<b>2b</b>	The Bank should strengthen the implementation of its safeguard policies by providing adequate resources 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. This will ensure that such impacts are adequately addressed through the upstream design of appropriate mitigation strategies or project	Is it agreed that project teams should have effective participation of environmental and social specialists at all stages of the project process, particularly for projects likely to have adverse impacts. Project budgets will need to be set adequately to ensure this.

	<b>Recommendation of the OED Evaluation</b>	<b>Management Response</b>
	alternatives, as well as through the retrofit of timely remediation measures should unexpected impacts materialize during project implementation.	
	<b>Enhance Reporting of Results</b>	
<b>2c</b>	The Bank should strengthen the implementation of its completion reporting requirements by (i) ensuring that project completion reports include the calculation of an ex-post economic rate of return or net present value or, where that is not feasible, a cost-effectiveness analysis to determine whether the project represented the least-cost solution to attain its objectives; and (ii) preparing an activity completion summary for every significant non-lending activity.	It is agreed that project completion reports should provide these quantitative estimates of impacts wherever possible, and should state the reasons where this is not possible. An activity completion summary should be prepared for every significant non-lending activity.
	<b>Evaluate the Sharing of Benefits</b>	
<b>2d</b>	At appraisal and project completion, the Bank should systematically estimate the distribution of project benefits among different stakeholder groups—government at different levels, private companies, and local communities—evaluate its sensitivity to different scenarios, and discuss its acceptability with key stakeholder groups.	Management agrees that distribution of the benefits of extractive industries developments is important. The appraisal and project completion reports for EI projects will be expected to assess the sensitivity of distribution to different project scenarios. The extent of discussions of benefit-sharing with key stakeholder groups will need to be considered carefully in the project and country context, given the role of governments (and sometimes constitutions) in setting the distribution of EI revenues. See also the response to OEG recommendation 2d below.
<b>3</b>	<b>Update Policy Framework</b>	
<b>3a</b>	In consultation with its stakeholders, the Bank should periodically adjust its policy framework for extractive industries to ensure that they remain up-to-date with evolving industry practice. It should resolve remaining inconsistencies within the WBG and address identified gaps. It should also recognize the expanding awareness of the human rights dimension of Bank policies and projects, and explore possible avenues for addressing the issues, especially where it lags industry best practice.	In the context of the overall WBG approach to these issues, Management will evaluate and help develop best practice approaches to EI-specific issues. Current opportunities include the ongoing review of IFC safeguard policies, the revision of the IBRD/IDA Indigenous Peoples policy, and the consideration of approaches to human rights by IFC and IBRD/IDA (where a Senior Adviser on human rights has been appointed).
	<b>Promote Disclosure of Revenues from EI</b>	
<b>3b</b>	The Bank 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). It should work toward and support disclosure of EI revenues and their use in resource-rich countries.	Management accepts this recommendation because increased transparency about resource revenues is an important step toward better governance and the use of resources in resource-rich countries. IBRD/IDA is now actively supporting the EITI led by DfID, and in this context, is working in a number of pilot countries. In addition, the WBG will support other initiatives as appropriate, and will work for greater transparency of revenues, expenditures, and contracts (where feasible and appropriate), within its country and sector programs. Notably, AAA such as public expenditure reviews and country financial accountability assessments, and related policy dialogue, will be the main vehicles for promoting transparency. In the context of new EI investment operations, WBG support will be conditional on transparency commitments by investors. Disclosure of payments to governments will be required effective immediately for major projects and will be expected for all projects in two years, when appropriate implementation modalities are expected to have been developed and tested under the EITI and similar activities. Over the next three years, Management will aim to complete five or more EITI pilots with countries and will aim

	<b>Recommendation of the OED Evaluation</b>	<b>Management Response</b>
		to mainstream the approach to revenue transparency more broadly in the WBG.
	<b>Define and Monitor Sustainability Indicators</b>	
<b>3c</b>	Together with other stakeholders, the Bank should define indicators of economic, social, and environmental sustainability, establish baseline data, provide for adequate monitoring over the life of the project, and report and evaluate on the results during supervision and in project completion reports. The Bank should also encourage more independent outside monitoring, ideally using local capacity (that may have to be developed).	Management accepts this recommendation. The WBG will work with stakeholders to define appropriate sustainability indicators that can be used to monitor and report on outcomes. OP 4.01 requires the collection of baseline data. IFC has recently produced a good practice note ( <i>Addressing the Social Dimensions of Private Sector Projects</i> ) that provides guidance on collection of baseline data; a similar exercise is planned for environmental data. These notes can also serve to guide IBRD/IDA and MIGA. The development of independent local capacity for monitoring the impact of EI projects is important. Capacity building within governments is already a key objective of IBRD/IDA activities in the sector. Development of community/civil society capacity can help with project monitoring and can often be considered in the project context. In the case of very large projects (such as in the Chad-Cameroon pipeline or BTC pipeline projects), the creation of independent monitoring groups may be practical and effective, and will be considered. In some cases it may be appropriate to develop local capacity to play a role in such forms of oversight. In addition, see the responses to the recommendations of OEG (2a) and (3c) below.
	<b>Increase local community participation</b>	
<b>3d</b>	The Bank should support enhanced community consultation and participation throughout the life cycle of EI-projects. The Bank should assist countries to increase involvement by local communities in EI decision-making processes, and ongoing consultation throughout the project life cycle, including closure.	Management agrees with this recommendation. Enhanced community consultation and participation in EI projects is a key area of evolving best practice for IBRD/IDA, in line with evolving experience in IFC. See the response to recommendation of OEG (3d) for details.

## C. RECOMMENDATIONS OF THE OEG EVALUATION REPORT

	<b>Recommendation of the OEG Evaluation</b>	<b>Management Response</b>
<b>1</b>	<b>Formulate an Integrated Strategy</b>	See response to the Overview, 1a above.
<b>1a</b>	IFC should work closely with other parts of the WBG to ensure that CASs for resource-rich countries explicitly discuss the EI sector's contribution to sustainable development (e.g., importance of fiscal revenues, their management, distribution, and use for development priorities) and obstacles for enhancing its contribution. The CAS should provide an agreed framework for WBG-wide cooperation, with a particular focus on close interaction between IFC and the World Bank's country departments. IFC and the World Bank should routinely work together to enhance the development impacts of EI projects, for example in the form of public-private partnerships with respect to community development programs. IFC and the WBG should build on existing initiatives such as Business Partners for Development and the Comprehensive Development Framework to enlist the help of other stakeholders, such as the IMF, other bilateral and multilateral institutions, industry and civil society.	IFC Management supports this recommendation, and proposals in this respect are set out in the detailed responses to recommendations of the Overview and OED reports and in the overall Management Response. IFC will work proactively in the EI sector to identify opportunities for cooperation with IBRD/IDA and MIGA, and to develop private-public partnerships as appropriate in the context of individual projects.
<b>1b</b>	Where country governance is weak, increase transparency and address the weaknesses: Together with the World Bank and other stakeholders, IFC should analyze all aspects of country governance quality and the risks that poor governance may detract from sustainable development. In particular, IFC should encourage enhanced transparency and disclosure concerning contractual agreements between investors and governments, the amount of fiscal revenues generated and their distribution. IFC — together with the World Bank and other stakeholders — should encourage such transparency sector wide in the country.	Weak governance can lead to poor oversight of the EI sector and poor management of, and use of revenues from, resource projects. The IFC approach to this issue will be to work with IBRD/IDA to ensure that EI issues are addressed in the CAS (see response to recommendation of the Overview 1b above) and to generally support IBRD/IDA efforts on transparency initiatives, such as the EITI.
<b>1b</b> (cont)	When financing projects whose major expected development contribution is the generation of revenues to governments, IFC should carefully review and discuss the governance risk that these revenues will not be used productively. Where such governance risk is high, and the project's revenues are significant, IFC should work with the government (in partnership with the World Bank and IMF) to put in place mechanisms to reduce this risk, including possibly ring-fencing of project revenue management. For all proposed EI investments, IFC should address these issues in Board Reports.	For significant new projects (typically, those large enough to generate 10 percent or more of host government revenues), IFC will require adequate mitigation measures to be put in place to reduce the risks that revenues will be wasted, and it will require transparency about EI-related payments to governments and the terms of key contracts with governments that are of public interest (such as Host Government Agreements, IGAs). For smaller projects, the IFC will evaluate carefully the risks that revenues will not be used properly, and compare these and other risks against expected benefits, and evaluate the value of its involvement. Where risks are too high, it will not proceed. As a part of its Summary of Project Information that is usually published 30 days before a project goes to its Board for approval, IFC will summarize this risk review. Within two years IFC will expect EI payments to governments to be disclosed for all EI projects with which IFC is involved. In some areas that are not essential for the public interest, companies may need to maintain confidentiality to protect their legitimate commercial interests, and IFC will work with them to ensure

	<b>Recommendation of the OEG Evaluation</b>	<b>Management Response</b>
		this.
<b>1c</b>	IFC should focus on projects that can serve as role models for environmental and social performance, transparency, and disclosure. Where laws and regulations—or their enforcement—are weak, IFC should insist on special measures to ensure a project’s sound environmental and social performance. Such measures could include building local monitoring capacity, and disclosure of independently audited and publicly disclosed monitoring reports. They could also include an explicit assessment of the risk of conflicts, and measures to deal with them.	IFC will continue to support only projects that, at a minimum, meet the requirements of its evolving social and environmental policies and guidelines. In addition, it will aim to make an added contribution to the sustainable impact of such projects and, where possible, help make the projects role models for activities in the sector and country. Where local capacity outside of the project is weak, IFC will work with sponsors to mitigate this with project design and operation/supervision processes, etc. When appropriate, it will work with other stakeholders (including IBRD/IDA) to increase capacity outside of the project in local and national government and otherwise (see response to recommendation 2a below). Annual monitoring reports are independently audited and disclosed now in some large projects. Independent auditing is not feasible for small projects; but in the context of IFC’s review of its disclosure policy (now under way), IFC plans to require for all new EI projects regular disclosure to local communities by investors of appropriate information about the environmental, social, and economic impacts of projects. When it is appropriate, IFC will assess the potential for conflict.
<b>2</b>	<b>Focus on Implementation</b>	
<b>2a</b>	IFC should continue to require high-quality environmental impact assessments that establish baseline data for relevant environmental and socio-economic impact indicators. These indicators—compared to the baseline—should be consistently tracked and aggregated for IFC’s management. Appropriate requirements to allow IFC to adequately mitigate risks and monitor all its projects should be included for all investments, particularly equity. Where IFC finds poor environmental and social systems or performance, it should address them proactively and vigorously.	Management agrees with the need for high-quality environmental impact assessments that establish appropriate baseline indicators. OP 4.01, Environmental Assessment, the principal safeguard policy for project environmental impact assessments, requires the establishment of baseline data. In Dec. 2003, the staff of the IFC Environmental and Social Department (CES) published a good practice note to improve the social component of the environmental impact assessment. Since 2000, IFC has used an Environmental and Social Risk Rating (ESRR) system to prioritize supervision, and rate project performance. A rating of 4 (substandard) requires a site visit by CES staff/investment officers. IFC has improved the effectiveness of its environmental and social functions by mainstreaming the work within operational departments, as well as by adopting a policy of active portfolio management. Management will work with CES and COC to develop an appropriate database for all projects, including portfolio projects, to help monitor key indicators. When issues are discovered, corrective action plans to remedy problems are prepared and agreed with the sponsor. Ultimately IFC can use loan agreements to try to ensure cooperation. Performance indicators are being developed in the review of IFC’s safeguard policies and the sustainability framework. The issue of requirements for equity investments is one that applies to all sectors; IFC will address this issue in the context of the current revision of safeguard policies and guidelines.
<b>2a</b> (cont)	IFC’s investment officers and nominees to company boards should be co-responsible with technical specialists for the environmental and social performance of their projects. Where possible, IFC should also develop and use local monitoring capacity.	In the broadest sense, responsibility for project outcomes lies with the Investment Department Management. However, the different responsibilities of the investment officer, who is the overall “task manager” for the project, and the environmental and social specialists, who provide technical input and ensure compliance with IFC guidelines (with reporting relationships to IFC CES), are important ones. The latter’s own reporting lines and budget provide a valuable

	<b>Recommendation of the OEG Evaluation</b>	<b>Management Response</b>
<b>2b</b>	<p>IFC needs to ensure that its environmental and social specialists are consulted throughout the project life and as early as possible and that investment officers fully share relevant information. To that end, investment officers need to be better trained to identify risks and opportunities. Also, changing the incentive structure by making the investment officer and department explicitly accountable for environmental performance would likely provide better incentives for calling in the experts as early as possible, not after a problem has materialized.</p>	<p>degree of independence. IFC is now mainstreaming environmental and social responsibilities are “mainstreamed” to Investment Departments, but with CES retaining responsibility for quality assurance. The outcome of this experience will guide future arrangements (see response to recommendation 2b below). It is agreed that when possible, IFC should promote the development and use of local capacity to monitor projects. The IFC nominees to company boards can support Investment Department Management in ensuring IFC requirements are met and its views understood, and that company issues and concerns in this respect are brought to Management’s attention.</p> <p>It is agreed that the early involvement of environmental and social specialists is warranted. Beginning with its first environmental review procedure in March 1990 and continuing through subsequent procedures (1992-1993 and 1998), IFC has developed a culture of ensuring that its environmental and social specialists are involved as early as possible in the project cycle and throughout appraisal and supervision. Following the adoption of the 1998 “Procedure for Environmental and Social Review of Projects” a corporate-wide training program was conducted to apprise investment officers of project environmental and social requirements, as well as risks and opportunities. Sustainability training began in the spring of 2002 on a departmental basis, and it covers issues of governance, environment, and social matters. For about two years, environmental and social specialists have been co-located in the Oil, Gas, Mining, and Chemical Department’s mining and oil and gas divisions; this has fostered coordination and early involvement in projects. As mentioned in response to recommendation 2a above, the environmental and social mainstreaming initiative at IFC explicitly places accountability and responsibility for environmental and social inquiry, decision making, and performance on line management. CES will retain an independent quality assurance role. IFC has also pioneered “Departmental Scorecards” that set departmental targets across a range of indicators, including development impact and the volume of investments. IFC also recognizes outstanding environmental and social work in its performance awards system.</p>
<b>2c</b>	<p>IFC should develop a reporting template that specifies for each portfolio project which safeguard policies and guidelines apply, whether the company is in compliance with them, and how it performs with respect to key sustainability indicators for the industry. Where relevant, IFC should also include “beyond the fence line” issues, such as transportation and project-related security issues.</p>	<p>The recently introduced iDesk system for IFC project information includes such a provision for each new project on which safeguard policies and guidelines apply. Compliance with these policies and guidelines for portfolio projects are tracked by the ESRRs (see response to recommendation 2a above). IFC will supplement this with a consistent internal management database for all IFC projects that indicates the status of all key sustainability indicators (including mine closure/decommissioning plans, safeguard compliance, gas flaring, use of security forces, etc.). Work is underway to improve key sustainability indicators and enhance their usefulness (see responses to recommendations 1c, 2a, and 3c). COC, in conjunction with CES, will also review iDesk to ensure that it can provide Management with appropriate information and indicators for all projects (see response to recommendation 2a). IFC will review “beyond</p>

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		the fence” issues where it is appropriate to do so and will make this explicit. All future IFC-supported projects will require that investors meet a set of requirements relating to the use of security forces along the lines of the Voluntary Principles on Security and Human Rights that were developed through a process of dialogue between the Governments of the U.K and the U.S., EI companies, and NGOs.
<b>2d</b>	IFC should develop global comparators for the distribution of benefits from EI—among investors, governments at different levels and local communities. For its projects, IFC should analyze the distribution and compare it to other EI projects. At appraisal, IFC should include the distribution effects in its sensitivity and risk analysis (e.g., distribution of benefits at different levels of output and prices), track actual distribution during the project life, and aggregate the data at the country and sector level.	IFC already reviews the split of resource project net benefits between investors and government. It also reviews the ways investors obtained access to resources. Management will follow the recommendation to review more explicitly and to test the distribution of benefits to different stakeholders, including levels of government. Wherever feasible it will compare the distribution of benefits to government and others with international comparators using established reference sources, evaluated against different assumptions about key variables such as oil prices and production. IFC’s annual project supervision reports now track key development outcomes, and where revenue distributions are an important expected outcome, it will track these also.
<b>3</b>	<b>Engage Stakeholders</b>	
<b>3a</b>	In consultation with stakeholders, IFC should continuously update its environmental and social safeguard policies, guidelines, and processes in line with evolving good practice in the industry. The WBG should use its convening power and the help of its member governments to promote their use by governments, industry, and other financiers. IFC should develop, update or clarify policies and guidelines on Indigenous Peoples (or “vulnerable people”), safety of dams, natural habitats (or biodiversity), security and human rights, HIV/AIDS prevention, mining (closure—funding and social issues, acid rock drainage, precious metal mining), and oil and gas (gas flaring, downstream transportation of oil).	Management has taken its response to the recently completed CAO Safeguard Policies Review to CODE, and IFC has embarked on a program to revise its safeguards. This revision will take into account CAO and OEG views on EI and recommendations such as those for safety of dams, mine closure, acid rock drainage, etc. Within the WBG, there is agreement that IFC will take the lead in the updating of the 1998 PPAH. One objective of the updating is to eliminate the inconsistencies in the PPAH. Ongoing collaborations between the WBG and MFIs, as well as the adoption of the “Equator Principles” by a growing number of commercial banks that will use IFC safeguards for their project finance lending in developing countries, demonstrate that other financiers find the safeguards useful and relevant. Industry and governments also often refer to the safeguard policies and guidelines, and the updating of the safeguards and the PPAH will make them more attractive to these stakeholders.
<b>3b</b>	IFC should encourage—and consider requiring—its clients to publish information in 3a above. Where client confidentiality undertakings initially restrict disclosure, IFC could report results on an aggregate country, regional or sectoral level and participate in initiatives advocating such disclosure. IFC needs to balance client confidentiality with its own accountability as a public institution and the public’s desire to know more. On balance, increased communication and transparency is likely to help IFC and its clients and reduce misconceptions, distrust, and criticism.	See responses to recommendation 1b above concerning transparency of EI revenue payments and recommendation 1c concerning regular publication of information about projects by investors. IFC is currently reviewing its disclosure policy; it is likely that this review will lead to changes in its general approach. In the case of EI projects IFC proposes to require new investors to provide information on a regular basis concerning the environmental, social, and economic impacts of IFC-financed projects. This will include, for example, appropriate information that is now contained in Annual Monitoring Reports. IFC will work with investors to agree on an effective and meaningful approach to such information provision. As a part of the review of its disclosure policy, IFC will consider how it can better provide information about its aggregate activities in EI.
<b>3c</b>	In consultation with other stakeholders, IFC should develop and track key sustainability indicators and	See responses to recommendations 1b, 1c, 2a, 2c, and 3b above. IFC is developing an improved process to collect

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	consider disclosing them to demonstrate the economic, social and environmental impacts of its EI projects. Reporting on credible sustainable development indicators will help overcome the current inability to systematically demonstrate results achieved.	relevant baseline socioeconomic data for its projects, and it will collaborate with IBRD/IDA in this work and with external stakeholders. The size of projects (including their ability to bear the cost of such analysis) and their range of potential impacts will inform the choice of indicators and baseline data. IFC already monitors key development outcomes expected from projects and reports on these in its internal annual project monitoring reports. It will discuss its approach with others and take note of best practice in the sector, as appropriate, given the nature of IFC’s portfolio and its objectives. It will consider whether and in what form relevant information from these can be disclosed.
<b>3d</b>	This evaluation found strong evidence that improved community consultation is in the best long-term interest of our clients. IFC should thus make community development programs with ongoing consultations the norm for EI projects. Such programs should start with a participatory assessment of the community’s situation and long-term development needs. They should include ongoing consultations, focus on sustainable solutions to meet these needs, and prepare communities for the time after the extractive operations cease. Good communication is also likely to improve results—by listening to people and being exposed to public scrutiny and challenge.	It is agreed that good, ongoing consultation with communities is important and should be the norm, and this approach will be applied to new EI projects within two years. In 2000, IFC prepared a community development resource guide for companies (“Investing in People: Sustaining Communities through Improved Business Practice”). This guide provides IFC clients and private investors with practical advice on establishing community development programs. IFC will encourage existing clients to engage in ongoing consultations and will disseminate its community development resource guide to clients. In parallel, the practice of CES for high impact EI projects is to focus on community development opportunities. For example, the requirement for resettlement action plans in OD 4.12 is normally complemented with actions for broader community development plans. Also, vulnerable groups under OD 4.20, Indigenous Peoples, and OD 4.30, etc., are now the focus of community development plans. IFC’s Corporate Citizenship Facility works with IFC clients and other stakeholders to develop capacity at the community level. In cooperation with IBRD, as appropriate, IFC will aim to work with investors to develop as a pilot a “sustainable community development plan” that would involve all stakeholders, including communities, local governments, and investors as envisaged in the MMSD report, Breaking New Ground. COC is currently developing proposals for a sustainable EI development facility that will aim, through project interventions and partnerships with stakeholders, to broaden the practical application of best practice to EI projects.
<b>3e</b>	IFC should routinely share best practice among clients and encourage them to apply it. IFC should communicate its information needs better to its clients, for example by tailoring reporting to their own requirements. Clients very much appreciated assistance they had received from IFC staff, but were eager for more. IFC should build on its various initiatives to add value and further facilitate exchange of ideas among its clients, for example by organizing conferences and further developing toolkits on how to best address environmental and social issues.	IFC will institute a more systematic approach to advising clients of updates/changing best practices and encourage them to apply these even when they are not obliged to. The new relationship with the “Equator Banks” provides an important additional way for IFC to communicate beyond its direct client base. IFC needs to ensure that client reports cover at least its minimum requirements in terms of safeguards. It will work with sponsors to ensure reporting is as effective as possible for both IFC and the client, given specific project needs. As noted (see response to recommendation 3a above), IFC is now responding to the CAO review of its safeguards, and updating and revising safeguards may offer the opportunity to make these more “customer friendly” without diluting their key objectives. Management agrees that it can (often as a WBG approach) use its convening power and range of clients to promote the

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		exchange of ideas and best practices and it will do this selectively. A schedule for best practice notes, lessons learned, and good practice notes is under preparation for FY05; this will cover areas relevant to EI.

## D. RECOMMENDATIONS OF THE OEU EVALUATION REPORT

	Recommendation of the OEU Evaluation	Management Response
<b>1</b>	<p><b>Strategy and Rules of Engagement:</b> MIGA needs to recognize and promote the potential benefits it brings to EI projects through its internationally recognized and comprehensive set of safeguard policies and its environmental and social impact mitigation services. MIGA’s engagement with EI projects should move beyond compliance with its environmental and social safeguard policies toward the promotion and achievement of the development effectiveness of these projects.</p>	<p>MIGA Management is committed to implement this recommendation and will look for such opportunities to promote the potential benefits it brings to insured projects through its internationally recognized and comprehensive set of safeguard policies and its environmental and social impact mitigation services. Management is committed to promoting projects with the greatest development impact and that are economically, environmentally, and socially sustainable. MIGA’s new organizational structure will facilitate this. Management reviews will focus on development effectiveness, and these reviews now will be done early in the project process cycle. See responses below concerning specific recommendations in this subject area.</p>
<b>1a</b>	<p>Recognizing that MIGA has the opportunity to add value to EI projects by adopting an explicit business strategy focused on providing proactive environmental and social advice to its guarantee clients that brings EI projects closer to best practices in the industry, with the goal of achieving sustainable development. This requires strengthening the economic and social components in MIGA’s work in addition to the environmental component. This calls for a more proactive, forward looking approach to servicing clients that goes beyond the current practice of intervening only when events warrant it.</p>	<p>Management fully recognizes that MIGA should be more proactively involved in the social and economic aspects of EI projects. MIGA this year has hired a senior social specialist as part of MIGA’s Environment group. A senior manager, whose responsibilities include reviewing the economic, environmental, and social aspects of MIGA projects, has also joined the MIGA Management team as Director and Chief Economist in the newly formed Economics and Policy Group. This expansion of MIGA’s in-house capacity and additional economic, social, and development impact training of staff will enable MIGA to take a more proactive approach to EI clients. Moreover, MIGA has just undergone a major reorganization of its functional groups, to better integrate environmental, social, and economic analysis, to offer a more holistic approach to assessment of developmental impact of prospective projects, and to integrate the guarantees program and technical advisory services to better serve clients. MIGA will adopt a more proactive approach to offer advice and support to EI projects, especially sensitive or complex projects. The budgetary implications of providing proactive support subsequent to issuing coverage will need to be analyzed further, and MIGA will seek to secure support of a Trust Fund to enable a more intensive focus on such work.</p>
<b>1b</b>	<p>Strengthening the upstream involvement of environmental and social issues in MIGA’s underwriting decision-making process. This entails consistently identifying applicable safeguard policies to clients as early as possible in the underwriting process, and using risk assessments early on to identify where failures in the safeguard system may occur to avoid adverse impacts on the environment and local communities.</p> <p>MIGA needs to make a greater effort to work with clients to ensure compliance with its environmental and social safeguard policies and guidelines at the time of Board approval.</p>	<p>Management concurs that it is advantageous to strengthen the upstream involvement and consideration of these issues. Management will notify clients as early as possible about applicable MIGA safeguard policies. Management notes that in recent years experienced EI investors tend to be well aware of these policies before coming to MIGA. It should be noted that a large majority of guarantee applications arrive at MIGA with the environmental assessment process already completed and the environmental impact assessment approved in the host country.</p> <p>Management concurs with the thrust of this recommendation, and the recent hiring of a social specialist will facilitate this. Management notes that its business model (and the Operational Regulations) provides scope for including as conditions of guarantee, the completion of proposed or ongoing critical safeguard tasks, subject to Board approval. As has been done since MIGA adopted its own environmental policies and</p>

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	<p>In addition, MIGA needs to consider how its work in assessing, underwriting, and supervising its guarantee projects can go beyond the monitoring of compliance with safeguards toward promoting development effectiveness in its projects.</p>	<p>procedures in 1999, Management’s commitment is to notify the Board of any outstanding, significant concerns that will need to be addressed as part of contractual requirements in the guarantee(s) for the project. The expansion of MIGA’s in-house environmental and social expertise will lead to greater effort in monitoring subsequent compliance for projects that have high risk during implementation.</p> <p>Management will offer prospective clients advisory support to enhance the developmental impacts of projects, to go beyond compliance with safeguards and promote sustainable development. A model of this might be work done over the past four years by MIGA’s environmental specialist in the context of the Antamina Mine in Peru. The budgetary implications of this proactive support will need to be analyzed further as Management gains additional experience in this effort to add value to clients.</p>
<b>1c</b>	<p>Associating with investors committed to sustainable development and avoiding those who are unable to provide MIGA with timely environmental and social monitoring reports during implementation.</p> <p>MIGA should satisfy itself before engaging in new EI projects that the investor understands its environmental and social responsibilities and demonstrates ownership at the top management level to community development and mitigating environmental and social impacts. The project enterprise’s organizational structure, policies, and stated mission should be consistent with these goals.</p>	<p>Management associates with investors that are committed to sustainable development, but also notes that this recommendation poses some challenges for lenders or minority partners. The majority of MIGA guarantees that have been issued have been held by lenders or minority partners, clearly demonstrating the value of MIGA’s products to this type of investor. The implications for these investors will need to be carefully assessed in the context of how their investments contribute to outcomes of sustainable economic and social development. Proactive measures (e.g., working through the best efforts of the investor or lender to implement best practices, distribution of best practices, etc.) can be taken. In this respect, MIGA will take comfort in those lenders that have committed to the “Equator Principles.” Management also notes that great care will be needed to ensure that “South-South” investments are not discriminated against.</p> <p>Management agrees with this recommendation and has put in place an upstream review process for all projects, to address this and other issues. Management takes into account client reputation, and assesses indicators of the likely risk for noncompliance during implementation and the associated risks of faulty implementation.</p>
<b>2</b>	<p><b>Policies, Procedures, and Enforcement Mechanisms</b> MIGA should strengthen its internal policies and support them by appropriate procedures and guidelines to staff to ensure accountability.</p>	<p>See responses 2a, 2b, 2c, and 2d below.</p>
<b>2a</b>	<p>Establishing internal requirements for MIGA’s timely engagement and systematic monitoring to maximize environmental and social benefits.</p>	<p>See response to recommendation 4a. Management accepts that it could do more in this area (see response to recommendation 1a). In particular, MIGA will encourage investors in EI projects to approach MIGA at a very early stage. Management has had internal guidance with respect to the selection and prioritizing of site monitoring over the past four-five years. In July 2003, Management implemented a more standardized approach to monitoring compliance and performance of all new EI projects.</p>
	<p>This will entail avoiding projects where MIGA can not address environmental or social issues to improve the outcome due to its late participation.</p>	<p>Management will avoid projects whose net outcomes are not anticipated to be positive.</p>
	<p>Site visits by MIGA’s environmental and social</p>	<p>Under the newly reorganized structure of the Agency, project</p>

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	experts should be required as early as possible in its involvement in category 'A' and other high-risk projects to assess which policies are applicable. MIGA should not rely exclusively on assessments and reports of non-WBG institutions.	teams will normally visit the project site prior to any decision to recommend approval of the project to the Board. MIGA's Environmental and Social Review Procedures call for a site visit as part of the environmental and social review and due diligence during the underwriting of Category A projects; these also will be carried out as early as possible. The procedures allow for the site visit to be carried out by qualified MIGA or IFC experts or by a qualified consultant (whose work will be reviewed by qualified staff).
<b>2b</b>	Incorporating standards recognizing the rights of individuals relating to security arrangements at EI projects into its policies and Operational Regulations.	In the context of the overall WBG approach to these issues, Management will evaluate and help develop best practice approaches to EI-specific issues.
<b>2c</b>	Making better use of MIGA's Contracts of Guarantee to enable the Agency to facilitate compliance with its policies and standards. In addition to the current requirement to comply with safeguard policies and environmental and health and safety guidelines, for future projects MIGA should ensure that the contracts clearly and explicitly state which environmental and social safeguard policies and guidelines apply to the project under guarantee and establish thresholds and conditions for timely and effective compliance.	With respect to environmental guidelines, MIGA's practice for the past five years has been to attach the appropriate guidelines to the contract as conditions of coverage. With respect to safeguard policies, see response to the next part of this recommendation.
	When applicable, contracts should also specify requirements for implementation of Environmental Management Plans (EMPs), Resettlement Plans (RPs), Community Development Programs (CDPs), and Indigenous Peoples Plans (IPPs).  As required by the involuntary resettlement and Indigenous Peoples policies, MIGA should ensure that investors prepare RPs, CDPs, and IPPs before project approval rather than leaving them to implementation.	Management agrees with this recommendation. Management sees this approach as the mechanism by which project-specific requirements of the safeguard policies can be addressed by binding and legally sound contract requirements. Management takes care that any contractual requirements are clearly defined in a way that failure to comply can be reasonably assessed in the event of arbitration arising over the decision by MIGA to deny a claim or unilaterally cancel coverage due to noncompliance. Management agrees that these plans should be prepared before project approval. However, these are not static plans and require adaptation to evolving circumstances. Also, Management believes its business model provides scope for including, as conditions of guarantee, the completion of proposed or ongoing critical tasks, subject to Board approval. In such cases, MIGA conducts necessary follow-up and monitoring to ensure compliance.
<b>2d</b>	Establishing necessary mechanisms to ensure systematic, timely, and regular monitoring and supervision of safeguard compliance of MIGA EI guarantee projects (e.g., MIGA should require in its Contracts of Guarantee timely environmental and social monitoring reports from its guarantee holders during the project implementation phase).	Management believes it is obtaining information in timely and cost-effective ways for sensitive projects (e.g., Category A), and not levying excessive demands on guarantee holders for Category B projects. Management believes these judgments are important contributions to the Agency's efficiency and effectiveness, as noted in paras. 49-51 of the OEU report. Nevertheless, in response to this recommendation, Management has implemented a more standardized approach to monitoring compliance and performance of all new EI projects.
	MIGA should also require sponsors to set up environmental and social project management systems at a sufficiently early stage to effectively monitor impacts, including during the construction stage.	Management identified this matter in 2000 as a lesson learned from its experience with Antamina project in Peru. Management now considers this in all prospective EI projects where it has been identified as a potentially significant concern and risk.
<b>3</b>	<b>Internal Organization</b> MIGA should update its business model by clearly	See responses below to specific recommendations in this subject area. MIGA has just undergone a major reorganization

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	assigning the locus of responsibility for better integration of economic, environmental, and social issues in MIGA operations. This is needed in order to support other departments in the achievement of these objectives and to provide guidance to operational staff, as well as, for the analysis and monitoring of economic, environmental, and social issues in an integrated manner.	that created a unit to integrate the assessment of economic, environmental, and social issues in MIGA operations, and to approach developmental impact assessment in a more holistic fashion.
<b>3a</b>	Scaling up the analysis of developmental impacts of prospective projects integrating new concepts in harmony with the rest of the WBG. In so doing, MIGA should closely cooperate with the other members of the WBG to benefit from synergies, complementarities, and expert knowledge, with the objective of promoting a holistic approach to EI projects.	MIGA Management supports the recommendation and has made significant steps over the past few years to more closely cooperate with other members of the WBG (e.g., work on CASs, sector strategy papers, the Extractive Industries Review, etc.) to benefit from synergies, complementarities, experience, and expert knowledge. Efforts will continue to be made to scale up these actions.
<b>3b</b>	This will also require building internal capacity by both recruiting needed economic skills and appropriate training to current staff.  Establishing an internal system that allows a more integrated and timely monitoring of developmental impacts of guaranteed projects.	MIGA Management has built and intends to further build its internal capacity in these areas. Initial training of underwriters has already been conducted by an IFC economist, who has subsequently joined MIGA's staff as senior manager (Director and Chief Economist) for country assessment, policy, economics and strategy (Economics and Policy Group). The recent reorganization of functional groups, and the intent to increase site visits to prospective projects, will offer opportunities to increase timely monitoring of guaranteed projects in MIGA's portfolio. The planned closer collaboration with OEU will enhance this.
<b>3c</b>	Upgrading and expanding the role of environmental and social specialists and, at the same time, building internal social skills capacity to effectively enable the application of social safeguards in MIGA projects.	As previously noted, an experienced social specialist has been hired as part of MIGA's Environment group (which has now been incorporated into the newly formed Economics and Policy Group) to augment and build internal capacity.
<b>3d</b>	Formalizing the practice of ensuring that MIGA environmental staff are involved in projects beyond the submission of clearance memos, and requiring that MIGA environmental and social staff to provide inputs to guarantee and legal documentation to incorporate any environmental and social concerns. In addition, MIGA underwriting staff should be required to keep environmental and social specialists apprised of all relevant changes beyond Board approval and contract signing.	Management agrees with this recommendation and is making changes in its internal procedures to enhance the timeliness and extent of its environmental and social specialists involvement in these and other operational areas.
<b>4</b>	<b>Active Projects</b> MIGA needs to review its portfolio of active EI projects to identify potential or actual deficiencies in the application of safeguard policies and to swiftly take appropriate remedial actions.	See responses below to specific recommendations in this subject area. MIGA has taken and will take appropriate remedial actions to address deficiencies that are identified.
<b>4a</b>	Identifying projects that may not be consistent with safeguard policies. In particular, where resettlement and land acquisition has taken place without follow-up audits to determine compliance with WBG policies regarding resettlement, third-party audits should be required. Similarly, where Indigenous Peoples have been affected without the provision for Indigenous Peoples Plans to mitigate the impacts, sponsors should be asked to prepare and implement such plans. Providing briefings on potential problems with sensitive projects, a system currently	Management notes that since late 1997 MIGA has extensively and regularly identified "higher risk" projects vis-à-vis safeguard policies. This identification has been used to develop a monitoring program of site visits, which has included eight EI projects in the course of a three-year period. MIGA plans to expand this effort. Also, soon after the Office of the CAO was established in 2000, MIGA provided a list of all projects in MIGA's portfolio that involved involuntary resettlement or Indigenous Peoples, discussed the risks of each project with the CAO, and described the monitoring that MIGA directly had been carrying out or had been relying on to track the projects'

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<b>4b</b>	<p>used by MIGA, is useful but not sufficient. MIGA should take appropriate remedial actions to address existing safeguard deficiencies in extractive industry projects that are still active in MIGA's portfolio.</p> <p>Making every effort to encourage consistency with MIGA's safeguard policies in active extractive industries projects with reinsurance agreements pre-dating the new MIGA practice. New agreements require that environmental and social standards applied by partners are consistent with MIGA's own safeguard policies and guidelines.</p>	<p>compliance issues. Briefings of the CAO on sensitive projects in the pipeline and the portfolio have been regularly provided (approximately quarterly) since then, as have exchanges of information with the IFC on common projects. MIGA continues to review regularly the project portfolio and identify priority projects for monitoring visits, focusing particularly on projects with higher risk. Management will consider on a case-by-case basis the need for a third-party audit of compliance with MIGA's policies. Management believes that it has taken care to ensure that, when Indigenous Peoples are at risk for significant adverse impacts, plans have been established and implemented to effectively mitigate those impacts.</p> <p>There are no longer any remaining active reinsurance contracts of this type. As noted by OEU, this matter has been addressed in new contracts.</p>